

**NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019**

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Financial Statements
For the year ended 31 March 2019

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NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Directory

For the year ended 31 March 2019

Manager:	Mercer (N.Z.) Limited	Supervisor:	Trustees Executors Limited Level 7, 51 Shortland Street PO Box 4197, Shortland Street Auckland 1140
	Registered Office Level 18, 151 Queen Street Auckland 1010		
	Investor and Advisor Enquiries Attn: NZDF Kiwisaver Scheme PO Box 1849 Wellington 6140 Email: nzdf@merceroz.co.nz	Custodians:	BNP Paribas Fund Services Australasia Pty Ltd Level 18, Aon Centre 1 Willis Street Wellington 6011
	Directors: Ross Gregory Butler (Chairman) Peter Lochiel Cameron (resigned 18/08/2018) Kristen Jane Kohere-Soutar Martin Paul Lewington David Lawrence McKeown (appointed 17/08/2018) Benjamin Jon Cossart Walsh		Trustees Executors Limited Level 7, 51 Shortland Street PO Box 4197, Shortland Street Auckland 1140
		Auditor:	PricewaterhouseCoopers Level 4, 10 Waterloo Quay PO Box 243 Wellington

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Net Assets
As at 31 March 2019

Note	TOTAL	Cash			Conservative			Moderate		
		2019	2018	2019	2018	2019	2018	2019	2018	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
ASSETS										
	1,517,955	1,425,870	12,848	5,461	46,824	93,482	43,408	70,920		
Cash and cash equivalents										
5	106,539,319	73,507,387	774,845	536,501	4,046,699	2,023,061	4,533,363	2,898,450		
Financial assets at fair value through profit or loss										
	-	12,366	-	90	-	340	-	488		
Other receivables										
Total Assets	108,057,274	74,945,623	787,693	542,052	4,093,523	2,116,883	4,576,771	2,969,858		
LIABILITIES										
	44,137	19,851	-	19,851	-	-	13,187	-		
Benefits payable										
	72,730	262,155	371	-	97	69,420	141	17,513		
Unallocated contributions										
	513,273	432,353	2,552	1,223	25,503	10,085	24,864	14,992		
Portfolio investment entity taxation payable										
	13	9	13	9	-	-	-	-		
Investment management fees payable										
	16,000	15,000	116	109	608	413	681	591		
Supervisor fees payable										
	10,262	8,154	103	74	313	224	470	371		
Administration fees payable										
	40,457	12,690	294	93	1,537	349	1,721	500		
Manager fees (expense recoveries) payable										
	79,571	9,148	579	67	3,022	252	3,386	361		
Other expenses payable										
Total Liabilities (excluding net assets attributable to members)	776,443	759,360	4,028	21,426	31,080	80,743	44,450	34,328		
NET ASSETS ATTRIBUTABLE TO MEMBERS										
4	107,280,831	74,186,263	783,665	520,626	4,062,443	2,036,140	4,532,321	2,935,530		
<i>Represented by:</i>										
4	107,280,831	74,186,263	783,665	520,626	4,062,443	2,036,140	4,532,321	2,935,530		
Net assets available for benefits										



The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Net Assets
As at 31 March 2019

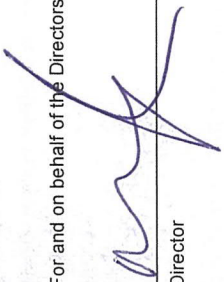
Note	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS								
	775,450	490,688	268,686	175,441	238,115	428,858	132,624	161,020
Cash and cash equivalents								
Financial assets at fair value through profit or loss	49,583,942	37,273,461	19,453,555	12,935,046	19,436,957	12,358,069	8,709,958	5,482,799
Other receivables	-	6,271	-	2,176	-	2,079	-	922
Total Assets	50,359,392	37,770,420	19,722,241	13,112,663	19,675,072	12,789,006	8,842,582	5,644,741
LIABILITIES								
Benefits payable	28,497	-	2,453	-	-	-	-	-
Unallocated contributions	43,385	119,749	13,730	5,984	9,068	7,502	5,938	41,987
Portfolio investment entity taxation payable	286,088	240,648	90,052	73,790	69,263	69,888	14,951	21,727
Investment management fees payable	-	-	-	-	-	-	-	-
Supervisor fees payable	7,446	7,606	2,922	2,640	2,919	2,522	1,308	1,119
Administration fees payable	5,108	4,402	1,589	1,184	1,775	1,269	904	630
Manager fees (expense recoveries) payable	18,829	6,435	7,387	2,233	7,381	2,133	3,308	947
Other expenses payable	37,033	4,638	14,529	1,610	14,517	1,538	6,505	682
Total Liabilities (excluding net assets attributable to members)	426,386	383,478	132,662	87,441	104,923	84,852	32,914	67,092
NET ASSETS ATTRIBUTABLE TO MEMBERS								
	49,933,006	37,386,942	19,589,579	13,025,222	19,570,149	12,704,154	8,809,668	5,577,649
Net assets available for benefits	49,933,006	37,386,942	19,589,579	13,025,222	19,570,149	12,704,154	8,809,668	5,577,649

Represented by:

Net assets available for benefits

These Financial Statements were authorised for issue by Mercer (N.Z.) Limited, the Manager on 26 July 2019.

For and on behalf of the Directors


 Director


 Director



The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Changes in Net Assets
For the year ended 31 March 2019

Note	TOTAL	Cash			Conservative			Moderate		
		2019	2018	2019	2018	2019	2018	2019	2018	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
INCOME										
	24,711	17,210	180	126	939	474	1,051	679		
6	5,253,603	4,461,580	13,927	7,351	155,904	70,286	188,943	117,919		
	5,278,314	4,478,790	14,107	7,477	156,843	70,760	189,994	118,598		
EXPENSES										
	135	73	135	73	-	-	-	-		
6	33,012	30,000	240	219	1,254	826	1,405	1,183		
6	28,860	13,264	210	97	1,096	365	1,228	523		
	176,888	48,429	1,283	356	6,719	1,333	7,528	1,909		
	238,895	91,766	1,868	745	9,069	2,524	10,161	3,615		
	5,039,419	4,387,024	12,239	6,732	147,774	68,236	179,833	114,983		
NET PROFIT BEFORE MEMBERSHIP ACTIVITIES										
MEMBERSHIP ACTIVITIES:										
Contributions/Transfers In										
	13,107,040	7,980,043	116,584	48,508	388,966	266,934	604,360	312,226		
	7,871,299	5,223,087	76,511	33,866	239,548	135,177	356,312	199,249		
	1,662,002	1,166,269	16,040	8,201	49,981	29,738	76,841	45,196		
8	12,873,081	13,537,734	67,044	120,269	871,590	603,430	874,304	823,316		
	-	-	282,842	154,493	821,436	(131,938)	(117,607)	(90,015)		
	35,513,422	27,907,133	559,021	365,337	2,371,521	903,341	1,794,210	1,289,972		
Benefits/Transfers Out/Fees/Tax										
7	(4,029,806)	(2,748,769)	(304,001)	(148,367)	(270,746)	(206,440)	(205,284)	(37,995)		
6	(113,944)	(85,895)	(1,110)	(686)	(3,412)	(2,293)	(5,197)	(3,677)		
	(2,796,080)	(1,159,441)	(520)	(1,551)	(193,135)	(18,283)	(141,687)	(63,487)		
	(518,443)	(441,137)	(2,590)	(1,287)	(25,699)	(10,326)	(25,084)	(15,338)		
	(7,458,273)	(4,435,242)	(308,221)	(151,891)	(492,992)	(237,342)	(377,252)	(120,497)		
	28,055,149	23,471,891	250,800	213,446	1,878,529	665,999	1,416,958	1,169,475		
	74,186,263	46,327,348	520,626	300,448	2,036,140	1,301,905	2,935,530	1,651,072		
	107,280,831	74,186,263	783,665	520,626	4,062,443	2,036,140	4,532,321	2,935,530		

The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Changes in Net Assets
For the year ended 31 March 2019

	Note	Balanced		Growth		High Growth		Shares	
		2019	2018	2019	2018	2019	2018	2019	2018
		\$	\$	\$	\$	\$	\$	\$	\$
INCOME									
Interest income		11,501	8,726	4,512	3,028	4,508	2,893	2,020	1,284
Net gains on financial assets at fair value through profit or loss	6	2,464,292	2,206,894	958,686	761,375	1,030,444	897,652	441,407	400,103
Total income		2,475,793	2,215,620	963,198	764,403	1,034,952	900,545	443,427	401,387
EXPENSES									
Investment management fees	6	-	-	-	-	-	-	-	-
Supervisor fees	6	15,363	15,211	6,028	5,279	6,023	5,044	2,699	2,238
Manager fees (expense recoveries)	6	13,432	6,726	5,270	2,334	5,265	2,230	2,359	989
Other expenses		82,328	24,556	32,299	8,522	32,270	8,140	14,461	3,613
Total expenses		111,123	46,493	43,597	16,135	43,558	15,414	19,519	6,840
NET PROFIT BEFORE MEMBERSHIP ACTIVITIES		2,364,670	2,169,127	919,601	748,268	991,394	885,131	423,908	394,547
MEMBERSHIP ACTIVITIES:									
Contributions/Transfers In									
Member contributions		6,485,427	4,209,423	2,156,525	1,368,128	2,249,097	1,168,572	1,106,081	606,252
Employer contributions		4,058,352	3,013,720	1,211,460	785,666	1,275,408	719,270	653,708	336,139
Tax credits		868,897	676,697	250,989	170,999	265,754	162,346	133,500	73,092
Transfers in from other schemes	8	6,145,850	6,564,509	2,021,719	2,783,086	2,037,878	1,681,931	854,696	961,193
Transfers to/(from) funds		(3,975,399)	(3,326,721)	1,101,873	583,413	1,320,816	1,939,083	566,039	871,685
Total Contributions/Transfers In		13,583,127	11,137,628	6,742,566	5,691,292	7,148,953	5,671,202	3,314,024	2,848,361
Benefits/Transfers Out/Fees/Tax									
Benefits	7	(1,783,613)	(1,271,138)	(642,070)	(334,221)	(622,696)	(534,694)	(201,396)	(215,914)
Administration fees	6	(58,618)	(48,450)	(17,138)	(12,350)	(18,907)	(12,570)	(9,562)	(5,869)
Transfers out to other schemes		(1,271,008)	(579,438)	(347,606)	(165,987)	(562,543)	(236,167)	(279,581)	(94,528)
Portfolio investment entity taxation		(288,494)	(245,103)	(90,996)	(75,336)	(70,206)	(71,365)	(15,374)	(22,382)
Total Benefits/Transfers Out/Fees/Tax		(3,401,733)	(2,144,129)	(1,097,810)	(587,894)	(1,274,352)	(854,796)	(505,913)	(338,693)
Total transactions with members in their capacity as members		10,181,394	8,993,499	5,644,756	5,103,398	5,874,601	4,816,406	2,808,111	2,509,668
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE BEGINNING OF THE FINANCIAL YEAR		37,386,942	26,224,316	13,025,222	7,173,556	12,704,154	7,002,617	5,577,649	2,673,434
NET ASSETS ATTRIBUTABLE TO MEMBERS AT THE END OF THE FINANCIAL YEAR		49,933,006	37,386,942	19,589,579	13,025,222	19,570,149	12,704,154	8,809,668	5,577,649

The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Cash Flows
For the year ended 31 March 2019

	Note	TOTAL			Cash			Conservative			Moderate		
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES													
Proceeds from sale of financial assets		2,079,941	820,966	1,001,941	633,999	672,313	358,725	516,159	121,269				
Interest income		24,711	17,210	180	126	939	474	1,051	679				
Other expenses paid		(127,204)	(113,052)	(923)	(790)	(4,576)	(3,175)	(5,337)	(4,252)				
Payments for purchase of financial assets		(29,858,270)	(23,921,825)	(1,226,358)	(864,723)	(2,540,047)	(983,424)	(1,962,129)	(1,297,616)				
Investment management fees		(131)	(73)	(131)	(73)	-	-	-	-				
Net cash used in operating activities	9	(27,880,953)	(23,196,774)	(225,291)	(231,461)	(1,871,371)	(627,400)	(1,450,256)	(1,179,920)				
CASH FLOWS FROM FINANCING ACTIVITIES													
Member contributions		13,107,040	7,980,043	116,584	48,508	388,966	266,934	604,360	312,226				
Employer contributions		7,871,299	5,223,087	76,511	33,866	239,548	135,177	356,312	199,249				
Tax credits		1,662,002	1,166,269	16,040	8,201	49,981	29,738	76,841	45,196				
Unallocated contributions		(189,425)	110,173	371	(1)	(69,323)	69,419	(17,372)	17,509				
Transfers in from other schemes		12,873,081	13,537,734	67,044	120,269	871,590	603,430	874,304	823,316				
Portfolio investment entity taxation paid		(437,523)	(215,861)	(1,261)	(908)	(10,281)	(2,396)	(15,212)	31,878				
Administration fees paid		(111,836)	(83,187)	(1,081)	(651)	(3,323)	(2,205)	(5,098)	(3,509)				
Benefits paid		(4,005,520)	(2,784,500)	(323,852)	(128,516)	(270,746)	(250,174)	(192,097)	(37,995)				
Transfers out to other schemes		(2,796,080)	(1,159,441)	(520)	(1,551)	(193,135)	(18,283)	(141,687)	(63,487)				
Transfers from/(to) funds		-	-	282,842	154,493	821,436	(131,938)	(117,607)	(90,015)				
Net cash from financing activities		27,973,038	23,774,317	232,678	233,710	1,824,713	699,702	1,422,744	1,234,368				
Net increase/(decrease) in cash and cash equivalents		92,085	577,543	7,387	2,249	(46,658)	72,302	(27,512)	54,448				
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR													
		1,425,870	848,327	5,461	3,212	93,482	21,180	70,920	16,472				
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR													
		1,517,955	1,425,870	12,848	5,461	46,824	93,482	43,408	70,920				



The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Statements of Cash Flows
For the year ended 31 March 2019

Note	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES								
Proceeds from sale of financial assets	817,915	346,813	-	23,544	139,807	93,156	318,646	429,763
Interest income	11,501	8,726	4,512	3,028	4,508	2,893	2,020	1,284
Other expenses paid	(60,223)	(59,962)	(23,066)	(18,960)	(22,855)	(18,246)	(10,224)	(7,667)
Payments for purchase of financial assets	(10,664,104)	(9,471,608)	(5,559,823)	(5,047,194)	(6,188,251)	(4,589,875)	(3,104,398)	(2,853,688)
Investment management fees	-	-	-	-	-	-	-	-
Net cash used in operating activities	(9,894,911)	(9,176,031)	(5,578,377)	(5,039,582)	(6,066,791)	(4,512,072)	(2,793,956)	(2,430,308)
CASH FLOWS FROM FINANCING ACTIVITIES								
Member contributions	6,485,427	4,209,423	2,156,525	1,368,128	2,249,097	1,168,572	1,106,081	606,252
Employer contributions	4,058,352	3,013,720	1,211,460	785,666	1,275,408	719,270	653,708	336,139
Tax credits	868,897	676,697	250,989	170,999	265,754	162,346	133,500	73,092
Unallocated contributions	(76,364)	99,834	7,746	(125,696)	1,566	7,179	(36,049)	41,929
Transfers in from other schemes	6,145,850	6,564,509	2,021,719	2,783,086	2,037,878	1,681,931	854,696	961,193
Portfolio investment entity taxation paid	(243,054)	(151,618)	(74,734)	(37,439)	(70,831)	(41,651)	(22,150)	(13,727)
Administration fees paid	(57,912)	(47,319)	(16,733)	(11,941)	(18,401)	(12,013)	(9,288)	(5,549)
Benefits paid	(1,755,116)	(1,282,986)	(639,617)	(334,221)	(622,696)	(534,694)	(201,396)	(215,914)
Transfers out to other schemes	(1,271,008)	(579,438)	(347,606)	(165,987)	(562,543)	(236,167)	(279,581)	(94,528)
Transfers from/(to) funds	(3,975,399)	(3,326,721)	1,101,873	583,413	1,320,816	1,939,083	566,039	871,685
Net cash from financing activities	10,179,673	9,176,101	5,671,622	5,016,008	5,876,048	4,853,856	2,765,560	2,560,572
Net increase/(decrease) in cash and cash equivalents	284,762	70	93,245	(23,574)	(190,743)	341,784	(28,396)	130,264
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR								
	490,688	490,618	175,441	199,015	428,858	87,074	161,020	30,756
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR								
	775,450	490,688	268,686	175,441	238,115	428,858	132,624	161,020



The accompanying notes form part of and should be read in conjunction with these statements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

1 SCHEME DESCRIPTION

New Zealand Defence Force KiwiSaver Scheme ("the Scheme") is a KiwiSaver Scheme registered under the KiwiSaver Act 2006. The Scheme was established by a Trust Deed on 16 September 2015. The Scheme is a defined contribution superannuation scheme and was established with the principal purpose of providing retirement benefits directly to natural persons within the New Zealand Defence Force community.

Trustees Executors Limited is the Supervisor of the Scheme and is licensed under the Financial Markets Supervisors Act 2011. Mercer (N.Z.) Limited ("Mercer" or "the Manager") is the Manager of the Scheme. Mercer is responsible for the management and administration of the Scheme, including responsibility for the preparation and issue of the Scheme's financial statements. The Manager's registered office is Level 18, 151 Queen Street, Auckland 1010. BNP Paribas Fund Services Australasia Pty Ltd ("BNP Paribas") is the Custodian of the Scheme's financial assets at fair value through profit or loss. Trustees Executors Limited is the Scheme's custodian of cash and cash equivalents.

These financial statements are for the Scheme which comprises the following funds: Cash, Conservative, Moderate, Balanced, Growth, High Growth and Shares (together "the Funds").

Details of membership during the year were:

	2019	2018
Opening Membership at 1 April	3,361	2,447
New Members	951	1,034
Exited Members	(170)	(120)
Closing Membership at 31 March	4,142	3,361

The Scheme and the Funds invest in the following investment portfolios within Mercer Investment Trusts New Zealand ("MITNZ"):

Mercer Investment Trusts New Zealand

- Mercer New Zealand Cash and Fixed Interest Trust
- Mercer Diversified Trust
- Investment Portfolio**
 - Mercer Cash Portfolio
 - Mercer Conservative Portfolio
 - Mercer Balanced Portfolio
 - Mercer Moderate Portfolio
 - Mercer Growth Portfolio
 - Mercer High Growth Portfolio
 - Mercer Shares Portfolio

2 BASIS OF PREPARATION

The financial statements are being presented on a segregated fund basis in accordance with the requirements of the Financial Markets Conduct Act 2013 ("FMCA") Section 461A. Segregated fund reporting has also been applied to 31 March 2018 comparatives.

The assets of each Fund are the exclusive property of that Fund, and all liabilities incurred in relation to a Fund are the exclusive liabilities of that Fund. The Manager must ensure that the assets of a Fund are accounted for separately from other Funds and that the assets of one Fund are not available to meet the liabilities of any other Fund as stated in section 8.7 of the Trust Deed. The results and position reported for the Scheme is an aggregation of the result, position and cash flows of the Funds that make up the Scheme.

Statement of Compliance

The Scheme is the reporting entity. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the requirements of the KiwiSaver Act 2006, the Financial Markets Conduct Act 2013, the provisions of the Trust Deed and other relevant legislative requirements as appropriate for For-profit entities.

The Scheme is a Tier 1 entity and, as such, the financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), other New Zealand accounting standards and authoritative notices as appropriate for For-profit entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Manager, Mercer, on 26 July 2019.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

2 BASIS OF PREPARATION (Continued)

Measurement Base

The measurement base adopted is that of historical cost modified by the revaluation of financial assets at fair value through profit or loss.

Functional and Presentation Currency

The financial statements are presented in New Zealand dollars ("the presentation currency") which is the currency of the primary economic environment in which the Scheme operates (the "functional currency"). The financial statements are rounded to the nearest New Zealand dollar.

Assumptions, Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the financial statements.

Duration of the Scheme

Clause 25 of the Trust Deed requires that the Scheme and each Member's Account will terminate at such time as:

- (i) the High Court, on the application of the Financial Markets Authority or the Supervisor, directs that the Scheme must be wound up; or
- (ii) the Manager, having obtained the Supervisor's and, where required by the Participation Agreement, the Participating Employer's written consent, determines; or
- (iii) where permitted by the Participation Agreement, the Participating Employer provides notice in writing to the Manager and to the Supervisor that the Scheme is to terminate.

Funding Policy

The Scheme is a defined contribution scheme as defined by the KiwiSaver Act 2006. Funding in the form of contributions is primarily received from three sources: members of the Scheme; employers of members of the Scheme; and the Government (in accordance with the provisions of the KiwiSaver Act 2006). A third party may contribute directly to the Scheme in respect of a Member such amounts as may be agreed from time to time between the Manager, the third party and the Member but only to the extent that the contribution: (a) is permitted under the KiwiSaver Act; and (b) is not covered by a preceding provision in Clause 6 of the Trust Deed. Members may contribute to the Scheme at varying designated additional contributions in excess of any salary or wage linked contributions. As of 31 March 2019, employer contribution rates are either 3% or greater of each relevant member's gross salary or wages (2018: Same).

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of the financial statements are set out below. The accounting policies have been applied consistently to all periods, unless otherwise stated.

(i) Income
Interest income

Interest income as recognised in the Statements of Changes in Net Assets is derived from cash at bank and is recognised using the effective interest method.

Changes in fair value of investments

Net gains or losses on financial assets at fair value through profit or loss are calculated as the difference between fair value at sale, or at period end, and the fair value at the previous valuation point and/or weighted average cost for purchases during the year. This includes both realised and unrealised gains and losses, but does not include interest income and is net of any fees charged within underlying unit trust investments where these are incurred through a reduction in the value of the investment.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Financial Instruments

Classification

Financial assets at fair value through profit or loss comprise investment in unlisted unit trusts including prepaid investments.

Investments in unlisted unit trusts including prepaid investments are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's investment policy is for the Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information. The Scheme has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income.

Based on the Scheme's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets, the Manager has determined that all financial assets of the Scheme are classified as fair value through profit or loss with the exception of cash and cash equivalents and other receivables, which are classified as financial assets at amortised cost.

Financial liabilities at amortised cost comprise investment management fees payable, supervisor fees payable, benefits payable, unallocated contributions, administration fees payable, manager fees (expense recoveries) payable, other expenses payable and net assets attributable to members.

Recognition and derecognition

Purchases and sales of investments are recognised on the trade date - the date on which the Scheme commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investment have expired or the Scheme has transferred substantially all risks and rewards of ownership.

Measurement

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Statements of Changes in Net Assets. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the Statements of Changes in Net Assets in the period in which they arise.

Financial assets and liabilities at amortised cost are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition of the financial asset or liability and subsequently measured at amortised cost.

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of units held by the Scheme in managed unlisted unit trusts is determined by reference to published bid prices at the close of business on the reporting date being the redemption price established by the underlying fund manager.

(iii) Expenses

Expenses comprise management fees, Supervisor fees, custody fees, management expense recoveries and other expenses. All expenses are accounted for on an accrual basis. Administration fees are charged monthly per member via unit deduction and are recognised in Membership Activities in the Statements of Changes in Net Assets.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iv) Taxation

The Scheme qualifies as, and has elected to be treated as, a Portfolio Investment Entity ("PIE") for tax purposes.

Under the PIE regime, the Manager attributes the taxable income of the Scheme to members in accordance with their proportionate interest in the Scheme. The income attributed to each member is taxed at the member's prescribed investor rate ("PIR") which is currently capped at 28%. The Manager accounts for tax on behalf of natural persons and certain other members and adjusts the members' interests in the Scheme to reflect that tax is paid at varying rates on behalf of the members. There is a unit price for each Fund and for each tax rate.

As the legislation regarding the taxation of PIEs provides that the Scheme pays tax on behalf of its members, the PIE taxation expense/(refund) disclosed in the Statements of Changes in Net Assets is the expense attributable to members and is measured based on tax rates applicable to those members.

The tax amounts in the Statements of Net Assets represent the remaining tax payable/(receivable) by the Scheme on behalf of the members under the PIE regime to 31 March each year.

(v) Financial Assets at Amortised Cost

Financial assets at amortised cost comprises cash and cash equivalents and other receivables. Financial assets at amortised cost are initially recognised at fair value, being the amounts receivable. They are subsequently measured at amortised cost using the effective interest method, reduced for impairment as appropriate. Any impairment charge is recognised within expenses in the Statements of Changes in Net Assets.

(vi) Net Assets Attributable to Members

The net assets attributable to members represents the liability for promised retirement benefits and are measured at amortised cost.

The Scheme issue units in the Fund that are redeemable at the Members' option and do not have identical features and are therefore classified as financial liabilities. The units can be put back to the Scheme at any time for the purpose of permitted withdrawals (such as reaching the retirement age of 65 or enduring significant hardship), transferred to another Fund within the Scheme or a separate KiwiSaver Scheme and which are equal to a proportionate share of the respective Fund's net asset value which is the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable at the period end date if Members exercise their right to put the units back to the Scheme.

As stipulated in the Trust Deed, each unit represents a right to an individual share in the respective Fund and does not extend to a right in the underlying assets of the respective Fund. Separate classes of units are created within the Funds to reflect the different Prescribed Investment Rates (PIR) of the Members. Each Member's account is invested in classes of units within the relevant Funds based on the member's PIR that has been most recently notified to the Manager. Each unit of a specified class has the same rights attaching to it as all other units of the same class within the relevant Fund.

Units are issued and redeemed at the holder's option at prices based on the Funds' net asset value per class of unit at the time of issue or redemption. The Funds' net asset value per class of unit is calculated by dividing the net assets attributable to all holders of units in the same class for each Fund by the total number of units on issue of the same class in each Fund.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(vii) Accounting Policy for Investment Entities

Whilst the Scheme has investments in a number of related party wholesale unlisted unit trusts, it has not prepared consolidated financial statements. The Scheme has determined that it is an investment entity under the definition in NZ IFRS 10 as it meets the following criteria:

- the Scheme has obtained funds from members for the purpose of providing them with investment management services;
- the Scheme's business purpose, which it communicated directly to members, is investing solely for returns from capital appreciation; and
- the performance of investments made by the Scheme are measured and evaluated on a fair value basis.

The Scheme also meets all of the typical characteristics of an investment entity.

As a consequence, in the event the interest in the wholesale unlisted unit trusts gives rise to control, the Scheme is not required to consolidate these investments, and continues to account for these investments at fair value through profit or loss.

(viii) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, cash at bank and deposits held at call with banks with an original maturity of three months or less.

(ix) Statements of Cash Flows

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represents the Scheme's main income generating activity.

The cash flows of the Scheme do not include those of the investment managers. The following are definitions of the terms used in the Statements of Cash Flows:

Operating activities - are those relating to the principal income-producing activities of the Scheme and other activities that are not financing activities. These include those cash flows relating to the acquisitions, holding and disposal of investments and investments in securities not falling within the definition of cash.

Financing activities - are those activities that result in changes in the size and composition of member's funds. This includes elements of members' funds not falling within the definition of cash.

(x) Contributions and Withdrawals

Contributions and withdrawals are accounted for on an accruals basis. Contributions are initially recognised at fair value when the Manager has confirmed the validity of the application details and instructions. Claims for death, retirement or other benefits are recognised when the Member meets the condition required for withdrawal eligibility.

Unallocated contributions arise when monies have been received but not yet allocated to members' accounts in the administration system at balance date. Unallocated contributions are recorded at their value, being the amounts received, and units are purchased at the unit price applicable on the date of allocation to members' accounts.

(xi) Goods and Services Tax (GST)

The Scheme is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where applicable.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(xii) Application of New Accounting Standards

(a) New and amended standards adopted by the Scheme:

The standards, amendments to existing standards and interpretations that were effective for the first time for the financial year beginning 1 April 2018 did not have a material impact on the financial statements of the Scheme.

NZ IFRS 9 - Financial Instruments became effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9, was issued in September 2014 as a complete version of the standard. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. It replaces the multiple classification and measurement models in NZ IAS 39 – Financial Instruments: Recognition and Measurement.

Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPP). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPP and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. NZ IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

The adoption of NZ IFRS 9 did not result in a change to the measurement of financial instruments of the Scheme. However, the classification of the financial instruments have changed as follows:

	Classification & measurement under NZ IAS 39	Classification & measurement under NZ IFRS 9
Assets		
Cash and cash equivalents and other receivables		Financial assets at amortised cost
Financial assets at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Financial assets at fair value through profit or loss
Liabilities		
Investment management fees payable, Supervisor fees payable, benefits payable, unallocated contributions, administration fees payable, manager fees (expense recoveries) payable, other expenses payable and net assets attributable to members	Other financial liabilities at amortised cost	Financial liabilities at amortised cost

The Scheme has not made any election at initial recognition to irrevocably designate a financial asset as measured at fair value through profit or loss.

The Scheme retrospectively adopted this standard with effect from 1 April 2017.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 April 2018 that have a material effect on the financial statements of the Scheme.

(b) New standards, amendments and interpretations not yet adopted:

There are no new standards, amendments or interpretations that are expected to have an impact on the Scheme's financial statements.

(xiii) Presentation of financial statements

The assets and liabilities in the financial statements have been presented in order of their liquidity. All assets and liabilities either have a maturity of less than a year or have no fixed maturity and are therefore considered current assets/liabilities. (2018: same)

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

4 VESTED BENEFITS

Vested benefits are the rights that, under the conditions of the Scheme's Trust Deed, are not conditional on continued membership.

	Total		Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018
Member accounts	\$ 107,308,492	\$ 74,213,361	\$ 783,720	\$ 520,551	\$ 4,063,945	\$ 2,036,433	\$ 4,534,296	\$ 2,936,260
Adjustments arising from valuation differences	(27,661)	(27,098)	(55)	75	(1,502)	(293)	(1,975)	(730)
Net Assets Attributable to Members	107,280,831	74,186,263	783,665	520,626	4,062,443	2,036,140	4,532,321	2,935,530

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Member accounts	\$ 49,950,603	\$ 37,400,276	\$ 19,595,881	\$ 13,029,852	\$ 19,570,856	\$ 12,709,816	\$ 8,809,191	\$ 5,580,173
Adjustments arising from valuation differences	(17,997)	(13,334)	(6,302)	(4,630)	(707)	(5,662)	477	(2,524)
Net Assets Attributable to Members	49,933,006	37,386,942	19,589,579	13,025,222	19,570,149	12,704,154	8,809,668	5,577,649

Valuation differences exist between the Net assets attributable to Members and vested benefits. Net assets attributable to Members are derived using accounting principles on an accruals basis resulting in timing differences in the settlement of certain accrued items and the impact thereof on unit pricing, whereas vested benefits are derived as the sum of individual member account balances, which are calculated using the 31 March unit prices.

No guarantees have been made in respect of any part of the Net Assets Attributable to Members.



NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Scheme held units in the following MITNZ Investment Portfolios and prepaid investments:

	TOTAL			Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018	
Mercer Cash Portfolio	\$ 774,845	\$ 527,006	\$ 774,845	\$ 527,006	-	-	-	-	
Mercer Conservative Portfolio	4,046,699	1,992,769	-	-	4,046,699	1,992,769	-	-	
Mercer Moderate Portfolio	4,533,363	2,898,450	-	-	-	-	4,533,363	2,898,450	
Mercer Balanced Portfolio	49,583,942	37,273,461	-	-	-	-	-	-	
Mercer Growth Portfolio	19,453,555	12,935,046	-	-	-	-	-	-	
Mercer High Growth Portfolio	19,436,957	12,358,069	-	-	-	-	-	-	
Mercer Shares Portfolio	8,636,969	5,482,799	-	-	-	-	-	-	
Prepaid Investments	72,989	39,787	-	9,495	-	30,292	-	-	
Total financial assets at Fair Value through profit or loss	108,539,319	73,507,387	774,845	536,501	4,046,699	2,023,061	4,533,363	2,898,450	

Percentage of financial assets held in the relevant class of security for the Scheme:
Percentage of financial assets held in the relevant class of security for the respective Fund:

	2019	2018	2019	2018	2019	2018	2019	2018
	1%	1%	1%	1%	4%	3%	4%	4%
	100%	100%	98%	98%	100%	99%	100%	100%

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Mercer Cash Portfolio	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mercer Conservative Portfolio	-	-	-	-	-	-	-	-
Mercer Moderate Portfolio	-	-	-	-	-	-	-	-
Mercer Balanced Portfolio	49,583,942	37,273,461	-	-	-	-	-	-
Mercer Growth Portfolio	-	-	19,453,555	12,935,046	-	-	-	-
Mercer High Growth Portfolio	-	-	-	-	19,436,957	12,358,069	-	-
Mercer Shares Portfolio	-	-	-	-	-	-	8,636,969	5,482,799
Prepaid Investments	-	-	-	-	-	-	72,989	-
Total financial assets at Fair Value through profit or loss	49,583,942	37,273,461	19,453,555	12,935,046	19,436,957	12,358,069	8,709,958	5,482,799

Percentage of financial assets held in the relevant class of security for the Scheme:
Percentage of financial assets held in the relevant class of security for the respective Fund:

	2019	2018	2019	2018	2019	2018	2019	2018
	47%	51%	18%	18%	18%	17%	8%	7%
	100%	100%	100%	100%	100%	100%	99%	100%



NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Fair Value Hierarchy

The Scheme's financial instruments carried at fair value are grouped into Levels 1 to 3 based upon the degree to which the fair value is observable. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as published prices being the redemption price established by the underlying fund manager) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss are classified as Level 2 under the fair value hierarchy as the fair value of these financial assets at balance date is determined using the last available redemption unit price of those funds. During the year there were no transfers of investments between levels of the fair value hierarchy (2018: Same).

6 RELATED PARTIES

Related parties comprise the Manager, the Supervisor and their related parties.

The Manager and Supervisor are entitled to remuneration from the Scheme. This is represented by the Investment management, Administration and Supervisor fees in the Statements of Changes in Net Assets. These are recovered through the cancellation of units for member fixed fees and a unit price adjustment for net asset based fees.

The minimum Trustees Executors Limited Supervisor fees per annum are \$15,000.

The fee rates for 2019 and 2018 are disclosed below:

Fund	Investment management fee	Supervisor fee
	% p.a.	up to % p.a.
Cash	0.32%	0.04%
Conservative	0.50%	0.04%
Moderate	0.59%	0.04%
Balanced	0.68%	0.04%
Growth	0.77%	0.04%
High Growth	0.82%	0.04%
Shares	0.90%	0.04%

An administration fee of \$2.50 is charged per member, per month.

Investment management fees incurred by the Scheme are deducted through two components:

- The first component comprises investment management fees charged at Mercer Investment Trusts New Zealand ("MITNZ") level, a series of wholesale investment trusts managed by Mercer as disclosed in Note 5. These investment management fees are incurred through a reduction in the MITNZ unit price. This is reflected within net gains on financial assets at fair value through profit or loss in the Statements of Changes in Net Assets.
- The second component is fees deducted directly from the Scheme and invoiced by Mercer. These represent the balancing amounts of net asset based investment management fees once the deduction of fees in MITNZ are taken into account.

All related party transactions are conducted on normal commercial terms and conditions.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

6 RELATED PARTIES (Continued)

Amounts paid to Mercer and Mercer Investments (New Zealand) Limited ("MINZL") for their services as investment manager and administrator including investment management fees paid to Mercer (N.Z.) Limited, other related and third parties via the MITNZ unit price and Supervisor fees for the year are disclosed below. As outlined in the Scheme's Trust Deed, the Manager is also entitled to be reimbursed for various fees and expenses incurred in acting as Manager. In the disclosure below these expenses are titled Manager fees (expense recoveries) and may include legal and other professional services, audit and tax fees and filing fees.

	Total			Cash			Conservative			Moderate		
	2019	2018	2019	2019	2018	2019	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Investment management fees												
Investment management fees expense to Mercer, other related and third party investment managers via MITNZ unit price	651,579	442,999	2,009	1,096	8,443	15,185	22,442	13,652				
Investment management fees expense to Mercer	135	73	135	73	-	-	-	-				
Total investment management fees	651,714	443,072	2,144	1,169	8,443	15,185	22,442	13,652				
Administration fees												
Administration fees expense to Mercer	113,944	85,895	1,110	686	2,293	3,412	5,197	3,677				
Supervisor fees												
Supervisor fees expense to Trustees Executors Limited	33,012	30,000	240	219	826	1,254	1,405	1,183				
Manager fees (expense recoveries)												
Manager fees (expense recoveries) to Mercer	28,860	13,264	210	97	365	1,096	1,228	523				
Total fees	827,530	572,231	3,704	2,171	11,927	20,947	30,272	19,035				
	Balanced		Growth		High Growth		Shares					
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Investment management fees												
Investment management fees expense to Mercer, other related and third party investment managers via MITNZ unit price	293,392	221,931	123,385	78,078	82,528	131,323	63,843	37,271				
Investment management fees expense to Mercer	-	-	-	-	-	-	-	-				
Total investment management fees	293,392	221,931	123,385	78,078	82,528	131,323	63,843	37,271				
Administration fees												
Administration fees expense to Mercer	58,618	48,450	17,138	12,350	12,570	18,907	9,562	5,869				
Supervisor fees												
Supervisor fees expense to Trustees Executors Limited	15,363	15,211	6,028	5,279	5,044	6,023	2,699	2,238				
Manager fees (expense recoveries)												
Manager fees (expense recoveries) to Mercer	13,432	6,726	5,270	2,334	2,230	5,265	2,359	989				
Total fees	380,805	292,318	151,821	98,041	102,372	161,518	78,463	46,367				

Outstanding balances due to related parties are due within seven days and are not interest bearing.



NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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6 RELATED PARTIES (Continued)

Amounts payable to the Manager and Supervisor as at 31 March are as follows:

Fund	Investment management fees		Administration fees		Manager fees (expense recoveries)		Supervisor fees	
	2019	2018	2019	2018	2019	2018	2019	2018
Cash	13	9	103	74	294	93	116	109
Conservative	-	-	313	224	1,537	349	608	413
Moderate	-	-	470	371	1,721	500	681	591
Balanced	-	-	5,108	4,402	18,829	6,435	7,446	7,606
Growth	-	-	1,589	1,184	7,387	2,233	2,922	2,640
High Growth	-	-	1,775	1,269	7,381	2,133	2,919	2,522
Shares	-	-	904	630	3,308	947	1,308	1,119
Total	13	9	10,262	8,154	40,457	12,690	16,000	15,000

Investment in related parties

The Scheme invests in MITNZ. MINZL, a wholly owned subsidiary of Mercer, is the Trustee for the MITNZ. During the year no related entity was a member of the Scheme. The Scheme holds the following financial assets in MITNZ:

	Opening Balance		Purchases		Sales		Net Change in Fair Value		Closing Balance	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Mercer Cash Portfolio	\$ 527,006	\$ 298,426	\$ 1,235,852	\$ 855,228	\$ (1,001,941)	\$ (633,999)	\$ 13,927	\$ 7,351	\$ 774,844	\$ 527,006
Mercer Conservative Portfolio	1,992,769	1,328,076	2,570,339	953,132	(672,313)	(358,725)	155,904	70,286	4,046,699	1,992,769
Mercer Moderate Portfolio	2,898,450	1,604,184	1,962,129	1,297,616	(516,159)	(121,269)	188,943	117,919	4,533,363	2,898,450
Mercer Balanced Portfolio	37,273,461	25,941,772	10,664,104	9,471,608	(817,915)	(346,813)	2,464,292	2,206,894	49,583,942	37,273,461
Mercer Growth Portfolio	12,935,046	7,150,021	5,559,823	5,047,194	-	(23,544)	958,686	761,375	19,453,555	12,935,046
Mercer High Growth Portfolio	12,358,069	6,963,698	6,188,251	4,589,875	(139,807)	(93,156)	1,030,444	897,652	19,436,957	12,358,069
Mercer Shares Portfolio	5,482,799	2,658,771	3,031,408	2,853,688	(318,646)	(429,763)	441,407	400,103	8,636,968	5,482,799
Scheme Total	73,467,600	45,944,948	31,211,906	25,068,341	(3,466,781)	(2,007,269)	5,253,603	4,461,580	106,466,328	73,467,600

As at 31 March 2019, prepaid investments amounted to \$72,989 (2018: \$39,787).

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

6 RELATED PARTIES (Continued)

During the year there were non-cash transactions comprising purchases and sales between portfolios in the MITNZ at the Scheme level. These are disclosed below:

	Purchases		Sales	
	2019	2018	2019	2018
	\$	\$	\$	\$
Mercer Cash Portfolio	32,990	175,866	(254,031)	(586,894)
Mercer Conservative Portfolio	370,452	31,170	(377,815)	(174,557)
Mercer Moderate Portfolio	144,358	126,006	(472,251)	(74,151)
Mercer Balanced Portfolio	-	47,453	(130,344)	(14,114)
Mercer Growth Portfolio	255,737	214,329	-	(23,543)
Mercer High Growth Portfolio	354,407	135,389	(66,142)	(93,155)
Mercer Shares Portfolio	228,896	456,090	(86,257)	(219,889)
Total	1,386,840	1,186,303	(1,386,840)	(1,186,303)

7 BENEFITS

	TOTAL		Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Retirement	380,715	193,594	-	55,580	111,525	-	50,973	-
Serious ill health	-	-	-	-	-	-	-	-
Death or disability	74,629	30,388	74,629	30,388	-	-	-	-
Significant financial hardship	69,425	36,019	-	-	4,272	-	6,496	5,617
First home assistance	3,475,748	2,477,418	229,372	62,399	154,949	206,440	147,815	32,378
Permanent emigration to Australia	-	-	-	-	-	-	-	-
Permanent emigration excluding Australia	24,254	3,274	-	-	-	-	-	-
Enrolment in error	4,779	8,030	-	-	-	-	-	-
Late opt-out	256	46	-	-	-	-	-	-
Total	4,029,806	2,748,769	304,001	148,367	270,746	206,440	205,284	37,995

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME

Notes to the Financial Statements
For the year ended 31 March 2019

7 BENEFITS (Continued)

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Retirement	\$ 196,337	\$ 138,014	\$ 21,880	\$ -	\$ -	\$ -	\$ -	\$ -
Serious ill health	-	-	-	-	-	-	-	-
Death or disability	-	-	-	-	-	-	-	-
Significant financial hardship	30,383	9,154	25,224	11,105	-	8,964	3,050	1,178
First home assistance	1,534,904	1,113,209	594,912	323,116	615,631	525,141	198,165	214,736
Permanent emigration to Australia	-	-	-	-	-	-	-	-
Permanent emigration excluding Australia	17,280	3,274	-	-	6,974	-	-	-
Enrolment in error	4,453	7,441	54	-	91	589	181	-
Late opt-out	256	46	-	-	-	-	-	-
Total	1,783,613	1,271,138	642,070	334,221	622,696	534,694	201,396	215,914

8 TRANSFERS IN FROM OTHER SCHEMES

	TOTAL		Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018
Transfers from other KiwiSaver Schemes	\$ 11,345,589	\$ 12,761,713	\$ 67,044	\$ 76,056	\$ 662,681	\$ 588,494	\$ 804,498	\$ 790,603
Transfers from other superannuation schemes	1,060,800	703,048	-	5,024	208,909	10,507	69,636	32,713
Transfers from Trans-Tasman portability	466,692	72,973	-	39,189	-	4,429	170	-
Total	12,873,081	13,537,734	67,044	120,269	871,590	603,430	874,304	823,316

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Transfers from other KiwiSaver Schemes	\$ 5,343,851	\$ 6,248,234	\$ 1,908,521	\$ 2,665,812	\$ 1,832,500	\$ 1,537,000	\$ 726,494	\$ 855,514
Transfers from other superannuation schemes	413,003	308,279	70,219	111,223	187,849	129,623	111,184	105,679
Transfers from Trans-Tasman portability	388,996	7,996	42,979	6,051	17,529	15,308	17,018	-
Total	6,145,850	6,564,509	2,021,719	2,783,086	2,037,878	1,681,931	854,696	961,193

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

9 RECONCILIATION OF NET PROFIT BEFORE MEMBERSHIP ACTIVITIES TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	TOTAL							
	2019		2018		2017			
	\$	\$	\$	\$	\$	\$		
Net profit before membership activities	5,039,419	4,387,024	12,239	6,732	179,833	114,983		
<i>Adjustments for:</i>								
Net gains on financial assets at fair value through profit or loss	(5,253,603)	(4,461,580)	(13,927)	(7,351)	(188,943)	(117,919)		
Proceeds from sale of financial assets	2,079,941	820,966	1,001,941	633,999	358,725	121,269		
Payments for purchase of financial assets	(29,858,270)	(23,921,825)	(1,226,358)	(884,723)	(983,424)	(1,297,616)		
<i>Changes in assets and liabilities:</i>								
Increase in liabilities (excluding portfolio investment entity tax payable, benefits payable and unallocated contributions)	111,560	(21,359)	814	(118)	4,824	(637)		
Net Cash flows used in Operating Activities	(27,880,953)	(23,196,774)	(225,291)	(231,461)	(627,400)	(1,179,920)		
	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
Net profit before membership activities	2,364,670	2,169,127	919,601	748,268	991,394	885,131	423,908	394,547
<i>Adjustments for:</i>								
Net gains on financial assets at fair value through profit or loss	(2,464,292)	(2,206,894)	(958,686)	(761,375)	(1,030,444)	(897,652)	(441,407)	(400,103)
Proceeds from sale of financial assets	817,915	346,813	-	23,544	139,807	93,156	318,646	429,763
Payments for purchase of financial assets	(10,664,104)	(9,471,608)	(5,559,823)	(5,047,194)	(6,188,251)	(4,589,875)	(3,104,398)	(2,853,688)
<i>Changes in assets and liabilities:</i>								
Increase in liabilities (excluding portfolio investment entity tax payable, benefits payable and unallocated contributions)	50,900	(13,469)	20,531	(2,825)	20,703	(2,832)	9,295	(827)
Net Cash flows used in Operating Activities	(9,894,911)	(9,176,031)	(5,578,377)	(5,039,582)	(6,066,791)	(4,512,072)	(2,793,956)	(2,430,308)

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

10 AUDITORS' REMUNERATION

During the reporting period, the following fees were paid or payable to the auditor of the Scheme. Audit fees for the Scheme may be recovered from the Manager for expenses incurred in acting as Manager (Refer note 6). The auditor of the Scheme is PricewaterhouseCoopers.

	TOTAL			Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018	
Audit fees for the audit of financial statements (2018: Audit of financial statements and registry compliance assurance)	\$ 67,160	\$ 63,250	\$ 488	\$ 462	\$ 2,551	\$ 1,741	\$ 2,858	\$ 2,494	
Taxation fees for tax compliance services	10,380	5,463	75	40	394	150	442	215	
Total	77,540	68,713	563	502	2,945	1,891	3,300	2,709	

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Audit fees for the audit of financial statements (2018: Audit of financial statements and registry compliance assurance)	\$ 31,256	\$ 32,071	\$ 12,263	\$ 11,130	\$ 12,263	\$ 10,634	\$ 5,491	\$ 4,718
Taxation fees for tax compliance services	4,831	2,772	1,895	961	1,894	918	849	407
Total	36,087	34,843	14,158	12,091	14,147	11,552	6,340	5,125

11 FINANCIAL RISK MANAGEMENT

The Scheme's financial assets are comprised of units in unlisted unit trusts which is exposed to equities, interest bearing securities, units in unit trusts and derivative financial instruments. The Manager has determined that these types of investments are appropriate for the Scheme and are in accordance with its investment objectives. The objectives of the Scheme are to achieve a return (over the medium to long term) which is competitive with comparable trusts that have similar risk characteristics; and to outperform the notional return of a benchmark portfolio of suitable market indices over periods of one year or greater.

The Scheme's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Scheme's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance.

The Manager has considered the above investment risks in constructing the asset portfolios of the Scheme and aims to manage those risks primarily through diversification, including using some or all of the following (as applicable):

- investing across different asset classes (to reduce market risk and liquidity risk);
- investing predominantly in unit trusts which, in turn, invest with a number of different portfolios managed by several investment managers;
- investing across different countries (to reduce market risk); and
- investing in a number of individual securities within each asset class.

Professional investment managers are appointed on a research-based process of selection to manage the assets of the MITNZ via a set of investment guidelines. Risk management activities are performed within the underlying investment portfolios, not at the Scheme level. The investment managers of underlying investment portfolios may use derivatives and other instruments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks and exposures from forecast transactions.

The New Zealand Defence Force KiwiSaver Scheme invests in MDT that in turn invests in other MITNZ investment portfolios and MNZCFIT. The investment in the MITNZ investment portfolios are directly exposed to market risk, credit risk and liquidity risk.



NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

11 FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Market risk is minimised by the Manager through research and analysis of the investment mix within investment portfolios and ensuring that all investment activities are undertaken in accordance with established investment strategies. The Scheme's overall market positions are monitored by the Scheme's manager who uses research and analysis to form a view on these matters and then rebalances the investment mix of the investment portfolios to reduce the impact of market risk.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Scheme does not hold financial instruments denominated in currencies other than the New Zealand dollar, the functional currency. It is therefore not exposed to currency risk. Currency risk disclosure has been considered on the basis of the Scheme's direct investments and not on a look through basis for financial assets held indirectly through unit trusts. Consequently the Scheme may be exposed indirectly to currency risk where the Scheme has significant financial assets in unit trusts which have exposure to foreign currencies.

Exposure to currency risk is managed through hedging using derivative investments, which may include forward exchange contracts, within the underlying MITNZ investment portfolios.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The majority of the Scheme's financial assets are non-interest bearing. As a result, the Scheme is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates. Any sensitivity is immaterial.

Interest rate risk disclosures have been considered on the basis of the Scheme's direct investments and not on a look through basis for investments held indirectly through unit trusts. Consequently the Scheme is exposed indirectly to interest rate risk where the Scheme has significant investments in unit trusts which have interest bearing securities.

Exposure to interest rate risk is managed through the use of derivatives, diversification in holdings and the duration of fixed interest investments within the underlying investment portfolios.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
For the year ended 31 March 2019

11 FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk (Continued)

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price (other than those arising from interest rate risk or currency risk). The Scheme's financial assets are susceptible to market price risk arising from uncertainties about future values of the financial assets which will directly affect net investment income.

As the majority of the Scheme's financial instruments are carried at fair value, all changes in market conditions will directly affect investment returns, recognised in the Statements of Changes in Net Assets. The Scheme's price risk is managed through diversification of the financial assets within the Fund and within the underlying investments in the MITNZ. In addition, price risk may be hedged using derivative financial instruments such as options or futures within the underlying MITNZ investment portfolios.

As at 31 March, the Scheme's exposure to market price risk through unlisted unit trusts was as follows:

Fund	2019		2018		TOTAL
	\$	%	\$	%	
Cash	774,845	1%	527,006	1%	
Conservative	4,046,699	4%	1,992,769	3%	
Moderate	4,533,363	4%	2,898,450	4%	
Balanced	49,583,942	47%	37,273,461	50%	
Growth	19,453,555	18%	12,935,046	18%	
High Growth	19,436,957	18%	12,358,069	17%	
Shares	8,636,969	8%	5,482,799	7%	
Total Unlisted Unit Trusts	106,466,330	100%	73,467,600	100%	

The table below shows the sensitivity to market price of the financial assets at fair value through profit and loss, if all other variables were held constant and investment markets fluctuated by the percentages disclosed below.

Fund	2019				2018			
	Net profit before membership activities		Net Assets Attributable to Members		Net profit before membership activities		Net Assets Attributable to Members	
	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
Cash	\$ 77,485	(\$ 77,485)	\$ 77,485	(\$ 77,485)	\$ 52,700	(\$ 52,700)	\$ 52,700	(\$ 52,700)
Conservative	404,670	(404,670)	404,670	(404,670)	199,277	(199,277)	199,277	(199,277)
Moderate	453,336	(453,336)	453,336	(453,336)	289,845	(289,845)	289,845	(289,845)
Balanced	4,958,394	(4,958,394)	4,958,394	(4,958,394)	3,727,346	(3,727,346)	3,727,346	(3,727,346)
Growth	1,945,356	(1,945,356)	1,945,356	(1,945,356)	1,293,505	(1,293,505)	1,293,505	(1,293,505)
High Growth	1,943,696	(1,943,696)	1,943,696	(1,943,696)	1,235,807	(1,235,807)	1,235,807	(1,235,807)
Shares	863,697	(863,697)	863,697	(863,697)	548,280	(548,280)	548,280	(548,280)
Total	10,646,634	(10,646,634)	10,646,634	(10,646,634)	7,346,760	(7,346,760)	7,346,760	(7,346,760)

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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11 FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss. The Scheme is exposed to counterparty credit risk on cash and cash equivalents. None of these assets are impaired nor past due (but not impaired) (2018: Same).

With respect to credit risk arising from the cash and cash equivalents of the Scheme, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the carrying amount disclosed in the Statements of Net Assets. This represents the current maximum risk exposure at the reporting date.

The managers of the investment funds manage credit risk by establishing controls which are either specified in the guidelines set by the Manager or outlined in the product disclosure statement/information memorandum of underlying unit trust investments that it makes. Credit risk limitations include diversification of investments over a wide range of asset classes, companies, industries and maturities within the underlying investment portfolios. The Scheme's cash balances are held with Westpac New Zealand Limited (AA- rating, as measured by Standard & Poor's) (2018: Same).

The Scheme measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Scheme.

c) Liquidity Risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that there will always be sufficient liquidity to meet liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

The Scheme is exposed to daily cash redemptions of redeemable units.

The Scheme's liquidity risk is managed by investing in unlisted investment trusts which, in turn, invest in different asset classes and predominantly liquid assets.

Members are able to transfer their balances to another KiwiSaver Scheme at any time. As such, the liability for promised retirement benefits is deemed to be repayable on demand. All other financial liabilities of the Scheme are due within one month.

d) Capital Risk Management

The Scheme manages its net assets attributable to Members as capital, notwithstanding net assets attributable to Members is classified as a liability. The amounts of Members' funds can change significantly on a daily basis as the Funds can be transferred, withdrawn as set out in the conditions of the KiwiSaver Act 2006. The Scheme's objective when managing capital is to safeguard the Scheme's ability to continue as a going concern in order to provide returns for Members and to maintain a strong capital base to support the development of the investment activities of the Scheme. In order to maintain or adjust the capital structure, the Scheme's policy is to perform the following:

- a) monitor the level of daily applications and redemptions relative to the assets it is able to liquidate within seven days; and
- b) redeem and issue new units in accordance with the constitutional documents of the Scheme, which includes the ability to restrict redemptions in accordance with the KiwiSaver Act 2006. The Scheme does not have any externally imposed capital requirements.

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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12 FINANCIAL INSTRUMENTS BY CATEGORY

ASSETS

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

Total financial assets at fair value through profit or loss

Financial assets at amortised cost

Cash and cash equivalents

Other receivables

Total financial assets at amortised cost

Total assets

LIABILITIES

Financial liabilities at amortised cost

Investment management fees payable

Supervisor fees payable

Benefits payable

Unallocated contributions

Administration fees payable

Manager fees (expense recoveries) payable

Other expenses payable

Net assets attributable to members

Total financial liabilities at amortised cost

	TOTAL		Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
106,539,319	73,507,387	774,845	536,501	4,046,699	2,023,061	4,533,363	2,898,450	
106,539,319	73,507,387	774,845	536,501	4,046,699	2,023,061	4,533,363	2,898,450	
1,517,955	1,425,870	12,848	5,461	46,824	93,482	43,408	70,920	
-	12,366	-	90	-	340	-	488	
1,517,955	1,438,236	12,848	5,551	46,824	93,822	43,408	71,408	
108,057,274	74,945,623	787,693	542,052	4,093,523	2,116,883	4,576,771	2,969,858	
13	9	13	9	-	-	-	-	
16,000	15,000	116	109	608	413	681	591	
44,137	19,851	-	19,851	-	-	13,187	-	
72,730	262,155	371	-	97	69,420	141	17,513	
10,262	8,154	103	74	313	224	470	371	
40,457	12,690	294	93	1,537	349	1,721	500	
79,571	9,148	579	67	3,022	252	3,386	361	
107,280,831	74,186,263	783,665	520,626	4,062,443	2,036,140	4,532,321	2,935,530	
107,544,001	74,513,270	785,141	540,829	4,068,020	2,106,798	4,551,907	2,954,866	



NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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12 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$	\$	\$
ASSETS								
Financial assets at fair value through profit or loss								
Financial assets at fair value through profit or loss	49,583,942	37,273,461	19,453,555	12,935,046	19,436,957	12,358,069	8,709,958	5,482,799
Total financial assets at fair value through profit or loss	49,583,942	37,273,461	19,453,555	12,935,046	19,436,957	12,358,069	8,709,958	5,482,799
Financial assets at amortised cost								
Cash and cash equivalents	775,450	490,688	268,686	175,441	238,115	428,858	132,624	161,020
Other receivables	-	6,271	-	2,176	-	2,079	-	922
Total financial assets at amortised cost	775,450	496,959	268,686	177,617	238,115	430,937	132,624	161,942
Total assets	50,359,392	37,770,420	19,722,241	13,112,663	19,675,072	12,789,006	8,842,582	5,644,741
LIABILITIES								
Financial liabilities at amortised cost								
Investment management fees payable	-	-	-	-	-	-	-	-
Supervisor fees payable	7,446	7,606	2,922	2,640	2,919	2,522	1,308	1,119
Benefits payable	28,497	-	2,453	-	-	-	-	-
Unallocated contributions	43,385	119,749	13,730	5,984	9,068	7,502	5,938	41,987
Administration fees payable	5,108	4,402	1,589	1,184	1,775	1,269	904	630
Manager fees (expense recoveries) payable	18,829	6,435	7,387	2,233	7,381	2,133	3,308	947
Other expenses payable	37,033	4,638	14,529	1,610	14,517	1,538	6,505	682
Net assets attributable to Members	49,933,006	37,386,942	19,589,579	13,025,222	19,570,149	12,704,154	8,809,668	5,577,649
Total financial liabilities at amortised cost	50,073,304	37,529,772	19,632,189	13,038,873	19,605,809	12,719,118	8,827,631	5,623,014

At 31 March 2019 the carrying amount of the financial assets and liabilities at amortised cost approximates their fair value (2018: Same).

NEW ZEALAND DEFENCE FORCE KIWISAVER SCHEME
Notes to the Financial Statements
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13 UNITS ON ISSUE

	TOTAL			Cash		Conservative		Moderate	
	2019	2018	2019	2018	2019	2018	2019	2018	
Units on issue at the beginning of the year	63,638,738	42,729,935	503,585	295,022	1,875,781	1,244,780	2,654,650	1,567,206	
Units issued during the year	38,417,883	32,003,131	767,105	917,162	2,615,549	1,192,566	2,371,060	1,448,298	
Units redeemed during the year	(14,658,175)	(11,094,328)	(523,238)	(708,599)	(880,857)	(561,565)	(1,089,919)	(360,854)	
Units on issue at the end of the year	87,398,446	63,638,738	747,453	503,585	3,610,473	1,875,781	3,935,791	2,654,650	

	Balanced		Growth		High Growth		Shares	
	2019	2018	2019	2018	2019	2018	2019	2018
Units on issue at the beginning of the year	32,527,162	24,297,601	11,097,219	6,602,786	10,443,901	6,300,998	4,536,440	2,421,542
Units issued during the year	16,049,680	13,806,337	6,649,957	5,847,633	6,717,322	5,665,682	3,247,210	3,125,453
Units redeemed during the year	(7,169,867)	(5,576,776)	(1,921,410)	(1,353,200)	(2,015,507)	(1,522,779)	(1,057,378)	(1,010,555)
Units on issue at the end of the year	41,406,975	32,527,162	15,825,766	11,097,219	15,145,716	10,443,901	6,726,272	4,536,440

14 CONTINGENT LIABILITY, ASSET AND COMMITMENTS

There were no material contingent liabilities or commitments as at 31 March 2019.

15 EVENTS AFTER BALANCE DATE

There have been no material events after balance date that require adjustment to or disclosure in the financial statements.



Independent auditor's report

To the members of New Zealand Defence Force KiwiSaver Scheme ("the Scheme") comprising the following Funds: Cash, Conservative, Moderate, Balanced, Growth, High Growth and Shares (collectively referred to as the "Funds")

We have audited the Funds' and Scheme's financial statements which comprise:

- the statements of net assets as at 31 March 2019;
- the statements of changes in net assets for the year then ended;
- the statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the Funds' and Scheme's financial statements present fairly, in all material respects, the financial position of the Funds and Scheme as at 31 March 2019, their financial performance and their cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Funds and Scheme in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have provided the following services to the Funds' and Scheme's Manager: controls assurance, member registry compliance assurance, and tax compliance and advisory services. These services have not impaired our independence as auditor of the Funds and Scheme. Other than in our capacity as auditor, we have no other relationships with, or interests in, the Funds and Scheme.



Our audit approach Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. We determine materiality for each Fund separately and the Scheme.

Our materiality for each Fund and the Scheme is calculated based on approximately 1% of the net assets attributable to members.

We chose net assets as the benchmark because, in our view, the objective of the Funds and Scheme is to provide members with a total return on assets taking account of both capital and income returns.

Because of the significance of the financial assets to the financial statements, we have determined there is one key audit matter: valuation and existence of financial assets at fair value through profit or loss.



Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each Fund's and the Scheme's financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on each Funds' and the Scheme's financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each Fund's and the Scheme's financial statements as a whole, taking into account the structure of the Funds and Scheme, the types of investments held by the Funds and Scheme, the accounting processes and controls, the use of third party service providers and the industry in which the Funds and Scheme operates.

Mercer (N.Z.) Limited ("the Manager") is responsible for the governance and control activities of the Funds and Scheme. The Manager has appointed BNP Paribas Fund Services Australasia Pty Ltd ("the Custodian") to act as Custodian of the Funds' and Scheme's financial assets at fair value through profit or loss. Investment administration and superannuation member administration services are provided by the Manager and related parties of the Manager.

In establishing our overall audit approach, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the control environment in place at the Manager, the Custodian and other related party service providers of the Manager.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Funds' and Scheme's financial statements of the current year. These matters were addressed in the context of our audit of the Funds' and Scheme's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation and existence of financial assets at fair value through profit or loss
Refer to note 5 of the financial statements for disclosures of financial assets at fair value through profit or loss (financial assets at FVPL).

This was an area of focus for our audit as it represents the majority of the net assets of the Funds and the Scheme.

The Funds and Scheme invest solely into funds of Mercer Investment Trusts New Zealand (MITNZ). MITNZ are unlisted unit trusts which are also managed by the Manager. The fair value is based on the redemption price established by the investment fund administrator and categorised as level 2 in the fair value hierarchy.

In assessing the fair value and existence, the Manager uses information provided by the MITNZ investment fund administrator, including fund administrator and custodian controls reports, the financial statements of the underlying funds and recent transaction prices.

The Funds and Scheme have no investments where there are no observable inputs.

All financial assets at FVPL are held by the Custodian on behalf of the Funds and Scheme.

How our audit addressed the key audit matter

We assessed the processes employed by the Manager, for recording and valuing the financial assets at FVPL including the relevant controls operated over the investment administration and custody services. Our assessment of the business processes and controls included:

- Understanding of the business processes over classification, recognition and measurement of financial assets at FVPL; and
- Obtaining the control reports over investment administration and custody services. We evaluated the evidence provided by the controls reports over the design and operating effectiveness of the key controls.

Valuation

For the valuation of the unlisted unit trusts we agreed the redemption price at year end to the confirmation obtained from the investment fund administrator of the unlisted unit trusts. We evaluated whether the redemption price represents fair value by:

- comparing the valuation of the investments in unlisted unit trusts to the Net Asset Value per unit calculated based on the audited financial statements of the MITNZ funds;
- assessing whether the underlying assets and liabilities of the MITNZ funds are primarily determined through observable market data to support that the net assets approximate fair value; and
- comparing the redemption price at 31 March 2019 to recent transaction prices to further support the fair value of financial assets at FVPL.

Existence

For existence, we agreed the financial assets at FVPL held by the Funds and Scheme at 31 March 2019 to a confirmation obtained directly from the Custodian.

From the procedures performed, we have no matters to report.



Information other than the financial statements and auditor's report

The Manager is responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on other information.

In connection with our audit of the financial statements, if other information is included in the annual report, 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 in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our 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, except that not all other information was available to us at the date of our signing.

Responsibilities of the Manager for the financial statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines 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, the Manager is responsible for assessing each Fund's 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 the Manager either intends to liquidate the Funds or the Scheme or to 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 ISAs (NZ) and ISAs 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's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.



Who we report to

This report is made solely to the members of the Scheme, as a body. Our audit work has been undertaken so that we might state those matters which 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's members, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Chris Barber.

For and on behalf of:

A handwritten signature in dark ink, appearing to read 'Chris Barber', written in a cursive style.

Chartered Accountants
29 July 2019

Wellington