

NZFUNDS

New Zealand Funds Management Limited
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28 September 2018

The Registrar of Financial Service Providers

Dear Registrar

Please note that the annual financial statements for the NZ Funds KiwiSaver Scheme for the 31 March 2018 financial year ("financial statements") are being replaced due to two immaterial errors relating to a page reference and inclusion of the principal's name on the opinion in the Auditor's report on page 2.

The financial statements remain unchanged.

Yours sincerely


Tony Rae
Head of Finance

NZFUNDS

NZ Funds KiwiSaver Scheme
Financial Statements

For the year ended 31 March 2018

Contents

AUDITOR'S REPORT	1-2
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS	3-4
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS	5-6
STATEMENT OF CASH FLOWS	7-10
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	11-32
DIRECTORY	LAST PAGE

Independent auditor's report to the Members of NZ Funds Kiwisaver Scheme

Opinion

We have audited the financial statements of the NZ Funds Kiwisaver Scheme (the "Scheme") on pages 3 to 32, which comprise the statement of net assets available for benefits of the Scheme as at 31 March 2018, and the statement of changes in net assets available for benefits and statement of cash flows for the year then ended of the Scheme, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 3 to 32 present fairly, in all material respects, the financial position of the Scheme as at 31 March 2018 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 Scheme members as a body. Our audit has been undertaken so that we might state to the Scheme 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 Scheme and the Scheme members 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 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.

Ernst & Young provides taxation and other assurance related services to the Manager of the Scheme and other assurance services to the Scheme. We have no other relationship with, or interest in, 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 obtained prior to the date of this auditor's report, 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 Scheme, for the preparation and fair presentation of the financial statements in accordance with 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.

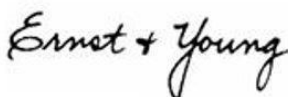
In preparing the financial statements, those charged with governance are responsible for assessing on behalf of the Scheme, the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the 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/audit-report-6/>. 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.



Chartered Accountants
Auckland
19 July 2018

Statement of Changes in Net Assets Available for Benefits

FOR THE YEAR ENDED 31 MARCH 2018

	NOTE	INCOME STRATEGY		INFLATION STRATEGY	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
MEMBERSHIP ACTIVITIES					
Contributions Received					
Employer Contributions		691	616	2,387	2,147
Government Contributions		255	246	915	857
Member Contributions		1,667	1,488	5,824	5,280
Inter-Strategy Switches In		5,032	2,545	6,095	3,169
Transfers In from Other Schemes		1,452	1,088	5,626	4,092
Total Contributions and Switches In		9,097	5,983	20,847	15,545
Deduct:					
Administration Fees		(27)	(26)	(78)	(79)
Death Payments		(38)	(12)	(146)	(42)
First Home Withdrawals		(550)	(628)	(333)	(185)
Hardship Payments		(9)	(6)	(95)	(37)
Partial Payments		(8)	-	(37)	(3)
Invalid Enrolment		-	-	(1)	-
Serious Illness		(12)	(6)	(74)	(71)
Permanent Emigration		-	(4)	-	(17)
PIE Tax Expense		(78)	(63)	(169)	(90)
Retirement		(1,063)	(1,041)	(1,878)	(1,387)
Inter-Strategy Switches Out		(1,347)	(1,607)	(41,368)	(2,255)
Transfer Fees		-	(1)	-	(2)
Transfers Out To Other Schemes		(731)	(460)	(2,268)	(2,133)
Net Membership Activities		5,234	2,129	(25,600)	9,244
INVESTMENT ACTIVITIES					
Net Trading Gains		660	831	2,810	3,228
Net Investment Gain		660	831	2,810	3,228
Expenses					
Fees and Expenses	12	219	184	877	717
Total Expenses		219	184	877	717
Membership and Investment Activities Before Taxation		5,675	2,776	(23,667)	11,755
Taxation Expense		-	-	-	-
Benefits Accrued		5,675	2,776	(23,667)	11,755
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS		5,675	2,776	(23,667)	11,755

The accompanying notes form part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

FOR THE YEAR ENDED 31 MARCH 2018

	NOTE	GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
MEMBERSHIP ACTIVITIES					
Contributions Received					
Employer Contributions		4,091	3,751	7,169	6,514
Government Contributions		1,490	1,405	2,660	2,508
Member Contributions		8,284	7,371	15,775	14,139
Inter-Strategy Switches In		39,709	1,359	50,836	7,073
Transfers In from Other Schemes		7,326	6,098	14,404	11,278
Total Contributions and Switches In		60,900	19,984	90,844	41,512
Deduct:					
Administration Fees		(154)	(150)	(259)	(255)
Death Payments		(107)	(26)	(291)	(80)
First Home Withdrawals		(704)	(869)	(1,587)	(1,682)
Hardship Payments		(136)	(95)	(240)	(138)
Partial Payments		(69)	(2)	(114)	(5)
Invalid Enrolment		(1)	(1)	(2)	(1)
Serious Illness		(48)	(26)	(134)	(103)
Permanent Emigration		-	(65)	-	(86)
PIE Tax Expense		(570)	(172)	(817)	(325)
Retirement		(577)	(533)	(3,518)	(2,961)
Inter-Strategy Switches Out		(8,121)	(3,211)	(50,836)	(7,073)
Transfer Fees		-	(4)	-	(7)
Transfers Out To Other Schemes		(3,567)	(3,106)	(6,566)	(5,699)
Net Membership Activities		46,846	11,724	26,480	23,097
INVESTMENT ACTIVITIES					
Net Trading Gains		7,675	10,063	11,145	14,122
Net Investment Gain		7,675	10,063	11,145	14,122
Expenses					
Fees and Expenses	12	1,361	1,074	2,457	1,975
Total Expenses		1,361	1,074	2,457	1,975
Membership and Investment Activities Before Taxation		53,160	20,713	35,168	35,244
Taxation Expense		-	-	-	-
Benefits Accrued		53,160	20,713	35,168	35,244
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS		53,160	20,713	35,168	35,244

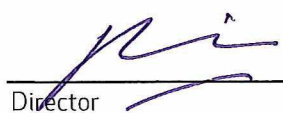
The accompanying notes form part of these financial statements.


Statement of Net Assets Available for Benefits

AS AT 31 MARCH 2018

	NOTE	INCOME STRATEGY		INFLATION STRATEGY	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
ASSETS					
Cash and Cash Equivalents		13	20	32	65
Receivables	7	15	27	619	16
Trading Portfolio Assets	8	24,109	18,181	37,538	61,751
TOTAL ASSETS		24,137	18,228	38,189	61,832
LIABILITIES					
Payables	13	300	66	168	144
NET ASSETS AVAILABLE FOR BENEFITS		23,837	18,162	38,021	61,688
Represented by:					
LIABILITY FOR RETIREMENT BENEFITS	11	23,837	18,162	38,021	61,688

For and on behalf of the manager, New Zealand Funds Management Limited,
who authorised the issue of these financial statements on 19 July 2018.


Director


Director

Statement of Net Assets Available for Benefits

AS AT 31 MARCH 2018

	NOTE	GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2018	2017	2018	2017
		\$000	\$000	\$000	\$000
ASSETS					
Cash and Cash Equivalents		222	81	267	166
Receivables	7	145	49	779	92
Trading Portfolio Assets	8	139,323	85,807	200,970	165,739
TOTAL ASSETS		139,690	85,937	202,016	165,997
LIABILITIES					
Payables	13	788	195	1,256	405
NET ASSETS AVAILABLE FOR BENEFITS		138,902	85,742	200,760	165,592
Represented by:					
LIABILITY FOR RETIREMENT BENEFITS	11	138,902	85,742	200,760	165,592

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	INCOME STRATEGY		INFLATION STRATEGY	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of Investments	1,884	1,792	42,651	2,627
	<u>1,884</u>	<u>1,792</u>	<u>42,651</u>	<u>2,627</u>
Cash was applied to:				
Management Fees	188	158	773	629
Trustee Fees	7	6	22	19
Other Expenses	22	14	74	47
Purchase of Investments	7,130	3,776	15,629	11,391
Unallocated Investments in Wholesale Trusts	15	-	110	-
	<u>7,362</u>	<u>3,954</u>	<u>16,608</u>	<u>12,086</u>
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(5,478)	(2,162)	26,043	(9,459)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Employer Contributions	691	616	2,388	2,148
Government Contributions	255	246	915	856
Member Contributions	1,667	1,488	5,825	5,280
Inter-Strategy Switches In	5,060	2,533	6,036	3,133
Transfers In from Other Schemes	1,452	1,088	5,626	4,091
	<u>9,125</u>	<u>5,971</u>	<u>20,790</u>	<u>15,508</u>
Cash was applied to:				
Administration Fees	27	26	81	78
Death Payment	38	12	146	42
First Home Withdrawal	578	596	331	185
Hardship Payments	9	6	94	37
Partial Payments	8	-	37	3
Invalid Enrolment	-	-	1	-
Serious Illness	12	6	74	71
Permanent Emigration	-	4	-	17
PIE Tax Payment	71	34	96	(117)
Retirement	1,049	1,041	1,870	1,387
Inter-Strategy Switches Out	1,135	1,600	41,873	2,164
Transfer Fees	-	1	-	2
Transfers Out	727	488	2,263	2,137
	<u>3,654</u>	<u>3,814</u>	<u>46,866</u>	<u>6,006</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	5,471	2,157	(26,076)	9,502
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	(7)	(5)	(33)	43
Cash at Beginning of Period	20	25	65	22
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	13	20	32	65

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	INCOME STRATEGY		INFLATION STRATEGY	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES				
Increase in Net Assets Available for Benefits	5,675	2,776	(23,667)	11,755
Add/(Less) Items Classified as Financing Activities:				
Employer Contributions	(691)	(616)	(2,388)	(2,148)
Government Contributions	(255)	(246)	(915)	(856)
Member Contributions	(1,667)	(1,488)	(5,825)	(5,280)
Inter-Strategy Switches In	(5,060)	(2,533)	(6,036)	(3,133)
Transfers In from Other Schemes	(1,452)	(1,088)	(5,626)	(4,091)
Administration Fees	27	26	81	78
Death Payments	38	12	146	42
First Home Withdrawals	578	596	331	185
Hardship Payments	9	6	94	37
Partial Payments	8	-	37	3
Invalid Enrolment	-	-	1	-
Serious Illness	12	6	74	71
Permanent Emigration	-	4	-	17
PIE Tax Expense	71	34	96	(117)
Retirement	1,049	1,041	1,870	1,387
Inter-Strategy Switches Out	1,135	1,600	41,873	2,164
Transfer Fees	-	1	-	2
Transfers Out	727	488	2,263	2,137
Add/(Less) Movements in Working Capital Items:				
Increase in Trading Portfolio Assets	(5,928)	(2,804)	24,213	(11,992)
Decrease/(Increase) in Receivables	12	4	(603)	206
Increase/(Decrease) in Payables	234	19	24	74
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(5,478)	(2,162)	26,043	(9,459)

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of Investments	8,586	4,642	53,121	9,061
	8,586	4,642	53,121	9,061
Cash was applied to:				
Management Fees	1,201	950	2,162	1,737
Trustee Fees	31	26	60	51
Other Expenses	102	65	198	126
Purchase of Investments	54,426	15,526	77,185	30,693
Unallocated Investments in Wholesale Trusts	145	-	270	-
	55,905	16,567	79,875	32,607
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(47,319)	(11,925)	(26,754)	(23,546)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Employer Contributions	4,089	3,751	7,168	6,515
Government Contributions	1,489	1,406	2,659	2,508
Member Contributions	8,283	7,371	15,775	14,139
Inter-Strategy Switches In	39,868	1,287	50,964	6,953
Transfers In from Other Schemes	7,325	6,099	14,403	11,278
	61,054	19,914	90,969	41,393
Cash was applied to:				
Administration Fees	151	149	259	253
Death Payment	107	26	291	80
First Home Withdrawal	705	869	1,614	1,650
Hardship Payments	131	95	234	138
Partial Payments	69	2	114	5
Invalid Enrolment	1	1	2	1
Serious Illness	48	26	134	103
Permanent Emigration	-	65	-	86
PIE Tax Payment	350	(56)	517	(139)
Retirement	566	532	3,485	2,960
Inter-Strategy Switches Out	7,956	3,189	50,964	6,953
Transfer Fees	1	3	1	6
Transfers Out	3,509	3,136	6,499	5,761
	13,594	8,037	64,114	17,857
NET CASH FLOWS FROM FINANCING ACTIVITIES	47,460	11,877	26,855	23,536
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	141	(48)	101	(10)
Cash at Beginning of Period	81	129	166	176
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	222	81	267	166

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2018

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES				
Increase in Net Assets Available for Benefits	53,160	20,713	35,168	35,244
Add/(Less) Items Classified as Financing Activities:				
Employer Contributions	(4,089)	(3,751)	(7,168)	(6,515)
Government Contributions	(1,489)	(1,406)	(2,659)	(2,508)
Member Contributions	(8,283)	(7,371)	(15,775)	(14,139)
Inter-Strategy Switches In	(39,868)	(1,287)	(50,964)	(6,953)
Transfers In from Other Schemes	(7,325)	(6,099)	(14,403)	(11,278)
Administration Fees	151	149	259	253
Death Payments	107	26	291	80
First Home Withdrawals	705	869	1,614	1,650
Hardship Payments	131	95	234	138
Partial Payments	69	2	114	5
Invalid Enrolment	1	1	2	1
Serious Illness	48	26	134	103
Permanent Emigration	-	65	-	86
PIE Tax Expense	350	(56)	517	(139)
Retirement	566	532	3,485	2,960
Inter-Strategy Switches Out	7,956	3,189	50,964	6,953
Transfer Fees	1	3	1	6
Transfers Out	3,509	3,136	6,499	5,761
Add/(Less) Movements in Working Capital Items:				
Increase in Trading Portfolio Assets	(53,516)	(20,948)	(35,231)	(35,744)
Decrease/(Increase) in Receivables	(96)	123	(687)	333
Increase/(Decrease) in Payables	593	64	851	157
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(47,319)	(11,925)	(26,754)	(23,546)

The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 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 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.

f) Prior period comparatives

Certain prior year comparatives have been restated to conform to current year presentation.

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 profit or loss (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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2018.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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.

A review was undertaken to examine the impacts of adopting NZ IFRS 9 on the financial performance and position of the Scheme. It concluded, that due to the nature of the financial assets and liabilities held by the Scheme, no impact is expected on their statement of financial position and equity from the application of NZ IFRS 9 for the years ended 31 March 2019. The Scheme does not plan to early adopt the above standard.

Classification and measurement

The Scheme does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of NZ IFRS 9. It expects to continue measuring at fair value all financial assets and financial liabilities currently held at fair value.

Financial liabilities currently held at amortised cost will continue to be measured as such. The Scheme has not designated these as fair value through profit and loss as these are not held for trading.

Margin accounts as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Scheme analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under NZ IFRS 9. Loans and trade receivables are no longer a financial asset classification category within NZ IFRS 9 and will be reclassified as financial assets held at amortised cost. There will be no impact on the financial statements due to the reclassification.

Impairment

NZ IFRS 9 requires the Scheme to record expected credit losses either on a 12-month or lifetime basis. The impairment model only impacts assets that are not held at fair value through profit and loss which include margin accounts and trade and other receivables. The Scheme will apply the simplified approach and record lifetime expected losses on all margin accounts and trade and other receivables. The Scheme has determined that the loss allowance will be negligible.

The Scheme does not apply hedge accounting and therefore is not impacted by the hedge accounting change in NZ IFRS 9.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 other amendments to the Trust Deeds for the year ended 31 March 2018.

6. PRINCIPAL BUSINESS ACTIVITY

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

7. RECEIVABLES

PIE tax receivables
Unallocated Investment in Wholesale Units
Inter-Strategy receivables
TOTAL RECEIVABLES

INCOME STRATEGY		INFLATION STRATEGY	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
-	-	-	16
15	-	110	-
-	27	509	-
15	27	619	16

PIE tax receivables
Unallocated Investment in Wholesale Units
Inter-Strategy receivables
TOTAL RECEIVABLES

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
-	-	-	16
145	-	270	-
-	49	509	76
145	49	779	92

Inter-strategy receivables represent amounts receivable from other Kiwisaver Schemes.

8. TRADING PORTFOLIO ASSETS

The Strategies invests 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

Income Strategy
Inflation Strategy
Growth Strategy
TOTAL OF THE SCHEME

2018	2017
\$000	\$000
24,109	18,181
37,538	61,751
139,323	85,807
200,970	165,739

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 management approach. The active management approach is designed to better meet the member objectives of each Strategy and to take advantage of investment opportunities as they arise.

Dynamic asset allocation

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

In managing each Strategy, NZ Funds takes a wide variety of actions and are not constrained by a benchmark or target asset allocation. 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 (including hedge funds);
- (vii) taking foreign currency positions;
- (viii) applying hedging; or
- (ix) taking short positions.

Specialist investment managers

Specialist investment managers (including hedge funds) may be selected where NZ Funds considers that the manager's investment approach will help meet the objectives of the Strategy. These specialist investment managers are intended to complement NZ Funds' own investment skills and can provide Members with access to diverse investment approaches.

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

Risks of an active approach

The way in which NZ Funds' active 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 with different combinations of investments. In order to allow these changes to occur, each Strategy has a wide mandate.

NZ Funds' active management approach and wide mandates mean the Scheme is subject to different risks (which may be considered higher risks) than a non-active management approach. As a result, NZ Funds' active 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.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Collaborative decision-making 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 primarily by members of the Investment and Compliance Teams.

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.

Investment tools and techniques

In managing the Strategies, NZ Funds uses a wide range of investment tools and techniques including, 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 specialist investment managers which have the potential to profit from asset price declines, such as trend following managers; managers who short shares; and derivative and option specialists. NZ Funds may also actively reduce a Strategy's exposure to an asset class, or hedge a Strategy's exposure by investing, additional funds in an asset class with the potential to offset returns. 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 management, asset classes, assets and specialist investment managers, are 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 may project 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.

Strategy 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 & Portfolio Meeting which includes monitoring of 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. Any material matters arising from these meetings are raised 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.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 controls (including those related to investment management) at each meeting and at special meetings convened for that purpose. The NZ Funds Board also receives a direct report from the Chief Investment Officer.

Investment guidelines

As part of its investment management processes, NZ Funds has developed internal investment guidelines, 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 management approach, the guidelines may require amendment from time to time. Guidelines, and any changes to them, must be approved by the Investment Committee and ratified or approved by the NZ Funds Board. 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.

Strategy performance is monitored through NZ Funds' proprietary investment monitoring system. The system generates a daily attribution report which includes daily, month-to-date and year-to-date performance reports for each Strategy and individual investments held by each strategy and the Wholesale Trusts.

Investment performance reports are prepared and reviewed by the Investment Committee. Long-term performance is also monitored on a rolling two year, five year, seven year, ten year and since inception basis.

Performance is measured on an absolute basis (after fees and expenses), against term deposits as well as relative to one or more, or a combination of, relevant market indices.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 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 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 management approach. This may expose the Scheme to active management risk. active 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 management approach. This may expose the Scheme to active management risk. active 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 (2017: 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 2018

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (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

	2018 \$000	2017 \$000
Income Strategy	13	20
Inflation Strategy	32	65
Growth Strategy	222	81
TOTAL OF THE SCHEME	267	166

INCREASE/(DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS BASED ON THE ESTIMATED INTEREST INCOME MOVEMENT

	\$ IMPACT GIVEN A 0.1% INCREASE IN RATES 2018 \$000	\$ IMPACT GIVEN A 0.1% DECREASE IN RATES 2018 \$000	\$ IMPACT GIVEN A 0.1% INCREASE IN RATES 2017 \$000	\$ IMPACT GIVEN A 0.1% DECREASE IN RATES 2017 \$000
Income Strategy	-	-	-	-
Inflation Strategy	-	-	-	-
Growth Strategy	-	-	-	-
TOTAL OF THE SCHEME	-	-	-	-

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 management approach. This may expose the Scheme to active management risk. active 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 (2017: nil). Indirect currency exposure is considered part of equity price risk.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

(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 management approach. This may expose the Scheme to active management risk. Active 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

	2018 \$000	2017 \$000
Income Strategy	24,109	18,181
Inflation Strategy	37,538	61,751
Growth Strategy	139,323	85,807
TOTAL OF THE SCHEME	200,970	165,739

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
	2018 %	2018 \$000	2018 \$000	2017 %	2017 \$000	2017 \$000
Income Strategy	1.9	458	(458)	1.9	345	(345)
Inflation Strategy	7.7	2,890	(2,890)	6.9	4,261	(4,261)
Growth Strategy	12.2	16,997	(16,997)	12.1	10,383	(10,383)
TOTAL OF THE SCHEME		20,346	(20,346)		14,989	(14,989)

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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

Breakdown of credit exposure

Cash and cash equivalents

Receivables

TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT

INCOME STRATEGY		INFLATION STRATEGY	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
13	20	32	65
15	27	619	16
28	47	651	81

Breakdown of credit exposure

Cash and cash equivalents

Receivables

TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
222	81	267	166
145	49	779	92
367	130	1,046	258

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 Wholesale Trusts are set out in Note 14 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	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
FINANCIAL ASSETS				
<i>On demand/due within 30 days</i>				
Cash and cash equivalents	13	20	32	65
Receivables	15	27	619	16
Trading portfolio assets	24,109	18,181	37,538	61,751
TOTAL	24,137	18,228	38,189	61,832
FINANCIAL LIABILITIES				
<i>On demand/due within 30 days</i>				
Payables	300	66	168	144
Liability for retirement benefits	23,837	18,162	38,021	61,688
TOTAL	24,137	18,228	38,189	61,832

Notes to and forming part of the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2018

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
FINANCIAL ASSETS				
<i>On demand/due within 30 days</i>				
Cash and cash equivalents	222	81	267	166
Receivables	145	49	779	92
Trading portfolio assets	139,323	85,807	200,970	165,739
TOTAL	139,690	85,937	202,016	165,997
FINANCIAL LIABILITIES				
<i>On demand/due within 30 days</i>				
Payables	788	195	1,256	405
Liability for retirement benefits	138,902	85,742	200,760	165,592
TOTAL	139,690	85,937	202,016	165,997

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 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	
2018	2017	2018	2017	2018	2017	2018	2017
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000

Trading portfolio assets:

Unlisted unit trusts	24,109	18,181	37,538	61,751	139,323	85,807	200,970	165,739
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Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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	
	2018 000	2017 000	2018 000	2017 000
Units on issue at the beginning of the year (in number of units)	13,935	12,264	45,422	38,320
Units issued (in number of units)	6,869	4,638	15,389	11,683
Units cancelled (in number of units)	(2,933)	(2,967)	(33,614)	(4,581)
UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)	17,871	13,935	27,197	45,422

LIABILITY FOR RETIREMENT BENEFITS

Balance at the beginning of the year (in \$000)	18,162	15,386	61,688	49,933
Change in accrued benefits (in \$000)	5,675	2,776	(23,667)	11,755
BALANCE AT THE END OF THE YEAR (IN \$000)	23,837	18,162	38,021	61,688

Represented by:

Balance allocated to members accounts (in \$000)	23,817	18,153	37,998	61,623
Balance not yet allocated to members' accounts (in \$000)	10	9	25	65
LIABILITY FOR RETIREMENT BENEFITS (IN \$000)	23,827	18,162	38,023	61,688

NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)

	1.33	1.30	1.40	1.36
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	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018 000	2017 000	2018 000	2017 000
Units on issue at the beginning of the year (in number of units)	52,150	44,283	111,507	94,867
Units issued (in number of units)	35,479	13,134	57,737	29,455
Units cancelled (in number of units)	(8,342)	(5,267)	(44,889)	(12,815)
UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)	79,287	52,150	124,355	111,507

LIABILITY FOR RETIREMENT BENEFITS

Balance at the beginning of the year (in \$000)	85,742	65,029	165,592	130,348
Change in accrued benefits (in \$000)	53,160	20,713	35,168	35,244
BALANCE AT THE END OF THE YEAR (IN \$000)	138,902	85,742	200,760	165,592

Represented by:

Balance allocated to members accounts (in \$000)	138,697	85,667	200,512	165,443
Balance not yet allocated to members' accounts (in \$000)	164	75	199	149
LIABILITY FOR RETIREMENT BENEFITS (IN \$000)	138,861	85,742	200,711	165,592

NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)

	1.75	1.64	1.61	1.49
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There were member contributions of \$198,929 (2017: \$149,876) received but not yet allocated at 31 March 2018. These were subsequently allocated as issued units in the following year.

Notes to and forming part of the Financial Statements
FOR THE YEAR ENDED 31 MARCH 2018

12. FEES AND EXPENSES

Fees to auditors:

Audit fees
Management fees
Other professional fees
Expense reimbursements
Supervisor fees
TOTAL FEES AND EXPENSES

INCOME STRATEGY		INFLATION STRATEGY	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
2	4	6	12
192	161	785	642
(1)	1	(3)	2
20	12	68	40
6	6	21	21
219	184	877	717

Fees to auditors:

Audit fees
Management fees
Other professional fees
Expense reimbursements
Supervisor fees
TOTAL FEES AND EXPENSES

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
8	16	16	32
1,233	974	2,210	1,777
(4)	2	(8)	5
95	54	183	106
29	28	56	55
1,361	1,074	2,457	1,975

Other professional fees consist principally of legal fees.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

13. PAYABLES

	INCOME STRATEGY		INFLATION STRATEGY	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Accruals	4	6	16	-
Administration fees payable	2	2	4	5
Benefits payable	22	33	17	-
Management fees payable	19	15	71	60
PIE tax payable	17	9	58	-
Supervisor fees payable	1	1	2	3
Inter-Strategy payable	235	-	-	76
TOTAL PAYABLES	300	66	168	144

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Accruals	24	28	44	34
Administration fees payable	16	13	22	20
Benefits payable	71	-	110	33
Management fees payable	126	94	216	169
PIE tax payable	274	55	349	64
Supervisor fees payable	3	5	6	9
Inter-Strategy payable	274	-	509	76
TOTAL PAYABLES	788	195	1,256	405

Inter-strategy payables represent amounts payable to other Kiwisaver Schemes.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

14. RELATED PARTY

Overview

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

Underlying investment portfolios and their Supervisor

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.

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:

	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Income Strategy	7,145	3,776	(1,884)	(1,804)	24,109	18,181
Inflation Strategy	15,739	11,391	(42,651)	(2,627)	37,538	61,751
Growth Strategy	54,571	15,526	(8,586)	(4,642)	139,323	85,807
TOTAL OF THE SCHEME	77,455	30,693	(53,121)	(9,073)	200,970	165,739

The above table includes unallocated investments in the Wholesale Trusts as at 31 March 2018; Income Strategy \$15,458 (2017: nil), Inflation Strategy \$109,860 (2017: nil) Growth Strategy \$144,706 (2017: nil)

The Strategies have/had more than 50% ownership of certain Wholesale Trusts as at 31 March 2018 and 31 March 2017. 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:

	INVESTMENT	PERCENTAGE	
		2018	2017
Income Strategy	Wholesale Investment Trust 1	89.1%	99.8%
Inflation Strategy	Wholesale Investment Trust 2	92.9%	99.9%
Growth Strategy	Wholesale Investment Trust 3	95.3%	99.9%

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

	INCOME STRATEGY		INFLATION STRATEGY	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Management fees incurred	192	161	785	642
Expense reimbursements incurred	20	12	68	40

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2018 \$000	2017 \$000	2018 \$000	2017 \$000
Management fees incurred	1,233	974	2,210	1,777
Expense reimbursements incurred	95	54	183	106

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

14. RELATED PARTY (CONTINUED)

The outstanding net management fees, expense reimbursements and manager's expense contributions as at 31 March 2018 and 31 March 2017 are payable or receivable on normal trading terms as follows:

TABLE 2A

Net amounts payable to NZ Funds at reporting date

INCOME STRATEGY		INFLATION STRATEGY	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
21	17	77	65

Net amounts payable to NZ Funds at reporting date

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
135	101	233	183

No related party debts were forgiven or written off during the year (2017: 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 2018 and 31 March 2017, by key management personnel employed by NZ Funds, and their close family members.

TABLE 3

Income Strategy
Inflation Strategy
Growth Strategy
TOTAL OF THE SCHEME

BALANCE OF HOLDINGS		NET CONTRIBUTIONS/ (WITHDRAWALS)	
2018	2017	2018	2017
\$000	\$000	\$000	\$000
445	233	200	34
476	1,224	(796)	316
3,668	2,102	1,306	311
4,589	3,559	710	661

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 2018 (2017: nil) for the Scheme.

16. CONCENTRATION OF FUNDING

The Scheme is funded by the issue of units to members. Only individuals can become members of the Scheme.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2018

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 2018 for the Income Strategy are \$23,837,598 (2017: \$18,161,684), Inflation Strategy are \$38,021,738 (2017: \$61,688,05) and the Growth Strategy are \$138,902,027 (2017: \$85,742,423).

18. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of vested benefits (2017: nil).

19. MEMBERSHIP MOVEMENTS

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

	OPENING BALANCE	NEW MEMBERS	(WITH- DRAWALS)	CLOSING BALANCE
	01/04/2017			31/03/2018
Income Strategy	6,961	743	(425)	7,279
Inflation Strategy	6,915	758	(426)	7,247
Growth Strategy	7,044	772	(402)	7,414
TOTAL OF THE SCHEME	7,326	789	(425)	7,690

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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