

NZ Funds KiwiSaver Scheme

Financial Statements for the year ended 31 March 2017



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INDEPENDENT AUDITOR'S REPORT

To the Members of the NZ Funds KiwiSaver Scheme

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Income Strategy, the Inflation Strategy and the Growth Strategy (‘the Strategies’) and the combination of those strategies (‘the Scheme’), on pages 4 to 21, which comprise the statements of net assets available for benefits as at 31 March 2017, statement of changes in net assets available for benefits and statement of cash flows for the year then ended, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 4 to 21 present fairly, in all material respects, the financial position of the Strategies and the Scheme as at 31 March 2017 and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Members as a body. 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Strategies and the Scheme in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

We provide other assurance services to the Strategies and the Scheme. We have no other relationship with, or interest in, the Strategies and the Scheme. Partners and employees of our firm may deal with the Strategies and the Scheme on normal terms within the ordinary course of trading activities of the business of the Strategies and the Scheme.

Information other than the financial statements and auditor’s report

Those charged with governance are responsible for the Annual Report, which includes information other than the financial statements and auditor’s report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Those charged with governance responsibilities for the financial statements

Those charged with Governance are responsible, on behalf of the Strategies and the Scheme, for the preparation and fair presentation of the financial statements in accordance New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

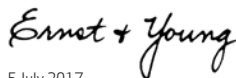
In preparing the financial statements, those charged with governance are responsible for assessing on behalf of the Strategies and the Scheme, the Strategies' and the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Strategies and the Scheme or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities>. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Graeme Bennett



5 July 2017

Auckland

Statement of Changes in Net Assets Available for Benefits

FOR THE YEAR ENDED 31 MARCH 2017

	NOTE	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
MEMBERSHIP ACTIVITIES									
Contributions Received									
Employer Contributions		616	530	2,147	1,835	3,751	3,276	6,514	5,641
Government Contributions		246	233	857	810	1,405	1,342	2,508	2,385
Member Contributions		1,488	1,289	5,280	4,542	7,371	6,532	14,139	12,363
Switches In		2,545	1,617	3,169	3,767	1,359	410	7,073	5,794
Transfers In from Other Schemes		1,088	2,009	4,092	5,707	6,098	10,279	11,278	17,995
Total Contributions and Switches In		5,983	5,678	15,545	16,661	19,984	21,839	41,512	44,178
Deduct:									
Administration Fees		(26)	(23)	(79)	(70)	(150)	(135)	(255)	(228)
Death Payments		(12)	(8)	(42)	(40)	(26)	(41)	(80)	(89)
First Home Withdrawals		(628)	(207)	(185)	(108)	(869)	(396)	(1,682)	(711)
Hardship Payments		(6)	(10)	(37)	(84)	(95)	(112)	(138)	(206)
Partial Payments		-	-	(3)	-	(2)	-	(5)	-
Invalid Enrolment		-	-	-	-	(1)	(1)	(1)	(1)
Serious Illness		(6)	(4)	(71)	(34)	(26)	(35)	(103)	(73)
Permanent Emigration		(4)	(2)	(17)	(4)	(65)	(33)	(86)	(39)
PIE Tax Expense		(63)	15	(90)	246	(172)	(122)	(325)	139
Retirement		(1,041)	(851)	(1,387)	(658)	(533)	(284)	(2,961)	(1,793)
Switches Out		(1,607)	(269)	(2,255)	(891)	(3,211)	(4,634)	(7,073)	(5,794)
Transfer Fees		(1)	(1)	(2)	(1)	(4)	(3)	(7)	(5)
Transfers Out To Other Schemes		(460)	(230)	(2,133)	(551)	(3,106)	(1,152)	(5,699)	(1,933)
Net Membership Activities		2,129	4,088	9,244	14,466	11,724	14,891	23,097	33,445
INVESTMENT ACTIVITIES									
Interest Revenue		-	-	-	-	-	1	-	1
Net Trading Gains		831	650	3,228	(672)	10,063	(6,324)	14,122	(6,346)
Net Investment Gain/(Loss)		831	650	3,228	(672)	10,063	(6,323)	14,122	(6,345)
Expenses									
Fees and Expenses	12	184	136	717	536	1,074	892	1,975	1,564
Manager's Expense Contributions		-	-	-	-	-	-	-	-
Total Expenses		184	136	717	536	1,074	892	1,975	1,564
Membership and Investment Activities Before Taxation		2,776	4,602	11,755	13,258	20,713	7,676	35,244	25,536
Taxation Expense		-	-	-	-	-	-	-	-
Benefits Accrued		2,776	4,602	11,755	13,258	20,713	7,676	35,244	25,536
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS		2,776	4,602	11,755	13,258	20,713	7,676	35,244	25,536

Statement of Net Assets Available for Benefits

AS AT 31 MARCH 2017

	NOTE	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
ASSETS									
Cash and Cash Equivalents		20	25	65	22	81	129	166	176
Receivables	7	27	31	16	222	49	172	92	425
Trading Portfolio Assets	8	18,181	15,377	61,751	49,759	85,807	64,859	165,739	129,995
TOTAL ASSETS		18,228	15,433	61,832	50,003	85,937	65,160	165,997	130,596
LIABILITIES									
Payables	13	66	47	144	70	195	131	405	248
NET ASSETS AVAILABLE FOR BENEFITS		18,162	15,386	61,688	49,933	85,742	65,029	165,592	130,348
Represented by:									
LIABILITY FOR RETIREMENT BENEFITS	11	18,162	15,386	61,688	49,933	85,742	65,029	165,592	130,348

For and on behalf of the manager, New Zealand Funds Management Limited, who authorised the issue of these financial statements on 05 July 2017.



Phil Doak
Director



Richard James
Director

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2017

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash was provided from:								
Interest	-	-	-	-	-	1	-	1
Manager's Expense Contributions	-	1	-	4	-	6	-	11
Sale of Investments	1,792	1,368	2,627	1,964	4,642	7,168	9,061	10,500
	1,792	1,369	2,627	1,968	4,642	7,175	9,061	10,512
Cash was applied to:								
Management Fees	158	118	629	478	950	812	1,737	1,408
Trustee Fees	6	5	19	18	26	27	51	50
Other Expenses	14	9	47	32	65	47	126	88
Purchase of Investments	3,776	5,279	11,391	15,532	15,526	20,602	30,693	41,413
	3,954	5,411	12,086	16,060	16,567	21,488	32,607	42,959
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(2,162)	(4,042)	(9,459)	(14,092)	(11,925)	(14,313)	(23,546)	(32,447)
CASH FLOWS FROM FINANCING ACTIVITIES								
Cash was provided from:								
Employer Contributions	616	530	2,148	1,835	3,751	3,276	6,515	5,641
Government Contributions	246	233	856	810	1,406	1,342	2,508	2,385
Member Contributions	1,488	1,289	5,280	4,542	7,371	6,532	14,139	12,363
Switches In	2,533	1,617	3,133	3,767	1,287	410	6,953	5,794
Transfers In from Other Schemes	1,088	2,009	4,091	5,707	6,099	10,279	11,278	17,995
	5,971	5,678	15,508	16,661	19,914	21,839	41,393	44,178
Cash was applied to:								
Administration Fees	26	23	78	69	149	133	253	225
Death Payment	12	8	42	41	26	41	80	90
First Home Withdrawal	596	207	185	108	869	397	1,650	712
Hardship Payments	6	10	37	84	95	119	138	213
Partial Payments	-	-	3	-	2	1	5	1
Invalid Enrolment	-	-	-	-	1	1	1	1
Serious Illness	6	4	71	34	26	35	103	73
Permanent Emigration	4	2	17	4	65	33	86	39
PIE Tax Payment	34	48	(117)	142	(56)	678	(139)	868
Retirement	1,041	856	1,387	665	532	287	2,960	1,808
Switches Out	1,600	269	2,164	891	3,189	4,634	6,953	5,794
Transfer Fees	1	1	2	1	3	3	6	5
Transfers Out	488	201	2,137	548	3,136	1,123	5,761	1,872
	3,814	1,629	6,006	2,587	8,037	7,485	17,857	11,701
NET CASH FLOWS FROM FINANCING ACTIVITIES	2,157	4,049	9,502	14,074	11,877	14,354	23,536	32,477
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(5)	7	43	(18)	(48)	41	(10)	30
Cash at Beginning of Period	25	18	22	40	129	88	176	146
CLOSING CASH AND CASH EQUIVALENT CARRIED FORWARD	20	25	65	22	81	129	166	176

Statement of Cash Flows (continued)

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES								
Increase in Net Assets Available for Benefits	2,776	4,602	11,755	13,258	20,713	7,676	35,244	25,536
Add/(Less) Items Classified as Financing Activities:								
Employer Contributions	(616)	(530)	(2,148)	(1,835)	(3,751)	(3,276)	(6,515)	(5,641)
Government Contributions	(246)	(233)	(856)	(810)	(1,406)	(1,342)	(2,508)	(2,385)
Member Contributions	(1,488)	(1,289)	(5,280)	(4,542)	(7,371)	(6,532)	(14,139)	(12,363)
Switches In	(2,533)	(1,617)	(3,133)	(3,767)	(1,287)	(410)	(6,953)	(5,794)
Transfers In from Other Schemes	(1,088)	(2,009)	(4,091)	(5,707)	(6,099)	(10,279)	(11,278)	(17,995)
Administration Fees	26	23	78	69	149	133	253	225
Death Payments	12	8	42	41	26	41	80	90
First Home Withdrawals	596	207	185	108	869	397	1,650	712
Hardship Payments	6	10	37	84	95	119	138	213
Partial Payments	-	-	3	-	2	1	5	1
Invalid Enrolment	-	-	-	-	1	1	1	1
Serious Illness	6	4	71	34	26	35	103	73
Permanent Emigration	4	2	17	4	65	33	86	39
PIE Tax Expense	34	48	(117)	142	(56)	678	(139)	868
Retirement	1,041	856	1,387	665	532	287	2,960	1,808
Switches Out	1,600	269	2,164	891	3,189	4,634	6,953	5,794
Transfer Fees	1	1	2	1	3	3	6	5
Transfers Out	488	201	2,137	548	3,136	1,123	5,761	1,872
Add/(Less) Movements in Working Capital Items:								
Increase in Trading Portfolio Assets	(2,804)	(4,549)	(11,992)	(12,896)	(20,948)	(7,109)	(35,744)	(24,554)
Decrease in Receivables	4	(30)	206	(218)	123	(166)	333	(414)
Increase/(Decrease) in Payables	19	(16)	74	(162)	64	(360)	157	(538)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(2,162)	(4,042)	(9,459)	(14,092)	(11,925)	(14,313)	(23,546)	(32,447)

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

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'). The New Zealand Guardian Trust Company Limited ('Supervisor') is the Supervisor 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 12 October 2016) ('Trust Deed').

Units in the Scheme are offered under the managed investment scheme called the 'NZ Funds KiwiSaver Scheme', scheme number SCH10783. 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. Link Market Services Limited 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 KiwiSaver Act 2006, the KiwiSaver Amendment Act 2011, the Financial Markets Conduct Act 2013 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, 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 Supervisor, NZ Funds, members, service providers and other accruals.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, respectively, 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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2017.

s) New accounting standards issued but not yet effective

NZ IFRS 9 *Financial Instruments* (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*.

It is anticipated that the impact this standard will have on the Scheme's financial statements is not material. A review of the impact is to be finalised in due course.

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

The Trust Deed was amended on 12 October 2016 to incorporate provisions required for a managed investment scheme as set out in the Financial Markets Conduct Act 2013 and Financial Markets Conduct Regulations 2014. There have been no other amendments to the Trust Deeds for the year ended 31 March 2017.

6. PRINCIPAL BUSINESS ACTIVITY

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

7. RECEIVABLES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
PIE tax receivables	-	20	16	222	-	172	16	414
Other receivables	27	11	-	-	49	-	76	11
TOTAL RECEIVABLES	27	31	16	222	49	172	92	425

8. TRADING PORTFOLIO ASSETS

The Strategies invest substantially all of their assets, each in different proportions (refer to Note 14 *Related party*) into 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 ('Wholesale Trusts').

	INVESTMENTS IN TRADING PORTFOLIO ASSETS	
	2017 \$000	2016 \$000
Income Strategy	18,181	15,377
Inflation Strategy	61,751	49,759
Growth Strategy	85,807	64,859
TOTAL OF THE SCHEME	165,739	129,995

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 Wholesale Trusts, NZ Funds uses an active investment management approach. The active investment management approach is designed to better meet the unitholder-orientated objectives of each Strategy and to take advantage of investment opportunities as they arise.

Dynamic asset allocation

As part of NZ Funds' active investment management approach each Strategy's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time). NZ Funds selects each Strategy's asset allocation at any time, based on its

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

investment knowledge and/or research, with reference to each Strategy's investment objective and risk profile. Securities, currencies, commodities, derivatives and/or specialist investment managers can be used to achieve a desired Strategy asset allocation.

Wide investment mandates

In managing each Strategy, NZ Funds takes a wide variety of actions and are not constrained by a benchmark (or target) asset allocation or range. The actions taken include, but are not limited to:

- (i) altering the proportion invested in each security or asset class;
- (ii) altering the manner in which a Strategy is exposed to each security or asset class;
- (iii) investing directly or indirectly;
- (iv) using derivatives and/or any resulting leverage;
- (v) using collective investment vehicles;
- (vi) using specialist investment managers;
- (vii) applying hedging; or
- (viii) taking short positions.

Use of specialist investment managers

External specialist investment managers may be appointed where NZ Funds considers that the manager's investment approach will help meet the objectives of the Strategy. These specialist investment managers will complement NZ Funds' own investment skills and can provide investors with a diversity of approaches.

The selection of specialist investment managers is subject to due diligence and an approval process. In addition, all specialist investment managers are regularly monitored and reviewed. This review process includes consideration of the manager's performance, portfolio composition, and statistical measures of effectiveness. The specialist investment managers used are expected to change over time as part of NZ Funds' active investment management approach.

Risks of an active investment management approach

The way in which NZ Funds' active investment management approach is implemented may change over time as, by way of example, the nature of the investment opportunities it may be seeking to gain exposure to changes. This may result in the Strategies being constructed or exposed to with different combinations of investments, underlying specialist investment managers and investment strategies. In order to allow these changes to occur, each Strategy has a wide investment mandate.

NZ Funds' active investment management approach and wide investment mandates means the Scheme are subject to different risks (which may be considered higher risks) than a non-active investment management approach. As a result, NZ Funds' active investment management approach may cause the returns and capital stability of a Strategy to significantly differ from the returns and capital stability of the underlying asset classes utilised.

Collaborative process

NZ Funds takes a collaborative approach to investment management and believes investment performance is a collectively achieved outcome. Each Strategy is assigned a portfolio manager who is responsible for overseeing the daily management of the Strategy. Investment decisions, with some exceptions, are primarily made through a series of internal investment meetings attended by the NZ Funds Investment Team.

These meetings enable portfolio managers and investment analysts to present investment research and thinking in a way that encourages wide participation in, and peer review of, investment decisions. The outcome of investment decisions is subject to peer review. Unitholder transparency of investment decisions is provided through NZ Funds' transparent monitoring and reporting structure.

Investment tools and techniques

In managing investments NZ Funds uses a wide range of investment tools and techniques including, for example, economic and financial modelling, quantitative screens and technical indicators. In using these tools and techniques, NZ Funds may consider, amongst other factors, investment themes, valuation metrics, mean reversion and/or momentum.

In seeking to mitigate the downside NZ Funds invests with managers which have the potential to profit from asset price declines, such as trend following managers; managers who specialise in being short shares; and derivative and option specialists. NZ Funds may also actively reduce a Strategy's exposure to an asset class, or macro hedge a Strategy's exposure by investing, additional funds in an offsetting asset class. While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and in some circumstances may instead add to a Strategy's losses.

Strategy construction

As part of NZ Funds' active investment management approach, asset classes, assets and specialist investment managers, are

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

selected based on NZ Funds' analysis of those assets which will, in its opinion, in combination with the other assets in the Strategy, help to achieve the objectives of the Strategy.

In constructing the Strategies, NZ Funds considers different scenarios and projects how investments may react in those scenarios. NZ Funds may also consider historical volatility and correlations during both normal and stressed investment environments. NZ Funds may revisit the assumptions used periodically as economic and market conditions change.

b) Risk mitigation structure

NZ Funds has policies, procedures and controls to cover the investment function.

Portfolio management decisions are subject to daily transparency through NZ Funds' proprietary investment monitoring system. Regular meetings are held to cover:

- (i) investment research and portfolio management;
- (ii) investment guidelines and the Statement of Investment Policy and Objectives ('SIPO') compliance; and
- (iii) overall investment governance.

NZ Funds' investment strategy review and monitoring process commences with the Research & Management Meeting which monitors security research and portfolio management. The minutes of these meetings are tabled at the Investment Committee meeting.

The Investment Guidelines Meeting monitors compliance with the internal investment guidelines and SIPO. The minutes of these meetings are also tabled at the Investment Committee meeting.

Overall responsibility for investment strategy review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets approximately six weekly to review investment matters, which include (but are not limited to) the investment component of NZ Funds' risk register, investment counterparty risk, liquidity risk, redemption risk, stress testing, and the minutes of internal investment related meetings. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets approximately six weekly. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register which summarises the major risks and mitigation strategies (including those related to investment management) at each meeting and at special meetings convened for that purpose.

Investment guidelines

NZ Funds has developed internal investment guidelines as part of its investment management processes, which assist in the oversight of each Strategy. These guidelines are designed to help ensure that each Strategy invests in accordance with its investment objective and risk profile.

As part of NZ Funds' active investment management approach, the guidelines may require amendment from time to time. Guidelines, and any changes to them, must be approved by the NZ Funds Board and are overseen by the NZ Funds Investment Committee. The Guidelines can only be amended after prior notice to the Supervisor.

Investment performance

The Investment Committee is responsible for monitoring and reviewing investment performance and reports to the NZ Funds Board.

Portfolio performance is monitored through NZ Funds' proprietary investment monitoring system. The system generates a daily attribution report which includes daily, rolling monthly and yearly performance reports for each Strategy and individual investments held by the Strategies and the Wholesale Trusts.

Monthly investment performance reports are prepared and are reviewed by the Investment Committee. Long-term performance is also monitored on a rolling 2 year, 5 year, 7 year, 10 year and since inception basis.

Performance is measured on an absolute basis (after fees and expenses), against term deposits as well as relative to each Strategy's market index and to investor objectives.

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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 Wholesale Trusts are treated as equity instruments, therefore the Scheme is exposed to equity price risk. However, the underlying financial instruments of the Wholesale 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 Wholesale 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 Wholesale Trusts is set out in Note 14 *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 Wholesale 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 0.1% change in interest rates (2016: 0.5%). This sensitivity has been calculated using the historical volatility of New Zealand short-term interest rates, and a one standard deviation move is assumed.

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	2017 \$000	2016 \$000
Income Strategy	20	25
Inflation Strategy	65	22
Growth Strategy	81	129
TOTAL OF THE SCHEME	166	176

INCREASE/(DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT	\$ IMPACT GIVEN 0.1% INCREASE IN RATES	\$ IMPACT GIVEN 0.1% DECREASE IN RATES	\$ IMPACT GIVEN 0.5% INCREASE IN RATES	\$ IMPACT GIVEN 0.5% DECREASE IN RATES
	2017 \$000	2017 \$000	2016 \$000	2016 \$000
Income Strategy	-	-	-	-
Inflation Strategy	-	-	-	-
Growth Strategy	-	-	1	(1)
TOTAL OF THE SCHEME	-	-	1	(1)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 Wholesale 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 (2016: 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 Wholesale Trusts are treated as equity instruments, therefore the Scheme is exposed to equity price risk. However, the underlying financial instruments of the Wholesale 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 Wholesale 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 Wholesale Trusts have indirectly invested into, and a one standard deviation move is assumed.

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 Wholesale Trusts are set out in Note 14 *Related party*. The Wholesale 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	2017 \$000	2016 \$000
Income Strategy	18,181	15,377
Inflation Strategy	61,751	49,759
Growth Strategy	85,807	64,859
TOTAL OF THE SCHEME	165,739	129,995

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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
	2017 %	2017 \$000	2017 \$000	2016 %	2016 \$000	2016 \$000
Income Strategy	1.9	345	(345)	3.8	584	(584)
Inflation Strategy	6.9	4,261	(4,261)	8.9	4,429	(4,429)
Growth Strategy	12.1	10,383	(10,383)	12.0	7,783	(7,783)
TOTAL OF THE SCHEME		14,989	(14,989)		12,796	(12,796)

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 Wholesale Trusts set out in Note 14 *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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
<i>Breakdown of credit exposure</i>								
Cash and cash equivalents	20	25	65	22	81	129	166	176
Receivables	27	31	16	222	49	172	92	425
TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT	47	56	81	244	130	301	258	601

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 Wholesale Trusts are set out in Note 14 *Related party*.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
FINANCIAL ASSETS								
<i>On demand/due within 30 days</i>								
Cash and cash equivalents	20	25	65	22	81	129	166	176
Receivables	27	31	16	222	49	172	92	425
Trading portfolio assets	18,181	15,377	61,751	49,759	85,807	64,859	165,739	129,995
TOTAL	18,228	15,433	61,832	50,003	85,937	65,160	165,997	130,596
FINANCIAL LIABILITIES								
<i>On demand/due within 30 days</i>								
Payables	66	47	144	70	195	131	405	248
Liability for retirement benefits	18,162	15,386	61,688	49,933	85,742	65,029	165,592	130,348
TOTAL	18,228	15,433	61,832	50,003	85,937	65,160	165,997	130,596

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.

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

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FOR THE YEAR ENDED 31 MARCH 2017

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

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	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Trading portfolio assets:								
Unlisted unit trusts	18,181	15,377	61,751	49,759	85,807	64,859	165,739	129,995

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	
	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000	2017 000	2016 000
Units on issue at the beginning of the year (in number of units)	12,264	8,938	38,320	27,457	44,283	35,220	94,867	71,615
Units issued (in number of units)	4,638	4,687	11,683	12,858	13,134	13,838	29,455	31,383
Units cancelled (in number of units)	(2,967)	(1,361)	(4,581)	(1,995)	(5,267)	(4,775)	(12,815)	(8,131)
UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)	13,935	12,264	45,422	38,320	52,150	44,283	111,507	94,867
LIABILITY FOR RETIREMENT BENEFITS								
Balance at the beginning of the year (in \$000)	15,386	10,784	49,933	36,675	65,029	57,353	130,348	104,812
Change in accrued benefits (in \$000)	2,776	4,602	11,755	13,258	20,713	7,676	35,244	25,536
BALANCE AT THE END OF THE YEAR (IN \$000)	18,162	15,386	61,688	49,933	85,742	65,029	165,592	130,348
Represented by:								
Balance allocated to members' accounts (in \$000)	18,153	15,379	61,623	49,914	85,667	64,930	165,443	130,223
Balance not yet allocated to members' accounts (in \$000)	9	7	65	19	75	99	149	125
LIABILITY FOR RETIREMENT BENEFITS (IN \$000)	18,162	15,386	61,688	49,933	85,742	65,029	165,592	130,348
NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)	1.30	1.25	1.36	1.30	1.64	1.47	1.49	1.37

There were member contributions of \$149,876 (2016: \$124,597) received but not yet allocated at 31 March 2017. These were subsequently allocated as issued units in the following year.

12. FEES AND EXPENSES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Fees to auditors:								
Audit fees	4	1	12	3	16	5	32	9
Management fees	161	122	642	490	974	821	1,777	1,433
Other professional fees	1	2	2	6	2	9	5	17
Expense reimbursements	12	6	40	21	54	32	106	59
Trustee fees	6	5	21	16	28	25	55	46
TOTAL FEES AND EXPENSES	184	136	717	536	1,074	892	1,975	1,564

Other professional fees consist principally of legal fees.

13. PAYABLES

	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Accruals	6	4	74	11	28	17	108	32
Administration fees payable	2	2	7	6	13	12	22	20
Benefits payable	33	29	-	4	-	29	33	62
Management fees payable	15	12	60	47	94	71	169	130
PIE tax payable	9	-	-	-	55	-	64	-
Trustee fees payable	1	-	3	2	5	2	9	4
TOTAL PAYABLES	66	47	144	70	195	131	405	248

14. 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 Wholesale Trusts. The Wholesale 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 Strategies are investment entities as defined by NZ IFRS 10 *Consolidated Financial Statements* and, as such, do not consolidate any of the Wholesale Trusts they invest in. Instead, investments in the Wholesale Trusts are classified at fair value through profit or loss and measured at fair value.

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FOR THE YEAR ENDED 31 MARCH 2017

14. RELATED PARTY (CONTINUED)

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

TABLE 1	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Income Strategy	3,776	5,279	(1,804)	(1,368)	18,181	15,377
Inflation Strategy	11,391	15,532	(2,627)	(1,964)	61,751	49,759
Growth Strategy	15,526	20,602	(4,642)	(7,168)	85,807	64,859
TOTAL OF THE SCHEME	30,693	41,413	(9,073)	(10,500)	165,739	129,995

The Strategies have/had more than 50% ownership of certain Wholesale Trusts as at 31 March 2017 and 31 March 2016. Wholesale Trusts are resident in New Zealand and have a principal place of business in New Zealand. The Strategies' investments in the Wholesale Trusts as a percentage are detailed in Table 1A below.

TABLE 1A	INVESTMENT	PERCENTAGE OWNERSHIP	
		2017 %	2016 %
Income Strategy	Wholesale Investment Trust 1	99.8	100.0
Inflation Strategy	Wholesale Investment Trust 2	99.9	100.0
Growth Strategy	Wholesale Investment Trust 3	99.9	100.0

Management fees and reimbursable expenses incurred or received during the year are detailed below.

TABLE 2	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Management fees incurred	161	122	642	490	974	821	1,777	1,433
Expense reimbursements incurred	12	6	40	21	54	32	106	59

The outstanding net management fees and expense reimbursements as at 31 March 2017 and 31 March 2016 are payable or receivable on normal trading terms as follows:

TABLE 2A	INCOME STRATEGY		INFLATION STRATEGY		GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Net amounts payable to NZ Funds at reporting date	17	13	65	49	101	74	183	136

No related party debts were forgiven or written off during the year (2016: nil).

14. RELATED PARTY (CONTINUED)

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 2017 and 31 March 2016, by key management personnel employed by NZ Funds, and their close family members.

TABLE 3	BALANCE OF HOLDINGS		NET CONTRIBUTIONS/ (WITHDRAWALS)	
	2017 \$000	2016 \$000	2017 \$000	2016 \$000
Income Strategy	233	202	34	91
Inflation Strategy	1,224	939	316	377
Growth Strategy	2,102	1,646	311	179
TOTAL OF THE SCHEME	3,559	2,787	661	647

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

15. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2017 (2016: nil) for the Scheme.

16. 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.

17. 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 2017 for the Income Strategy are \$18,161,684 (2016: \$15,386,168), Inflation Strategy are \$61,688,050 (2016: \$49,933,437) and the Growth Strategy are \$85,742,423 (2016: \$65,029,362).

18. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of vested benefits (2016: nil).

19. MEMBERSHIP MOVEMENTS

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

	OPENING BALANCE	NEW MEMBERS	(WITHDRAWALS)	CLOSING BALANCE
	01/04/2016			31/03/2017
Income Strategy	6,512	811	(362)	6,961
Inflation Strategy	6,496	808	(389)	6,915
Growth Strategy	6,612	807	(375)	7,044
TOTAL OF THE SCHEME	6,857	821	(352)	7,326

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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