

Simplicity KiwiSaver Scheme  
Financial Statements  
For the year ended 31 March 2019

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## Directory Listing

Manager:	Simplicity NZ Limited
Registered Office:	24 Hamana Street, Auckland 0622
Directors:	Arthur (Sam) Stubbs (Managing Director), Ngaire (Joy) Marslin (Chair), Shamubeel Eaqub, Reuben Halper, Melanie Hewitson, Anna Tierney
Supervisor & Custodian:	Public Trust
Administrator:	MMC Limited
Auditor:	KPMG
Solicitor:	DLA Piper

## Manager's Statement

In the opinion of the Manager, the accompanying Financial Statements are drawn up so as to present fairly the financial position of the Simplicity KiwiSaver Scheme as at 31 March 2019 and their results for the year ended on that date in accordance with the requirements of the Simplicity KiwiSaver Scheme Trust Deed dated 10 June 2016 amended 26 July 2016.

The directors are of the opinion that the Simplicity KiwiSaver Scheme will be able to pay its debts as and when they fall due.

Director



Simplicity NZ Limited

8 July 2019

Director



## Statements of Changes in Net Assets

\$	For the year ended 31 March	Note	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
			Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Income</b>												
Interest income	12		29,887	238,616	85,771	492,764	264,481	644,273	1,808	1,654	381,947	1,377,307
Dividend and distribution income			449,188	262,016	1,735,061	951,665	7,376,511	2,165,740	17,277	1,209	9,578,017	3,380,630
Other income			-	-	-	-	-	-	80	-	80	-
Foreign exchange gains on cash and cash equivalents			(3,115)	(8,922)	(6,631)	(5,249)	(11,946)	(67,140)	(330)	142	(22,022)	(81,169)
Net (loss)/gain on financial instruments at fair value through profit or loss			1,600,787	(4,925)	4,982,076	1,161,297	20,109,734	8,705,076	57,218	517	26,749,815	9,862,965
Net gain on financial instruments at fair value through profit or loss			1,600,787	(4,925)	4,982,076	1,161,297	20,109,734	8,705,076	57,218	517	26,749,815	9,862,965
Management fee rebates			47,852	13,393	164,700	67,965	646,083	293,618	1,827	235	860,462	375,211
<b>Total income</b>			<b>2,124,579</b>	<b>500,178</b>	<b>6,960,977</b>	<b>2,668,442</b>	<b>28,384,863</b>	<b>11,742,567</b>	<b>77,880</b>	<b>3,757</b>	<b>37,548,299</b>	<b>14,914,944</b>
<b>Expenses</b>												
Manager's fee	8		79,083	32,201	250,598	124,374	963,343	457,826	2,951	477	1,295,975	614,878
Custody expenses			33	339	109	1,338	310	4,517	1	1	453	6,195
Transaction costs			1,259	1,687	1,777	5,407	1,736	12,127	975	459	5,747	19,680
Other expenses			248	109	308	94	276	96	158	47	990	346
<b>Total expenses</b>			<b>80,623</b>	<b>34,336</b>	<b>252,792</b>	<b>131,213</b>	<b>965,665</b>	<b>474,566</b>	<b>4,085</b>	<b>984</b>	<b>1,303,165</b>	<b>641,099</b>
<b>Net profit before membership activities</b>			<b>2,043,956</b>	<b>465,842</b>	<b>6,708,185</b>	<b>2,537,229</b>	<b>27,419,198</b>	<b>11,268,001</b>	<b>73,795</b>	<b>2,773</b>	<b>36,245,134</b>	<b>14,273,845</b>
<b>Membership activities</b>												
<b>Contributions</b>												
Member contributions			1,920,859	845,103	6,943,402	3,724,704	27,139,204	13,303,379	19,104	6,616	36,022,570	17,879,802
Employer contributions			1,010,279	459,264	3,648,821	2,031,649	14,699,634	7,445,867	3,512	946	19,362,247	9,937,726
Crown contributions			251,916	128,250	1,003,773	515,268	4,239,334	1,775,356	2,613	-	5,497,636	2,418,874
Transfers from other funds within the scheme			19,304,519	10,927,798	13,974,970	8,592,259	20,880,381	20,496,897	51,126	51,919	54,210,996	40,058,873
Transfers from other KiwiSaver schemes			12,676,030	8,218,224	44,099,356	32,335,820	131,727,446	106,840,601	435,269	257,572	188,938,101	147,652,217
Transfers from Australian superannuation schemes			47,575	300,309	895,124	543,816	1,524,482	2,493,382	-	-	2,467,181	3,337,507
Voluntary and lump sum contributions			628,204	305,423	3,175,574	1,680,412	8,232,993	4,674,871	664,887	165,069	12,701,659	6,805,775
<b>Total Contributions</b>			<b>35,839,383</b>	<b>21,184,371</b>	<b>73,741,021</b>	<b>49,403,928</b>	<b>208,443,474</b>	<b>157,030,353</b>	<b>1,176,511</b>	<b>482,122</b>	<b>319,200,389</b>	<b>228,100,774</b>
<b>Withdrawals</b>												
Transfers to other funds within the scheme			11,739,687	8,914,677	21,255,281	16,705,887	21,064,637	14,393,288	151,391	55,021	54,210,996	40,068,873
Transfers to other KiwiSaver schemes			646,613	388,969	1,206,473	366,803	6,066,922	1,687,346	128	-	7,920,136	2,443,118
Transfers to Australian superannuation schemes			5,237	12,373	-	-	7,669	-	-	-	12,906	12,373
Withdrawals on death			-	-	-	-	151,251	22,918	-	-	151,251	22,918
Withdrawals or transfers on permanent emigration			47,544	3,153	-	-	211,080	66,594	-	-	258,624	69,747
Invalid enrolment withdrawals			-	-	2,846	-	8,124	2,841	-	-	10,970	2,841
Withdrawals on retirement			447,468	62,453	582,922	119,355	728,818	28,389	29,881	-	1,789,089	210,197
Serious illness withdrawals			-	27,817	188,322	-	198,734	-	-	-	387,056	27,817
First home purchase withdrawals			2,949,876	897,119	1,191,051	680,396	4,628,811	1,843,127	-	-	8,769,738	3,420,642
Significant financial hardship withdrawals			16,956	3,682	18,796	38,772	174,545	56,995	-	-	210,297	99,449
Other permitted withdrawals			26,384	376,177	84,317	385,613	538,142	120,365	62	3,693	648,905	885,838
<b>Total Withdrawals</b>			<b>15,879,765</b>	<b>10,686,420</b>	<b>24,530,008</b>	<b>18,286,826</b>	<b>33,778,734</b>	<b>18,221,863</b>	<b>181,463</b>	<b>58,704</b>	<b>74,369,969</b>	<b>47,263,813</b>
Member PIE taxation			316,852	76,647	831,685	314,010	2,930,856	1,424,887	8,454	1,288	4,087,847	1,816,832
Administration fees	8		20,915	10,985	71,961	43,168	294,757	170,900	13,281	65	400,914	225,118
<b>Net membership activities</b>			<b>19,621,851</b>	<b>10,410,319</b>	<b>48,307,367</b>	<b>30,749,924</b>	<b>171,439,127</b>	<b>137,212,703</b>	<b>973,314</b>	<b>422,065</b>	<b>240,341,659</b>	<b>178,795,011</b>
<b>Members' accounts at the start of the year</b>			<b>17,380,664</b>	<b>6,504,503</b>	<b>57,851,285</b>	<b>24,564,132</b>	<b>224,899,964</b>	<b>76,419,260</b>	<b>424,838</b>	<b>-</b>	<b>300,556,751</b>	<b>107,487,895</b>
<b>Movements in members' accounts for the year</b>			<b>21,665,807</b>	<b>10,876,161</b>	<b>55,015,552</b>	<b>33,287,153</b>	<b>198,858,325</b>	<b>148,480,704</b>	<b>1,047,109</b>	<b>424,838</b>	<b>276,586,793</b>	<b>193,068,856</b>
<b>Members' accounts at the end of the year</b>			<b>39,046,471</b>	<b>17,380,664</b>	<b>112,866,837</b>	<b>57,851,285</b>	<b>423,758,289</b>	<b>224,899,964</b>	<b>1,471,947</b>	<b>424,838</b>	<b>577,143,544</b>	<b>300,556,751</b>

These statements are to be read in conjunction with the accompanying notes on pages 8 - 22 and the Independent Auditor's Report.

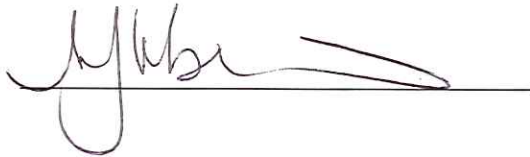
## Statements of Net Assets

S As at 31 March	Note	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
		Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
		<b>Members' Funds</b>									
		39,046,471	17,380,664	112,866,837	57,851,285	423,758,289	224,899,964	1,471,947	424,838	577,143,544	300,556,751
<i>Represented by:</i>											
<b>Assets</b>											
Cash and cash equivalents		1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374
Trade and other receivables	9	197,108	120,041	47,202	289,566	188,688	603,920	581	2,285	251,721	834,054
Financial assets at fair value through profit or loss	6, 7	37,764,708	16,585,978	109,049,134	55,478,545	412,657,778	214,037,760	1,371,289	384,654	560,842,909	286,486,937
Member attributed taxation		160	458	196	1,224	625	653	-	-	981	2,335
<b>Total assets</b>		<b>39,348,065</b>	<b>17,507,428</b>	<b>113,805,389</b>	<b>58,274,042</b>	<b>426,516,464</b>	<b>226,412,367</b>	<b>1,481,007</b>	<b>426,721</b>	<b>580,969,068</b>	<b>302,438,700</b>
<b>Liabilities</b>											
Other payables	10	1,983	78,853	156,875	178,017	84,308	89,226	1,622	422	62,930	164,660
Manager fees payable	8	9,061	4,023	25,962	13,397	97,839	53,266	349	102	133,211	70,788
Financial liabilities at fair value through profit or loss	6, 7	-	3,487	-	10,121	-	25,932	-	76	-	39,616
Member attributed taxation		290,550	40,401	755,716	221,222	2,576,028	1,343,979	7,089	1,283	3,629,383	1,606,885
<b>Total liabilities</b>		<b>301,594</b>	<b>126,764</b>	<b>938,552</b>	<b>422,757</b>	<b>2,758,175</b>	<b>1,512,403</b>	<b>9,060</b>	<b>1,883</b>	<b>3,825,524</b>	<b>1,881,949</b>
<b>Net assets available for benefits</b>		<b>39,046,471</b>	<b>17,380,664</b>	<b>112,866,837</b>	<b>57,851,285</b>	<b>423,758,289</b>	<b>224,899,964</b>	<b>1,471,947</b>	<b>424,838</b>	<b>577,143,544</b>	<b>300,556,751</b>

These statements are to be read in conjunction with the accompanying notes on pages 8 - 22 and the Independent Auditor's Report.

These Financial Statements were authorised for issue by the Manager, Simplicity NZ Limited.

Director



Date

8 July 2019

Director



Date

8 July 2019.

## Statements of Cash Flows

\$ For the year ended 31 March	Note	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
		Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Cash flows to operating activities</b>											
<i>Cash was provided from:</i>											
Sale of investments		4,166,722	2,098,468	30,704,652	3,632,105	162,854,387	5,252,463	461,673	52,552	198,187,434	11,035,588
Interest received		29,754	169,802	85,319	403,371	263,170	499,768	3,614	(162)	381,857	1,072,779
Dividend and distribution income		39,456	9,428	184,574	113,883	711,615	510,369	1,424	88	937,069	633,768
Other income		-	-	-	-	-	-	80	-	80	-
Manager's fees rebates		37,871	11,301	141,051	55,999	576,147	222,309	1,409	82	756,478	289,691
Cash received upon settlement of forward exchange contracts		(2,753)	407,076	(26,575)	1,274,671	(112,445)	2,295,907	(275)	5,614	(142,048)	3,983,268
<i>Cash was applied to:</i>											
Purchase of investments		(23,052,029)	(12,236,184)	(77,111,926)	(33,393,355)	(333,904,295)	(136,263,559)	(1,371,295)	(441,067)	(435,439,545)	(182,334,165)
Payments made on settlement of forward exchange contracts		(177,442)	(271,954)	(411,666)	(923,578)	(314,002)	(1,568,952)	(3,429)	(354)	(906,539)	(2,764,839)
Other expenses paid		(1,540)	(2,135)	(2,194)	(6,839)	(2,322)	(16,740)	(1,134)	(507)	(7,190)	(26,221)
Manager's fees paid		(74,045)	(29,689)	(238,033)	(116,761)	(918,770)	(422,278)	(2,704)	(375)	(1,233,552)	(569,103)
<b>Net cash outflow from operating activities</b>	<b>11</b>	<b>(19,034,006)</b>	<b>(9,843,887)</b>	<b>(46,674,798)</b>	<b>(28,960,505)</b>	<b>(170,846,515)</b>	<b>(129,490,713)</b>	<b>(910,637)</b>	<b>(384,129)</b>	<b>(237,465,956)</b>	<b>(168,679,234)</b>
<b>Cash flows from financing activities</b>											
<i>Cash was provided from:</i>											
Contributions		35,666,217	21,174,735	73,804,955	49,391,270	208,534,988	156,947,608	1,176,513	482,121	265,153,533	188,108,719
<i>Cash was applied to:</i>											
Withdrawals		(15,977,550)	(10,684,351)	(24,623,112)	(18,178,003)	(34,078,408)	(18,310,504)	(193,544)	(58,347)	(20,843,475)	(7,344,190)
Members' PIE Tax paid		(66,405)	(37,269)	(296,163)	(91,690)	(1,698,779)	(62,778)	(2,647)	(5)	(2,063,994)	(191,742)
<b>Net cash inflow from financing activities</b>		<b>19,622,262</b>	<b>10,453,115</b>	<b>48,885,680</b>	<b>31,121,577</b>	<b>172,757,800</b>	<b>138,574,326</b>	<b>980,322</b>	<b>423,769</b>	<b>242,246,064</b>	<b>180,572,787</b>
<b>Net increase in cash</b>		<b>588,256</b>	<b>609,228</b>	<b>2,210,882</b>	<b>2,161,072</b>	<b>1,911,285</b>	<b>9,083,613</b>	<b>69,685</b>	<b>39,640</b>	<b>4,780,108</b>	<b>11,893,553</b>
Cash at the beginning of the year		800,950	200,644	2,504,607	348,784	11,770,034	2,753,561	39,782	-	15,115,373	3,302,989
Effect of exchange rate fluctuations		(3,115)	(8,222)	(6,631)	(5,249)	(11,946)	(67,140)	(330)	142	(22,022)	(81,169)
<b>Cash at the end of the year</b>		<b>1,386,091</b>	<b>800,950</b>	<b>4,708,858</b>	<b>2,504,607</b>	<b>13,669,373</b>	<b>11,770,034</b>	<b>109,137</b>	<b>39,782</b>	<b>19,873,459</b>	<b>15,115,373</b>

These statements are to be read in conjunction with the accompanying notes on pages 8 - 22 and the Independent Auditor's Report.



# Notes to the Financial Statements for the year ended 31 March 2019

## 1. General information

### Reporting entities

These Financial Statements are for the Simplicity KiwiSaver Scheme ("the Scheme") which comprises the following four funds (together the "Funds" and individually the "Fund"):

- Simplicity Conservative Fund ("Conservative Fund")
- Simplicity Balanced Fund ("Balanced Fund")
- Simplicity Growth Fund ("Growth Fund")
- Simplicity Guaranteed Income Fund ("Guaranteed Income Fund").

The Manager and issuer of the Scheme is Simplicity NZ Limited ("the Manager") and the Supervisor of the Scheme is Public Trust ("the Supervisor"). The Scheme is registered and domiciled in New Zealand. The registered office of the Scheme is AJK Stubbs, 24 Hamana Street, Narrow Neck, Auckland, 0622.

The Scheme is a defined contribution scheme under the KiwiSaver Act 2006, which means that members contribute to the Scheme over time and benefits payable depend on the amount of contributions made and any returns on contributions received. The Scheme is a Managed Investment Scheme in accordance to the Financial Markets Conduct Act 2013.

The Scheme was established by a Trust Deed dated 10 June 2016 and amended 26 July 2016 (the "Trust Deed"). Establishment Deeds for the Conservative Fund, Balanced Fund and Growth Fund were issued on 10 June 2016 and for the Guaranteed Income Fund on 19 September 2017. The Conservative Fund, the Balanced Fund and the Growth Fund commenced operations on 1 September 2016. The Guaranteed Income Fund commenced operations on 24 October 2017.

The principal activity of the Funds is investment.

Descriptions of the Funds are as follows:

- Conservative Fund: To achieve positive real returns over the short to medium term, while managing volatility through diversification of the Fund's assets. It provides investors with a limited exposure to growth assets such as stocks and shares, but most of its investments are in income assets such as cash and bonds.
- Balanced Fund: To achieve positive real returns over the medium term, while managing volatility through diversification of the Fund's assets. It provides investors with an exposure to a mix of growth and income assets.
- Growth Fund: To achieve positive real returns over the medium to long term, while managing volatility through diversification of the Fund's assets. It provides investors with a limited exposure to income assets but most of its investments are in growth assets.
- Guaranteed Income Fund: To achieve positive real returns over the medium term, while managing volatility through diversification of the Fund's assets. It provides investors with an exposure to a mix of growth and income assets. On retirement, the Fund provides investors with a regular annuity income, funded in the first instance from investors capital and returns, and subsequently from an insurance contract with Lifetime Income Limited. (Refer to Note 2.12 and 5.1 for further details)

Nature of the Funds are as follows:

- The Conservative Fund provides investors with a limited exposure to growth assets, but most of its investments are in income assets.
- The Balanced Fund provides investors with an exposure to a mix of growth and income assets.
- The Growth Fund provides investors with a limited exposure to income assets, but most of its investments are in growth assets.
- The Guaranteed Income Fund provides investors with a mix of growth and income assets. On retirement, it provides investors with a regular income for life, even if their original investment runs out.

### Statutory base

These Financial Statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 ("FMCA"), the KiwiSaver Act 2006 (the "Act"), the Financial Reporting Act 2013 and the Trust Deed.

The Financial Statements are for the year ended 31 March 2019 for all Funds. Comparatives for all the Funds are for the year ended 31 March 2018 except for the Guaranteed Income Fund which are for the period from 24 October 2017 to 31 March 2018.

## 2. Summary of accounting policies

### 2.1 Basis of preparation

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied throughout the years presented, unless otherwise stated.

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). For the purposes of complying with NZ GAAP, the Scheme is a profit-oriented entity. These Financial Statements have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as issued by the External Reporting Board and other applicable reporting standards. The Financial Statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These Financial Statements have been prepared under the historical cost method, except for financial assets and liabilities at fair value through profit or loss.

The preparation of Financial Statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Directors of the Manager to exercise their judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 3.

#### (a) Presentation

These Financial Statements are presented in New Zealand dollars, which is the Scheme's functional currency. The functional currency reflects the currency of the economy in which the Scheme competes for funds and is regulated.



## Notes to the Financial Statements for the year ended 31 March 2019

### 2. Summary of accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### (b) Standards and amendments to existing standards effective 1 January 2018 impacting the scheme

The Funds have adopted NZ IFRS 9 'Financial Instruments' for the first time for the year commencing 1 April 2018. The adoption of NZ IFRS 9 has been applied retrospectively and did not result in a significant change to the classification or measurement of financial instruments in either the current or prior year. The Funds hold securities which had previously been designated as fair value through profit or loss. On adoption of NZ IFRS 9, these securities are now mandatorily classified as fair value through profit or loss; there is no change to the measurement of these securities. The Funds also hold securities which were classified as loans and receivables. On adoption of NZ IFRS 9, these securities are now classified as financial assets at amortised cost. With the adoption of IFRS 9, there were no changes to the measurement of these securities other than a change to the impairment calculation. With the introduction of NZ IFRS 9, the Funds are now applying expected credit loss provisioning since initial recognition of these securities. Prior to the adoption of IFRS 9, the carrying amounts of the financial assets at amortised cost were reviewed at each balance date for objective evidence of impairment. There was also no impact from the application of new impairment rules as the instruments held have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. The disclosures in these Financial Statements have been prepared in accordance with NZ IFRS 9.

NZ IFRS 15 'Revenue from contracts with customers' is effective for annual periods beginning on 1 April 2018. All material income streams associated with the Funds are derived from financial instruments and other contractual rights and obligations within the scope of NZ IFRS 9 'Financial Instruments' and therefore the standard has no material impact on the Funds.

There are no other standards, amendments to standards or interpretations that are effective for the year beginning on 1 April 2018 that have a material effect on the Financial Statements of the Scheme.

#### 2.2 Financial instruments

##### (a) Classification

###### *Financial assets*

Financial assets are recognised initially at fair value. After initial recognition, financial assets are measured at fair value or amortised cost, determined on the basis of both (a) the Fund's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset.

###### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss can be either designated as such upon initial recognition or mandatorily measured at fair value in accordance with NZ IFRS 9. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Funds have not taken the option to irrevocably designate any equity securities at fair value through other comprehensive income. As there are no financial instruments designated at fair value upon initial recognition in the Fund, all financial assets measured at fair value are those mandatorily measured at fair value. The contractual cash flows of the Funds' fixed interest securities are solely principal and interest, however they are not held for the purpose of collecting contractual cash flows. The collection of contractual cash flows is only incidental in achieving the Funds' business model. As a result these fixed interest securities are classified as financial assets at fair value through profit or loss. All financial assets which were previously classified as financial assets at fair value through profit or loss under the categories 'designated at fair value upon initial recognition' and 'held for trading', are now classified as financial assets mandatorily measured at fair value through profit or loss. These comprise of equities, fixed interest securities, listed and unlisted trusts and forward foreign exchange contracts.

###### *(ii) Financial assets at amortised cost*

(a) Cash and cash equivalents include cash in hand and deposits held at call with banks.

(b) Receivables are amounts representing assets owing to the Funds and may include amounts due for interest or dividends and amounts due for securities sold that have been contracted for but not yet delivered by the end of the accounting period.

###### *Financial liabilities*

###### *(i) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss can be either designated as such upon initial recognition or mandatorily measured at fair value in accordance with NZ IFRS 9. The portfolio of financial liabilities is managed and performance is evaluated on a fair value basis. All financial liabilities which were previously classified as financial liabilities at fair value through profit or loss under the categories 'designated at fair value upon initial recognition' and 'held for trading', are now classified as financial liabilities mandatorily measured at fair value through profit or loss. As there are no financial liabilities designated at fair value upon initial recognition in the Funds, all financial liabilities are mandatorily measured at fair value through profit or loss. Foreign exchange contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

###### *(ii) Financial liabilities at amortised cost*

(a) Payables are amounts representing liabilities and accrued expenses owing by the Fund at period end and may include related party fees.

The Fund's policy requires the Investment Manager and the Board of Directors to evaluate the information about financial assets and liabilities on a fair value basis together with other related financial information.

##### (b) Recognition, measurement and derecognition

###### *(i) Financial assets and liabilities at fair value through profit or loss*

The Funds recognise financial assets and liabilities at fair value through profit or loss on the date they become parties to the contractual agreement. Financial assets and liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value are recognised in the Statement of Comprehensive Income when they arise.

Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership. Financial liabilities at fair value through profit or loss are derecognised when the obligation under the liability is discharged, cancelled or expires. Any gain or loss arising on derecognition of the financial asset or financial liability at fair value through profit or loss is included in the Statement of Comprehensive Income in the year the item is derecognised.

## Notes to the Financial Statements for the year ended 31 March 2019

### 2. Summary of accounting policies (continued)

#### (ii) Financial assets and liabilities at amortised cost

The Fund recognises financial assets and liabilities at amortised cost on the date they become parties to the contractual agreement. Financial assets and liabilities at amortised cost are initially recognised at fair value. Financial assets at amortised cost are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership. Financial liabilities at amortised cost are derecognised when the obligation under the liability is discharged, cancelled or expires. Subsequent to initial recognition, all financial assets and liabilities at amortised cost are measured at amortised cost less any impairment. Any impairment charge is recognised in the Statement of Comprehensive Income. At each reporting date, the Fund shall measure the loss allowance of amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12 month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due or a counterparty credit rating which has fallen below BBB/Baa. Any contractual payment which is more than 90 days past due is considered credit impaired.

#### (c) Fair value measurement

Fair value<sup>1</sup> 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 measurement date in the principal or, in its absence, the most advantageous market to which the Funds had access at that date. The fair value of a liability reflects its non-performance risk.

##### *Fair value in an active market*

The fair value of financial assets and liabilities traded in active markets such as publicly traded securities are based on quoted market prices at the close of trading on the reporting date. The quoted market price used the Funds are the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value. The quoted market price used for fixed interest securities is the current mid price. (refer to note 5.3 for further details on the methodologies applied for fixed income securities).

##### *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Funds use a variety of methods and make assumptions that are based on market conditions existing at each balance date. Valuation techniques used include the use of recent comparable arm's length market transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Funds would receive or pay to terminate the contract at balance date taking into account current market conditions (volatility and appropriate yield curve). It may be adjusted if the counterparty is not regarded as credit worthy. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

The Funds' investments in other funds are subject to the terms and conditions of the respective funds' offering documentation. The investments in other funds are primarily valued based on the latest available redemption price of such units for each other fund investment, as determined by the other funds' administrators. The Funds review the details of the reported information obtained from the other funds and consider: the liquidity of the other fund or its underlying investments; the value date of the net asset value provided; and restrictions on redemptions; and the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information is obtained from the other funds' advisors.

The rights of the Funds to request redemption of their investments in other funds may vary in frequency from daily to weekly redemptions. As a result, the carrying values of the other funds may not be indicative of the values ultimately realised on redemption. In addition, the Funds may be materially affected by the actions of other investors who have invested in other funds in which the Funds have invested.

If necessary, the Funds make adjustments to the net asset value of various other fund investments to obtain the best estimate of fair value. Other net changes in fair value of financial assets and financial liabilities at fair value through profit or loss in the Statements of Comprehensive Income include the change in fair value of each other fund.

Fair value classifications of the Funds' financial assets and liabilities are detailed in Notes 5.

#### 2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when, and only when, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis for gains and losses from Financial Instruments at Fair value through profit and loss, and for foreign exchange gains and losses

#### 2.4 Revenue recognition

- (a) Dividend and distribution income is recognised in the statement of changes in net assets when the right to receive payment is established.
- (b) Interest income on financial assets at amortised cost and net interest income on financial assets at fair value through profit or loss are included under Income in the Statements of Changes in Net Assets and are recognised as interest accrues on a time-proportionate basis using the effective interest rate method. Interest income on financial assets at amortised cost comprises of interest income earned on cash and cash equivalents
- (c) Gains or losses of financial assets at fair value through profit or loss are recorded net of any foreign withholding tax and recognised in the statement of changes in net assets as disclosed in note 2.2.
- (d) Foreign exchange gains and losses on cash and financial instruments at fair value through profit or loss are recognised in the Statement of Changes in Net Assets as disclosed in note 2.9.
- (e) Dividend and interest income is disclosed net of any resident withholding taxes deducted at source, as these tax credits are allocated to members under the PIE regime.



## Notes to the Financial Statements for the year ended 31 March 2019

### 2. Summary of accounting policies (continued)

#### 2.5 Expenses

The Manager pays audit, supervisory and administration expenses from the management fee. The management fee is calculated on a daily basis based on the net asset value of the Scheme and is paid monthly. Administration and registry fees are charged monthly per member via a cancellation of units.

#### 2.6 Taxation

The Funds are Portfolio Investment Entities (PIEs). Under the PIE regime, income is effectively taxed in the hands of the members and therefore the Funds have no tax expense. Accordingly, no income tax expense is recognised in the statement of changes in net assets.

Under the PIE regime, the Manager attributes the taxable income of the Funds to members in accordance with the proportion of their overall interest in the Funds. The income attributed to each member is taxed at the member's 'prescribed investor rate' which is capped at 28%. The Manager accounts for tax on behalf of members and undertakes any necessary adjustments to the members' interests in the Funds to reflect that the Scheme pays tax at varying rates on behalf of members.

Members' funds have been adjusted to reflect the impact of tax on the value of unit holdings.

The tax attributable to members is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Positions taken in attributing taxable income to members, with respect to situations in which applicable tax regulations are subject to interpretation, are evaluated by the Manager as required.

#### 2.7 Goods and services tax (GST)

The Scheme is not registered for GST. All items in the statement of changes in net assets and the statement of net assets are stated inclusive of GST.

#### 2.8 Statement of cash flows

Definitions of the terms used in the statement of cash flows are:

- (a) 'Operating activities' include all transactions and other events that are not financing activities; and
- (b) 'Financing activities' are those activities that result in changes in the size and composition of members' funds.

#### 2.9 Foreign currencies

##### (a) Functional and presentation currency

These Financial Statements are presented in New Zealand dollars (\$), which is the Scheme's functional currency, on the basis that the Scheme's investors are mainly based in New Zealand, with the contributions and withdrawals denominated in New Zealand dollars.

##### (b) Transactions and balances

Transactions denominated in foreign currencies are recognised at the exchange rates on the date of the transactions. Monetary assets and liabilities as at balance date denominated in foreign currencies are translated at the foreign currency exchange rates on that date. Non-monetary assets and liabilities as at balance date denominated in foreign currencies and measured at historical cost are not retranslated; they remain at the exchange rate at the date of the transaction. Non-monetary assets and liabilities as at balance date denominated in foreign currencies and measured at fair value are translated at the exchange rate when the fair value was determined. Realised and unrealised exchange gains and losses during the financial year are recognised in profit and loss in the statement of comprehensive income.

#### 2.10 Net assets available for benefits

The net assets available for benefits represent the liability for promised retirement benefits and is the Scheme's present obligation to pay benefits to Members. This has been calculated as the difference between carrying amounts of the assets and carrying amounts of the liabilities at the reporting date. The Funds issue units that are redeemable subject to the requirements of the Act at the Members' option and do not have identical features and are therefore classified as financial liabilities at the scheme level. The units can be put back to the Funds at any time for purposes of permitted withdrawals (such as reaching the retirement age of 65 or significant financial hardship), transfer to another Fund within the Simplicity KiwiSaver Scheme or to 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 (based on the redemption unit price) at the year end date if Members exercise their right to put the units back to the Funds.

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. There are no separate classes of units within each Fund and each unit has the same rights attaching to it as all other units in the respective Fund.

Contributions received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of the units redeemed. Units are issued and redeemed subject to the requirements of the KiwiSaver Act 2006 at the holder's option at prices based on the Funds' net asset value per unit at the time of issue or redemption. The Funds' net asset value per unit is calculated by dividing the net assets attributable to the holders of each Fund with the total number of outstanding units of each Fund. There are currently no entry or exit fees payable.

As disclosed in note 1, the Scheme is a defined contribution scheme and the member funds presented as the Net assets available for benefits in the Statements of Net Assets represent the fully vested benefits to which the members are entitled to as at balance date. The movements of the liability for promised retirement benefits are presented by the movements as disclosed in the Statements of Changes in Net Assets during the year.

#### 2.11 Related parties

A party is related to the Scheme if:

- (a) directly or indirectly through one or more of its intermediaries, it controls, is controlled by, or is under common control with, the Scheme;
- (b) it is a parent, subsidiary or fellow subsidiary of a party defined in note 1 above;
- (c) it has an interest in or relationship with the Scheme that gives it significant influence over the Scheme;
- (d) the Scheme has an interest in or relationship with the party that gives it significant influence over the party; or
- (e) they are a member of the Manager's key management personnel.

## Notes to the Financial Statements for the year ended 31 March 2019

### 2. Summary of accounting policies (continued)

#### 2.12 Guaranteed Income Fund Lifetime withdrawal benefit

Under the Trust Deed, Scheme members are entitled to elect to receive a regular lifetime withdrawal benefit from the date of initial draw down (usually 65) until the date of their death, no such payments this year. This is funded in the first instance from the Scheme members' protected income base (i.e. funds invested +/- Investment returns generated between date of investment through to the draw down date) and subsequently from the insurance policy held by the Supervisor on behalf of the Unitholders with Lifetime Income Limited (an insurer licensed in New Zealand under the Insurance (Prudential Supervision) Act 2010). The Scheme does not expect to make distributions from the Scheme apart from the lifetime withdrawal benefit. Please refer Note 5.1 for further details regarding financial risk.

#### 2.13 Guaranteed Income Fund insurance payments

The Scheme pays insurance premiums to Lifetime Income Limited on behalf of the Scheme members. These premiums are calculated daily and paid monthly from the Cash Portfolio as disclosed in the Statements of Changes in Net Assets. Please refer to Note 8.1 for further details on the amounts paid.

### 3. Accounting estimates and judgements

The preparation of Financial Statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in the process of applying the Scheme's accounting policies. The Manager has applied its judgement in selecting the accounting policy to designate financial assets at fair value through profit or loss at initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. It is possible to determine the fair value of all financial assets as quoted market prices are readily available and in the case of derivatives observable market inputs are readily available. Therefore there are no material assumptions or major sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities at year end. However as with all investments, their value is subject to variation due to market fluctuations.

The Manager has used judgement in the categorisation of its financial assets and liabilities at fair value through profit or loss in accordance with the fair value hierarchy under NZ IFRS 13. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value in its entirety. The significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability (refer to note 5.3 for further details).

### 4. Derivatives

#### 4.1 Forward foreign currency contracts

Forward foreign currency contracts are contractual obligations to buy or sell one currency on a future date in exchange for a second currency at a specified forward foreign exchange rate which is established in an organised market. The forward contracts are agreed between the parties to the contract and are not traded on an exchange. The Scheme's open positions in forward contracts at balance date are outlined below:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
	<b>Forward exchange contracts (notional value in NZ\$)</b>									
Sell AUD/Buy NZD	910,540	5,919,660	6,745,900	17,181,290	35,963,870	44,018,280	123,270	130,170	43,743,580	67,249,400
<b>Forward exchange contracts (fair value in NZ\$)</b>										
Sell AUD/Buy NZD	3,239	(3,487)	24,000	(10,121)	127,942	(25,932)	440	(76)	155,621	(39,616)

### 5. Financial Risk Management

#### 5.1 Financial risk factors

The Trust Deed for the Scheme requires the Fund Manager to invest the assets of each Fund of the Scheme in accordance with the SIPO, in order to manage risk. The Scheme's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Scheme's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Scheme is exposed and seeks to minimise potential adverse effects on the Scheme's financial performance.

The Scheme is exposed indirectly to price risks through its holdings in unit trust investments. The unlisted investments have underlying securities comprising domestic, international equity instruments and fixed interest securities. All securities investments present a risk of loss of capital. The Funds of the Scheme hold various financial instruments such as unlisted unit trusts where the maximum loss of capital is limited to the carrying value of those positions. The maximum loss of capital on forward foreign exchange contracts is limited to the notional amount of currency that is contracted to be delivered under each contract.

All listed equities at 31 March 2019: Nil, (31 March 2018: \$35,699,834) are held with entities registered and domiciled in New Zealand which is trading on the New Zealand Stock Exchange (NZX). For 31 March 2019, the Scheme indirectly invests in listed equities through the Simplicity NZ Share Index Fund.

The Funds are also indirectly exposed to risk factors such as liquidity risk, credit risk and interest rate risk via its investments underlying investment funds. However the risk management note outlined below are not prepared on a look through basis.

Investors in the Guaranteed Income Fund are entitled to regular annuity income from the draw down date through to death. As disclosed in Note 2.12, this is funded in the first instance from the Investor's capital plus/minus investment returns to date, and subsequently from the insurance policy held by the Supervisor on behalf of investors with Lifetime Income Limited (the "Insurer").

The Fund bears no credit risk regarding such payments, with the liability for the annuity payments, passing to the Insurer at the point at which the Investor's capital plus/minus investment return balance has been exhausted.

As disclosed in the Product Disclosure Statement, should the Insurer fail there may be insufficient funds residing in the Insurer's Statutory Fund to continue making the income payments.

As at 31 March 2019, the Insurer has a B- credit rating as provided by A.M.Best.

In addition to internal risk management carried out by the Manager and the Investment Manager, financial risk is also managed by the setting of an investment policy, agreed with and monitored by the Supervisor and set out in the SIPO.



## Notes to the Financial Statements for the year ended 31 March 2019

### 5. Financial Risk Management (continued)

#### 5.1.1 Market risk

##### (a) Price risk

Price risk is the risk that the fair value or future cash flows of non monetary financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to an issuer or factors affecting all similar financial instruments traded in the market. All investments in managed funds and listed equities present a risk of loss of capital often due to factors beyond the Manager's control such as competition, regulatory changes, commodity price changes and changes in general economic climate domestically and internationally. The Manager of the underlying unit trusts advised that this risk is moderated through careful stock selection and diversification of unit trust investments, daily monitoring of the unit trusts' market position and adherence to the unit trusts' investment policy. Price risks are managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Any price risk associated with money instruments such as the fixed interest securities is considered to be part of the risk captured under interest rate risk and credit risk.

The maximum market risk resulting from financial instruments is determined by their fair value.

Where non-monetary financial instruments, for example, unit trusts and equities denominated in currencies other than NZD, the price initially expressed in foreign currency and then converted into NZD will also fluctuate because of changes in foreign exchange rates. In addition, where the Scheme holds unit trusts which in turn invest in securities denominated in foreign currencies, the value of the unit trust will be indirectly affected by fluctuations in foreign exchange rates. Paragraph (b) 'Foreign exchange risk' below sets out how this component of price risk is managed and measured.

##### Sensitivity Analysis

A variable of 5% was selected for price risk as this is a reasonably expected movement based on historic trends in unit prices. If investments in financial instruments subject to unit price risk at that date increased/decreased by 5% with all other variables held constant, this would have had the following impact on the Statement of Changes in Net Assets:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end	Year end	Year end	Year end	Year end	Year end	Year end	Period end	Year end	Period end
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
5% increase in prices	1,888,073	451,674	5,451,257	2,217,038	20,626,492	9,951,469	68,543	14,237	28,034,365	12,634,418
5% decrease in prices	(1,888,073)	(451,674)	(5,451,257)	(2,217,038)	(20,626,492)	(9,951,469)	(68,543)	(14,237)	(28,034,365)	(12,634,418)

Members' Funds would be impacted by the same amount less the PIE tax adjustment that would be attributed to members.

##### (b) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Scheme is exposed to currency risk through holding Australian dollar cash and cash equivalents, trade and other receivables, trade and other payables and forward foreign exchange contracts. The Manager may hedge the exposure to currency fluctuations.

The Scheme is also exposed indirectly to currency risk through its holdings in unit trusts.

At the balance date the Scheme had the following foreign currency exposures due to holdings of monetary assets and liabilities (expressed in NZD equivalents):

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end	Year end	Year end	Year end	Year end	Year end	Year end	Period end	Year end	Period end
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Monetary assets/(liabilities)</b>										
Australian Dollar (AUD)	(907,251)	(5,922,555)	(6,721,695)	(17,189,734)	(35,834,979)	(44,039,966)	(122,828)	(130,234)	(43,586,753)	(67,282,488)

The table below summarises the impact on the Statement of Changes in Net Assets on monetary assets and liabilities at balance date, had the exchange rates between the New Zealand dollar and the foreign currencies increased or decreased by 5% with all other variables held constant. The analysis is based on the Manager's best estimate of a reasonable possible shift in exchange rates with regard to historical volatility.

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end	Year end	Year end	Year end	Year end	Year end	Year end	Period end	Year end	Period end
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Monetary assets/(liabilities)</b>										
Increase of 5%	43,202	282,026	320,081	818,559	1,706,428	2,097,141	5,849	6,202	2,075,560	3,203,928
Decrease of 5%	(47,750)	(311,713)	(353,773)	(904,723)	(1,886,052)	(2,317,893)	(6,465)	(6,854)	(2,294,040)	(3,541,184)

## Notes to the Financial Statements for the year ended 31 March 2019

### 5. Financial Risk Management (continued)

#### 5.1 Financial risk factors (continued)

##### 5.1.1 Market risk (continued)

The table below summarises the impact on the Statement of Changes in Net Assets on non-monetary assets and liabilities at balance date, had the exchange rates between the New Zealand dollar and the foreign currencies increased or decreased by 5% with all other variables held constant. The analysis is based on the Manager's best estimate of a reasonable possible shift in exchange rates with regard to historical volatility.

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Non monetary assets/(liabilities)</b>										
Australian Dollar (AUD)	913,349	5,939,373	6,766,681	17,192,904	36,074,646	43,939,218	123,647	130,289	43,878,323	67,201,784
<b>\$ As at 31 March</b>										
<b>Non monetary assets/(liabilities)</b>										
Increase of 5%	(43,493)	(282,827)	(322,223)	(818,710)	(1,717,840)	(2,092,344)	(5,888)	(6,204)	(2,089,444)	(3,200,085)
Decrease of 5%	48,071	312,599	356,141	904,890	1,898,666	2,312,590	6,508	6,857	2,309,385	3,536,936

##### (c) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow. The Funds hold cash and cash equivalents that expose that Funds of the Scheme to fair value interest rate risk. The Funds hold cash and cash equivalents that expose the Funds to cash flow interest rate risk.

The following table represents the maturity profile of financial instruments subject to interest rate risk at 31 March:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<i>Financial assets at fair value through profit or loss</i>										
Fixed interest securities:										
Less than one year	-	968,944	-	1,738,009	-	2,219,629	-	-	-	4,926,582
1-2 years	-	247,356	-	535,938	-	1,288,313	-	-	-	2,071,607
2-5 years	-	3,167,838	-	3,950,110	-	4,798,039	-	32,396	-	11,948,383
Over 5 years	-	3,168,359	-	4,913,730	-	6,702,397	-	67,518	-	14,852,004
	-	7,552,497	-	11,137,787	-	15,008,378	-	99,914	-	33,798,576
<i>Financial assets at amortized cost</i>										
Cash and cash equivalents	1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374
	1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374

##### Cashflow interest rate risk

The Scheme holds cash and cash equivalents in New Zealand dollars that expose the Funds to cash flow interest rate risk.

A change in interest rates impacts the cash flow of the Scheme's cash and cash equivalents by increasing or decreasing the amount of interest received. A variable of 100 basis points (1%) was selected as this is a reasonably expected movement based on past overnight cash rate movements. The one year cash flow sensitivity to a 100 basis point movement in interest rates (based on assets held at reporting date), with all other variables held constant, is shown in the following table:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Increase of 1%	13,861	8,010	47,089	25,046	136,694	117,700	1,091	398	198,735	151,154
Decrease of 1%	(13,861)	(8,010)	(47,089)	(25,046)	(136,694)	(117,700)	(1,091)	(398)	(198,735)	(151,154)

## Notes to the Financial Statements for the year ended 31 March 2019

### 5. Financial Risk Management (continued)

#### 5.1 Financial risk factors (continued)

##### (c) Interest rate risk (continued)

##### Fair value interest rate risk

At the balance date, had the interest rate increased or decreased by 1% (which is the Manager's assessment of a reasonable movement with regard to historical volatility) with all other variables held constant, the impact on the fair value of the fixed interest portfolio in the respective Funds and the related change in total comprehensive income/(loss) would have been as follows:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Increase of 1%	-	(337,525)	-	(497,458)	-	(663,339)	-	(4,480)	-	(1,502,802)
Decrease of 1%	-	369,209	-	544,358	-	725,733	-	4,753	-	1,644,053

In addition to the Scheme's direct exposure to interest rate changes on the fair value of financial asset and liabilities and on the cash flows of cash and cash equivalents shown above, the Scheme is indirectly affected by the impact of interest rate changes on the earnings of their investments in managed funds, which forms part of the Price Risk sensitivity (see above). Therefore, the above sensitivity analysis may not fully indicate the total effect on the Scheme's net assets attributable to members of future movements in interest rates.

##### 5.1.2 Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Scheme. Financial instruments that subject the Scheme to credit risk consist primarily of fixed interest securities, cash and cash equivalents and trade and other receivables.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fall if either party fails to meet its obligation. There is no risk of default relating to contributions receivable by the Scheme as this receivable has arisen only due to timing between the date of receipt of the funds and when the units are allocated and the receipts processed.

The maximum credit risk of financial instruments is considered to be the carrying amount on the statement of net assets. The risk of non recovery of monetary assets is considered by the Manager to be minimal due to the quality of counterparties dealt with. The Scheme does not require collateral or other security to support financial instruments with credit risk. The Scheme invests cash with banks registered in New Zealand and Australia which carry a minimum short term credit rating of AA- (Standard & Poor's).

The Fund 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 credit loss. Management consider the probability of default to be close to zero as the instruments have a low risk of default. As a result, no loss allowance has been recognised, as any such impairment would be wholly insignificant to the Fund.

As at 31 March 2019 there were no financial assets past due or impaired.

The following table sets out the equivalent Standard and Poor's credit rating for cash and cash equivalents and fixed interest securities held by the Scheme:

\$ As at 31 March		Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
		Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Cash and cash equivalents	AA-	1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374
		1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374
Fixed Interest Securities	AA+ /AA /AA-	-	7,552,497	-	11,137,787	-	15,008,378	-	99,914	-	33,798,576
		-	7,552,497	-	11,137,787	-	15,008,378	-	99,914	-	33,798,576

The forward foreign exchange contracts as disclosed in note 4 are with New Zealand registered Banks with a AA- Standard and Poor's credit rating.



## Notes to the Financial Statements for the year ended 31 March 2019

### 5. Financial Risk Management (continued)

#### 5.1 Financial risk factors (continued)

##### 5.1.3 Liquidity risk

Liquidity risk is the risk that the Scheme will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Liquidity risk is managed by holding liquid investments to enable the Scheme to meet liabilities as they fall due and withdrawals when requested. The Scheme invests in various managed funds, which in turn, maintain sufficient liquidity in their portfolios to cover reasonably foreseeable redemptions under normal market conditions. The Scheme also holds securities that are listed on the NZX and are saleable. Monies received from member contributions may be used to offset withdrawals and the Manager may in certain circumstances suspend withdrawals from the Scheme.

The Scheme's investment policies do not state a minimum required level of investment in liquid investments. The Scheme's financial liabilities consist of trade and other payables and derivatives (forward foreign exchange contracts) which are short term in nature and classified as a current liability at reporting date. Current liabilities of financial derivative instruments consist of the fair value of forward foreign exchange contracts at year end. The current fair value represents the estimated cash flow that may be required to dispose of the positions. Future cash flows of the Scheme and realised liabilities may differ from current liabilities based on future changes in market conditions.

The table below shows the undiscounted contracted cash outflows, excluding gross settled derivatives, for the Funds' financial liabilities:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Financial liabilities held at fair value through profit or loss</b>										
7 days to 2 months	-	3,487	-	10,121	-	25,932	-	76	-	39,616
<b>Related party payables</b>										
7 days to 2 months	9,061	4,023	25,962	13,397	97,839	53,266	349	102	133,211	70,788
<b>Other payables</b>										
Less than 7 days	1,983	78,853	156,875	178,017	84,308	89,226	1,622	422	62,930	164,660

##### 5.2 Capital risk management

Net assets available to pay benefits are considered to be the Scheme's capital for the purposes of capital management not withstanding net assets available to pay benefits is classified as a liability for accounting. The Scheme does not have to comply with externally imposed capital requirements. The Scheme's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its members and maximise the Scheme's members' values as well as ensuring its net assets available to pay benefits are sufficient to meet all present and future obligations. In order to meet its objectives for capital management the Scheme's management monitors the Scheme's performance on a regular basis.

Refer Note 5.1 regarding the Guaranteed Income Fund and the insurance policy held by the Supervisor on behalf of Investors.

##### 5.2.1 Units on Issue

Units As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Units on issue at the start of the year	16,422,042	6,408,059	52,799,639	23,945,296	194,482,236	72,287,176	420,883	-	264,124,800	102,640,531
Total contributions for the year	33,022,188	20,301,467	65,092,113	46,137,751	172,575,135	139,542,465	1,136,173	480,825	271,825,609	206,462,508
Total withdrawals for the year	(14,893,584)	(10,287,484)	(22,425,029)	(17,283,408)	(30,496,753)	(17,347,405)	(191,440)	(59,942)	(68,006,806)	(44,978,239)
Units on issue at the end of the year	34,550,646	16,422,042	95,466,723	52,799,639	336,560,618	194,482,236	1,365,616	420,883	467,943,603	264,124,800

## Notes to the Financial Statements for the year ended 31 March 2019

### 5. Financial Risk Management (continued)

#### 5.3 Fair value estimation

The carrying amounts of the Scheme's assets and liabilities at the balance date are their fair values. Fair value measurements are categorised into a three level hierarchy that reflects the significance of the inputs used in making the measurements. The Scheme recognises transfers between levels of the fair value hierarchy as at the end of the financial reporting year during which the change has occurred.

All listed equities at 31 March 2019: Nil, (31 March 2018: \$35,699,834 ) are held with entities registered and domiciled in New Zealand which is trading on the New Zealand Stock Exchange (NZX). For 31 March 2019, the Scheme indirectly invests in listed equities through the Simplicity NZ Share Index Fund.

#### Level one - fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at balance date without any deduction for estimated future selling costs. Financial assets and liabilities are priced at last sale prices.

#### Level two - fair value in an inactive or unquoted market using valuation techniques and observable market data

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques for which all significant inputs are based on observable market data.

#### Level three - fair value in an inactive or unquoted market using valuation techniques without observable market data

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques for which any significant input is not based on observable market data.

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition, grouped into levels 1 to 3 based on the degree to which the fair value is observable. There are no level 3 financial instruments. There have been no transfers between levels.

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Level 1</b>										
<i>Financial assets at fair value through profit and loss</i>										
Listed equities	-	1,071,751	-	7,855,263	-	26,738,981	-	33,839	-	35,699,834
<b>Level 2</b>										
<i>Financial assets at fair value through profit and loss</i>										
Unlisted funds/trusts	37,761,469	7,961,730	109,025,135	36,485,495	412,529,836	172,290,401	1,370,850	250,901	560,687,290	216,988,527
Fixed interest securities	-	7,552,497	-	11,137,787	-	15,008,378	-	99,914	-	33,798,576
Forward foreign exchange contracts	3,239		23,999		127,942		439		155,619	
<b>Total financial assets at fair value through profit or loss</b>	<b>37,764,708</b>	<b>16,585,978</b>	<b>109,049,134</b>	<b>55,478,545</b>	<b>412,657,778</b>	<b>214,037,760</b>	<b>1,371,289</b>	<b>384,654</b>	<b>560,842,909</b>	<b>286,486,937</b>
<b>Level 2</b>										
<i>Financial liabilities at fair value through profit or loss</i>										
Forward foreign exchange contracts		3,487		10,121		25,932		76		39,616
<b>Total financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>3,487</b>	<b>-</b>	<b>10,121</b>	<b>-</b>	<b>25,932</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>39,616</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1 include listed equity instruments. The Funds do not adjust the quoted price for these instruments.

The fair value of forward foreign exchange contracts is calculated from spot exchange rates and forward points supplied by WM/Reuters. This measurement basis falls within Level 2 of the fair value hierarchy as all inputs used to calculate the fair value are based on observable market data.

The Scheme also holds investments in listed and unlisted fixed income securities. The fair values of these instruments are determined by using a valuation model for which the inputs are directly observable and are therefore classified in Level 2. Fixed income securities are calculated using market accepted formulas. The yields are derived from either credit spreads sourced from the New Zealand Financial Markets Association, direct sourcing such as New Zealand government bonds, relative value against like securities where there are a small number of quotes available and matrix yield curves.

The Funds' investments in other managed funds valued at fair value which are based on the latest available redemption prices as obtained from the third party fund administrator. The Manager reviews the details of the reported information obtained from the third party administrator and considers:

- the liquidity of the Fund's holding in the managed funds or their underlying investments;
- the value date of the net asset values ("NAVs") provided; and
- any restrictions on redemptions

The fair value of international managed funds is determined using the redemption price, based on the valuation of its underlying investments, as supplied by the Manager on a daily basis. This measurement basis falls within Level 2 of the fair value hierarchy as all significant inputs used to calculate the fair value are based on observable market data.

Refer to note 2.2(c) of the accounting policies for further details on the fair value hierarchy.

## Notes to the Financial Statements for the year ended 31 March 2019

### 6. Financial assets and liabilities at fair value through profit or loss

#### 6.1 Financial assets at fair value through profit or loss

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end	Year end	Year end	Year end	Year end	Year end	Year end	Period end	Year end	Period end
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Financial assets at fair value through profit or loss</b>										
Listed equities	-	1,071,751	-	7,855,263	-	26,736,981	-	33,839	-	35,699,834
Listed funds/trusts	-	-	-	-	-	-	-	-	-	-
Unlisted equities	-	-	-	-	-	-	-	-	-	-
Unlisted funds/trusts	37,761,469	7,961,730	109,025,135	36,485,495	412,529,836	172,280,401	1,370,850	250,901	560,687,290	216,988,527
Fixed interest securities	-	7,552,497	-	11,137,787	-	15,006,378	-	99,914	-	33,798,576
Forward foreign exchange contracts	3,239	-	23,999	-	127,942	-	439	-	155,619	-
<b>Total financial assets at fair value through profit or loss</b>	<b>37,764,708</b>	<b>16,585,978</b>	<b>109,049,134</b>	<b>55,478,545</b>	<b>412,657,778</b>	<b>214,037,760</b>	<b>1,371,289</b>	<b>384,654</b>	<b>560,842,909</b>	<b>286,486,937</b>

#### 6.2 Financial liabilities at fair value through profit or loss

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end	Year end	Year end	Year end	Year end	Year end	Year end	Period end	Year end	Period end
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<b>Financial liabilities at fair value through profit or loss</b>										
Forward foreign exchange contracts	-	3,487	-	10,121	-	25,932	-	76	-	39,616
<b>Total financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>3,487</b>	<b>-</b>	<b>10,121</b>	<b>-</b>	<b>25,932</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>39,616</b>

The forward currency contracts as disclosed in note 4 are all with ANZ New Zealand.

### 7. Financial instruments

The following table shows the details of any single investment exceeding 5% of net assets or 5% of any category of investments for each of the Funds and the Scheme as at 31 March:

#### Trading securities exceeding 5% of Net assets available for benefits by Fund and by Scheme Total

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	2019		2019		2019		2019		2019	
	\$	% of net asset value	\$	% of net asset value	\$	% of net asset value	\$	% of net asset value	\$	% of net asset value
<b>List of Securities</b>										
Simplicity NZ Bond Fund	13,753,774	35.22%	17,967,457	15.92%	30,764,478	7.26%	348,847	23.70%	62,834,556	10.89%
Simplicity NZ Share Fund	2,765,467	7.08%	16,911,861	14.98%	89,312,600	21.08%	122,682	8.33%	109,112,610	18.91%
Vanguard Australian Sh Ind Fund	-	-	6,766,581	6.00%	36,074,646	8.51%	123,647	8.40%	43,878,323	7.60%
Vanguard Eth'y Conscious Global Index Bond Fund	15,442,739	39.55%	28,196,349	24.98%	52,021,502	12.28%	347,655	23.62%	96,008,245	16.54%
Vanguard Eth'y Conscious Int Shares Index Fund NZD	4,886,140	12.51%	39,182,787	34.72%	204,356,610	48.22%	429,019	29.08%	248,953,556	43.12%



## Notes to the Financial Statements for the year ended 31 March 2019

### 7. Financial instruments (continued)

Trading securities exceeding 5% by investment category by Fund and by Scheme Total

\$ As at 31 March	Conservative Fund 2019		Balanced Fund 2019		Growth Fund 2019		Guaranteed Income Fund 2019		Scheme Total 2019	
	\$	% of investment	\$	% of investment	\$	% of investment	\$	% of investment	\$	% of investment
<i>Investment types:</i>										
<i>Australian Unlisted Funds</i>										
Vanguard Australian Sh Ind Fund			6,766,681	6.21%	36,074,646	8.74%	123,647	9.02%	42,964,974	7.83%
Vanguard Ethly Conscious Global Index Bond Fund	15,442,739	40.90%	28,196,349	25.86%	52,021,502	12.61%	347,655	25.36%	96,008,245	17.12%
Vanguard Ethly Conscious Int Shares Index Fund NZD	4,886,140	12.94%	39,182,787	35.94%	204,356,610	49.54%	428,019	31.22%	248,853,556	44.38%
<i>New Zealand Unlisted Funds</i>										
Simplicity NZ Bond Fund	13,753,774	36.42%	17,967,457	16.48%	30,764,478	7.46%	348,847	25.45%	62,834,556	11.21%
Simplicity NZ Share Fund	2,765,467	7.32%	16,911,861	15.51%	89,312,600	21.65%	122,682	8.95%	109,112,610	19.46%
<i>Cash and cash equivalents</i>										
ANZ New Zealand	1,386,089	100.00%	4,708,858	100.00%	13,669,373	100.00%	109,137	100.00%	19,873,457	100.00%

Financial instruments currently recognised in the Financial Statements comprise trade and other receivables, financial assets at fair value through profit or loss and trade and other payables. The following table details the Scheme's financial assets and liabilities by category:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Financial assets at fair value through profit and loss</b>										
Financial assets mandatorily measured at fair value through profit or loss	37,764,708	16,585,978	109,049,134	55,478,545	412,657,778	214,037,760	1,371,289	384,654	560,842,909	286,486,937
<b>Financial assets at amortised cost</b>										
Cash and cash equivalents	1,386,089	800,951	4,708,858	2,504,607	13,669,373	11,770,034	109,137	39,782	19,873,457	15,115,374
Trade and other receivables	197,108	120,041	47,202	289,666	188,688	603,920	581	2,285	251,721	834,054
<b>Total financial assets at amortised cost</b>	<b>1,583,197</b>	<b>920,992</b>	<b>4,756,060</b>	<b>2,794,273</b>	<b>13,858,061</b>	<b>12,373,954</b>	<b>109,718</b>	<b>42,067</b>	<b>20,125,178</b>	<b>15,949,428</b>
<b>Total financial assets</b>	<b>39,347,905</b>	<b>17,506,970</b>	<b>113,805,194</b>	<b>58,272,818</b>	<b>426,515,839</b>	<b>226,411,714</b>	<b>1,481,007</b>	<b>426,721</b>	<b>580,968,087</b>	<b>302,436,365</b>
<b>Liabilities at fair value through profit and loss</b>										
Financial liabilities at fair value through profit or loss	-	3,487	-	10,121	-	25,932	-	76	-	39,616
<b>Financial liabilities at amortised cost</b>										
Other payables	1,983	78,853	156,875	178,017	84,308	89,226	1,822	422	62,930	164,660
Manager fees payable	9,061	4,023	25,962	13,397	97,839	53,266	349	102	133,211	70,788
<b>Total financial liabilities at amortised cost</b>	<b>11,044</b>	<b>82,876</b>	<b>182,836</b>	<b>191,414</b>	<b>182,147</b>	<b>142,492</b>	<b>1,971</b>	<b>524</b>	<b>196,140</b>	<b>235,448</b>
<b>Total financial liabilities</b>	<b>11,044</b>	<b>86,363</b>	<b>182,836</b>	<b>201,535</b>	<b>182,147</b>	<b>168,424</b>	<b>1,971</b>	<b>600</b>	<b>196,140</b>	<b>275,064</b>

## Notes to the Financial Statements for the year ended 31 March 2019

### 7. Financial instruments (continued)

#### Offsetting and amounts subject to master netting arrangements and similar agreements

As at 31 March 2019, the Scheme was subject to an International Swaps and Derivatives Association (ISDA) arrangement with ANZ, the derivative counterparty (31 March 2018: ANZ). According to the terms of the ISDA arrangement with the counterparty, all the derivatives are settled net.

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<i>Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements</i>										
Gross amounts of recognised financial liabilities	-	3,487	-	10,121	-	25,932	-	76	-	39,616
Gross amounts of recognised financial assets set-off in the statement of financial position	-	-	-	-	-	-	-	-	-	-
<b>Net amounts of financial liabilities presented in the statement of financial position</b>	<b>-</b>	<b>3,487</b>	<b>-</b>	<b>10,121</b>	<b>-</b>	<b>25,932</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>39,616</b>
<i>Related amounts not set-off in the statement of financial position</i>										
Financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
<b>Net amount</b>	<b>-</b>	<b>3,487</b>	<b>-</b>	<b>10,121</b>	<b>-</b>	<b>25,932</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>39,616</b>

Each party has the option to settle all open contracts on a net basis in the event of default by the other party. Per the terms of the ISDA agreement, an event of default includes the following:

- \* failure by a party to make a payment when due;
- \* failure by a party to perform an obligation required by the agreement (other than payment) if such failure is not remedied within 30 days after such notice of such failure is given to the party; or
- \* bankruptcy

### 8. Related parties

#### 8.1 Manager and Supervisor

The Manager of the Scheme is Simplicity NZ Limited. The Manager is wholly owned by Simplicity Charitable Trust, a New Zealand registered trust. The Manager is entitled to the following capped management fees per annum for services as Manager:

- Simplicity KiwiSaver Conservative Fund - 0.31% of the net asset value per annum (comprising of 0.30% Manager's basic fee and 0.01% Other management and administration charges)
- Simplicity KiwiSaver Balanced Fund - 0.31% of the net asset value per annum (comprising of 0.30% Manager's basic fee and 0.01% Other management and administration charges)
- Simplicity KiwiSaver Growth Fund - 0.31% of the net asset value per annum (comprising of 0.30% Manager's basic fee and 0.01% Other management and administration charges)
- Simplicity KiwiSaver Guaranteed Income Fund - 0.31% of the net asset value per annum (comprising of 0.30% Manager's basic fee and 0.01% Other management and administration charges) plus 1.30% per annum of the Protected Income Base

The capped management fees are used to cover expenses for management fees and administration charges. The capped management fees are calculated daily and paid monthly directly from the Scheme.

\$ 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Included in the Statement of Changes in Net Assets</b>										
Management fees charged during the year	79,083	32,201	250,598	124,374	963,343	457,826	2,951	477	1,295,975	614,878
Management fee rebates earned during the year from the Manager	47,852	13,393	164,700	67,965	646,083	293,618	1,827	235	860,462	374,976
<b>Included in the Statement of Net Assets</b>										
Management fees payable to the Manager	9,061	4,023	25,962	13,397	97,839	53,266	349	102	133,211	70,788

The Supervisor of the Scheme is Public Trust. The Supervisor is entitled to receive a fee from the Manager for supervisory services. Audit expenses are also paid on behalf of the Scheme by the Manager.

The Manager also paid administration and custody expenses on behalf of the Funds to non-related parties. A monthly \$2.50 administration fee is deducted from each member by way of unit redemption and is payable to the Manager. This is accounted for as a withdrawal and does not impact net profit before membership activities. During the year, administration fees paid to the Manager totalled \$400,914 (2018: \$225,118). MMC Limited maintain the members' accounts and register of the Scheme and receives a fee for this service, paid by the Manager.

The Manager also paid insurance premiums on behalf of the Funds to Lifetime Income Limited. A monthly insurance premium is deducted from each member by way of unit redemption and is payable to the Manager. This is accounted for as a withdrawal and does not impact net profit before membership activities. During the year, insurance premiums paid to the Manager totalled \$13,028 (2018: \$0).

Directors of the Manager held units in the Simplicity KiwiSaver Scheme in the following proportions:

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Holdings	-	-	-	-	0.14%	0.47%	-	-	0.10%	0.35%

## Notes to the Financial Statements for the year ended 31 March 2019

### 8. Related parties (continued)

Total holdings attributable to related party investors in the Funds at year end:

\$ 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Funds managed by Simplicity NZ Limited:</b>										
Simplicity NZ Bond Fund	13,753,774	-	17,967,457	-	30,764,478	-	348,847	-	62,834,556	-
Simplicity NZ Share Fund	2,765,467	-	16,911,861	-	89,312,600	-	122,682	-	109,112,610	-

Total income and gains attributable to related party investors in the Funds during the year:

\$ 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
<b>Funds managed by Simplicity NZ Limited:</b>										
Simplicity NZ Bond Fund	831,014	-	1,157,527	-	2,041,890	-	19,934	-	4,050,364	-
Simplicity NZ Share Fund	342,719	-	2,181,475	-	10,875,104	-	14,581	-	13,413,879	-

### 9. Trade and other receivables

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Accrued interest	133	100,304	452	146,760	1,311	193,961	10	1,816	1,906	442,841
Fee rebates receivable from external fund managers	14,270	4,289	44,899	21,250	170,019	100,083	571	153	229,759	125,775
Dividends and distributions receivable	-	5,910	-	55,872	-	201,005	-	315	-	253,102
Contributions receivable	182,705	9,538	1,850	65,784	17,358	108,871	-	1	20,056	2,336
<b>Total trade and other receivables</b>	<b>197,108</b>	<b>120,041</b>	<b>47,202</b>	<b>289,666</b>	<b>188,688</b>	<b>603,920</b>	<b>581</b>	<b>2,285</b>	<b>251,721</b>	<b>834,054</b>

All trade and other receivable balances are carried at amortised cost and their carrying values approximate fair value.

### 10. Other payables

\$ As at 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Redemptions payable	1,983	78,853	156,875	178,017	84,308	89,226	1,622	422	62,930	164,660
<b>Total other payables</b>	<b>1,983</b>	<b>78,853</b>	<b>156,875</b>	<b>178,017</b>	<b>84,308</b>	<b>89,226</b>	<b>1,622</b>	<b>422</b>	<b>62,930</b>	<b>164,660</b>

All trade and other payable balances are carried at amortised cost and their carrying values approximate fair value.



## Notes to the Financial Statements for the year ended 31 March 2019

### 11. Reconciliation of net profit before tax and membership activities to net cash flows from operating activities

\$ For the year ended 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Net profit after tax and before membership activities	2,043,956	465,842	6,708,185	2,537,229	27,419,198	11,268,001	73,795	2,773	36,245,134	14,273,845
Adjustments for non cash items:										
Unrealised changes in the fair value of financial instruments	(1,651,167)	123,746	(2,218,927)	(924,915)	(659,648)	(7,922,398)	(45,830)	4,534	(4,575,571)	(8,719,033)
Interest reinvested	(100,304)	-	(146,760)	-	(193,961)	-	-	-	(441,025)	-
Unrealised foreign exchange (gains)/losses on cash at bank	3,115	8,922	6,631	5,249	11,946	67,140	330	(142)	22,022	81,169
Distributions and dividends re-invested	(415,622)	(249,203)	(1,606,359)	(803,793)	(6,865,901)	(1,541,228)	(16,168)	(806)	(8,904,050)	(2,595,030)
	(2,163,978)	(116,535)	(3,965,415)	(1,723,459)	(7,707,564)	(9,396,486)	(61,668)	3,586	(13,898,624)	(11,232,894)
Movements in working capital items:										
(Increase)/decrease in trade and other receivables	96,100	(74,291)	178,531	(135,348)	323,719	(329,957)	1,703	(2,284)	600,053	(541,880)
(Decrease)/increase in trade and other payables	5,038	2,512	12,565	7,613	44,573	35,548	247	102	62,423	45,775
Decrease/(increase) in cost of investments	(19,015,123)	(10,121,414)	(49,608,663)	(29,646,540)	(190,926,442)	(131,067,819)	(924,714)	(388,306)	(260,474,942)	(171,224,079)
	(18,913,985)	(10,193,193)	(49,417,568)	(29,774,275)	(190,558,149)	(131,362,228)	(922,764)	(390,488)	(259,812,466)	(171,720,184)
Net cash outflow from operating activities	(19,034,006)	(9,843,886)	(46,674,798)	(28,960,505)	(170,846,515)	(129,490,713)	(910,637)	(384,129)	(237,465,956)	(168,679,233)

### 12. Interest income

\$ For the year ended 31 March	Conservative Fund		Balanced Fund		Growth Fund		Guaranteed Income Fund		Scheme Total	
	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Year end 2018	Year end 2019	Period end 2018	Year end 2019	Period end 2018
Interest on financial assets at amortised cost	19,317	9,795	60,916	34,498	215,526	136,689	1,523	335	297,282	181,317
Interest on financial assets and liabilities at fair value through profit or loss	10,570	228,821	24,855	458,266	48,955	507,584	285	1,319	84,665	1,195,990
Total Interest income	29,887	238,616	85,771	492,764	264,481	644,273	1,808	1,654	381,947	1,377,307

### 13. Contingent liabilities

There were no contingent liabilities as at 31 March 2019. (31 March 2018: nil)

### 14. Capital commitments

There were no capital commitments as at 31 March 2019. (31 March 2018: nil)

### 15. Events after balance date

On 16 April 2019, the Simplicity KiwiSaver Growth Fund bought a \$1.6 million stake in Icehouse Ventures Limited.

Icehouse Ventures Limited commenced operation in April 2019. It is the funds management arm of The Icehouse Limited, which was formed in 2001 to assist small to medium sized enterprises grow their businesses. In addition to The Icehouse Limited, shareholders in Icehouse Ventures Limited are Simplicity Nominees Limited, K One W One (No 4) Limited and First NZ Capital Securities Limited.

Simplicity Nominees Limited is a wholly owned subsidiary of Public Trust. It holds the shares in Icehouse Ventures Limited as custodian on behalf of the Simplicity KiwiSaver Growth Fund.





# Independent Auditor's Report

To the members of:

- Simplicity Conservative Fund
- Simplicity Balanced Fund
- Simplicity Growth Fund
- Simplicity Guaranteed Investment Fund

collectively the "Simplicity KiwiSaver Scheme" (the "Funds and Scheme").

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of the Simplicity KiwiSaver Scheme (the Funds and Scheme) on pages 5 to 22:

- present fairly in all material respects the Funds and Scheme's financial position as at 31 March 2019 and their financial performance and cash flows for the year ended on that date; and
- comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statements of net assets as at 31 March 2019;
- the statements of changes in net assets and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). 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 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 and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Funds and Scheme in relation to trustee reporting and other assurance services in relation to audit of the members' register. Subject to certain restrictions, partners and employees of our firm may also deal with the Funds and Scheme on normal terms within the ordinary course of trading activities of the business of the Funds and Scheme. These matters have not impaired our independence as auditor of the Funds and Scheme. The firm has no other relationship with, or interest in, the Funds and Scheme.

## Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the type of investments held by the Funds and Scheme, the use of third party service providers, financial reporting systems, processes and controls in place.

The context for our audit is set by the major activities in the financial year ended 31 March 2019. The Funds and Scheme had a continued focus on investment management.

## Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements of each Fund and the Scheme as a whole. The materiality for the financial statements as a whole for each Fund was set at 1.5% of the total assets of each Fund.

We chose total assets as the benchmark because, in our view, this is a key metric for the users of the financial statements given the primary objective of each Fund is to achieve capital growth taking into account both capital and income returns.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

### The key audit matter

### How the matter was addressed in our audit

#### Existence and valuation of investments

Refer to Note 6 of the financial statements.

Investments are the Funds' main assets, and existence and valuation of these investments is the most important aspect of preparing the financial statements. As described in Note 6, the Funds' investments include

- Listed equities and funds/trusts;
- Unlisted equities and funds/trusts;
- Fixed interest securities; and
- Forward foreign exchange contracts.

Our audit procedures included:

- Documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at MMC, investment accounting and registry service provider, by obtaining and reading the service organisation reports issued by an independent auditor on the design and operation of those controls through the period;
- Agreeing the valuation of equity securities and debt securities to independent third party pricing sources;
- Agreeing the valuation of unlisted unit funds/trusts to the redemption value per unit as reported publicly by the Manager;
- For forward foreign exchange contracts, engaging our valuation specialists to check the reasonableness of the inputs to information available from independent third party pricing sources;





## The key audit matter

## How the matter was addressed in our audit

The nature of investments held reduces the risk and complexity of verifying investment existence and valuation.

- For call accounts, agreeing the closing book value to bank confirmations;
- Checking the accuracy of the fair value hierarchy disclosures in the financial statements; and
- Agreed the title of investments at 31 March 2019 with the Custodian.

We did not identify any material differences from our procedures.

## Other information

The Directors of Simplicity New Zealand Limited (“the Manager”), on behalf of the Funds and Scheme, are responsible for the other information included in the Funds and Scheme’s Annual Report. Our opinion on the financial statements does not cover any 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 in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Annual Report is expected to be made available to us after the date of this Independent Auditor’s Report and we will report the matters identified, if any, to the Directors.

## Use of this independent auditor’s report

This independent auditor’s report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body for our audit work, this independent auditor’s report, or any of the opinions we have formed.

## Responsibilities of the manager for the financial statements

The Manager, on behalf of the Funds and Scheme, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



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**xlr Auditor's responsibilities for the audit of the financial statements**

Our objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Kay Baldock

For and on behalf of

*KPMG*

KPMG  
Auckland

8 July 2019