

NZ Funds KiwiSaver Scheme

Audited financial statements



For the year ended 31 March 2020

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

Opinion

We have audited the financial statements of the NZ Funds KiwiSaver Scheme ("the Scheme") and the Income Strategy, Inflation Strategy and Growth Strategy (each a "Strategy" and collectively the "Strategies", being the Strategies of the Scheme) on pages 5 to 31, which comprise the statement of net assets available for benefits of each Strategy and the Scheme as at 31 March 2020, and the statement of changes in net assets available for benefits and statement of cash flows for the year then ended of each Strategy and the Scheme, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 5 to 31 present fairly, in all material respects, the financial position of each Strategy and the Scheme as at 31 March 2020 and their financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the financial statements of the current year. These matters were addressed in the context of our audits of the financial statements as a whole, and in forming our opinions thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audits addressed the matter is provided in that context.



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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audits included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Investments in Trading Portfolio Assets (including potential impact of COVID-19)

Why significant

- ▶ Each Strategy's and the Scheme's trading portfolio assets represent over 97% of the respective Strategy's and Scheme's total assets.
- ▶ As disclosed in the accounting policies, detailed in Note 3 to the financial statements, these financial assets are recognised at fair value through profit or loss, in accordance with NZ IFRS 9 *Financial Instruments*.
- ▶ Market volatility can have a significant impact on the value of these financial assets and the financial statements, therefore the recognition and valuation of the trading portfolio assets is considered a key area of audit focus. At and subsequent to 31 March 2020 financial markets were significantly impacted by the COVID-19 pandemic and during this period they have experienced greater than usual volatility.
- ▶ Disclosures regarding each Strategy's and the Scheme's trading portfolio assets at 31 March 2020 are included in Notes 8, 9 and 10 in the financial statements and regarding the impact of market volatility on investments subsequent to balance date are included in Note 19 to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included:

- ▶ Gaining an understanding of the processes used to record investment transactions and the revaluation of the trading portfolio assets.
- ▶ For each Strategy's and Scheme's investments in trading portfolio assets, we:
 - ▶ reconciled the total of the Strategies' recorded value of each trading portfolio asset to the net asset value of that trading portfolio asset;
 - ▶ for a sample of investments held directly by each trading portfolio asset, obtained confirmation directly from the custodian or counterparty of the investment held and verified their exit prices at 31 March 2020 to independent sources to provide evidence of the trading portfolio assets' net asset value; and
 - ▶ tested a sample of applications and redemptions by the Strategies and Scheme to gain evidence of the proportion of each trading portfolio asset held by each Strategy and the Scheme.
- ▶ Assessing whether the disclosures in the financial statements appropriately reflect the Strategies' and Scheme's exposure to financial instrument risk with reference to NZ IFRS 7 *Financial Instruments: Disclosures* and the COVID-19 related impacts on trading portfolio asset valuation.

Information other than the financial statements and auditor's report

The Manager of the Scheme is responsible for the Annual Report, which includes information other than the financial statements and auditor's report.



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

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

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

Manager's responsibilities for the financial statements

The Manager of the Scheme is responsible for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

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

The signature 'Ernst & Young' is written in a black, cursive script.

Chartered Accountants
Auckland
10 July 2020

Statement of Changes in Net Assets Available for Benefits

For the year ended 31 March 2020

	NOTE	INCOME STRATEGY		INFLATION STRATEGY	
		2020 \$000	2019 \$000	2020 \$000	2019 \$000
Net Trading (Loss)/Gain		(499)	1,513	(2,127)	2,937
Fees and Expenses	12	(357)	(292)	(575)	(548)
Net (Loss)/Profit before Taxation		(856)	1,221	(2,702)	2,389
Taxation Expense		-	-	-	-
Net Profit/(Loss) and Total Comprehensive Income/(Loss)/Benefits Accrued		(856)	1,221	(2,702)	2,389
Contributions Received					
Employer Contributions		925	790	1,384	1,272
Government Contributions		290	283	486	474
Member Contributions		2,928	2,247	4,115	3,635
Switches In		2,832	3,081	1,885	1,812
Transfers In from Other Schemes		4,652	2,467	4,800	2,966
Total Contributions and Switches In		11,627	8,868	12,670	10,159
Deduct:					
Administration Fees		(31)	(30)	(45)	(45)
Withdrawals		(3,212)	(1,862)	(1,717)	(1,600)
PIE Tax Income / (Expense)		456	(121)	706	(157)
Switches Out		(1,756)	(786)	(2,583)	(776)
Transfers Out to Other Schemes		(1,264)	(840)	(1,606)	(1,233)
Net Membership Activities		5,820	5,229	7,425	6,348
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS		4,964	6,450	4,723	8,737

The accompanying notes form part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

For the year ended 31 March 2020

	NOTE	GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2020	2019	2020	2019
		€000	€000	€000	€000
Net Trading (Loss)/Gain		(16,801)	7,983	(19,427)	12,433
Fees and Expenses	12	(2,091)	(2,205)	(3,023)	(3,045)
Net (Loss)/Profit before Taxation		(18,892)	5,778	(22,450)	9,388
Taxation Expense		-	-	-	-
Net Profit/(Loss) and Total Comprehensive Income/(Loss)/Benefits Accrued		(18,892)	5,778	(22,450)	9,388
Contributions Received					
Employer Contributions		6,435	5,785	8,744	7,847
Government Contributions		2,231	2,068	3,007	2,825
Member Contributions		15,229	12,741	22,272	18,623
Switches In		3,297	1,163	8,014	6,056
Transfers In from Other Schemes		25,725	11,212	35,177	16,645
Total Contributions and Switches In		52,917	32,969	77,214	51,996
Deduct:					
Administration Fees		(172)	(191)	(248)	(266)
Withdrawals		(3,533)	(2,921)	(8,462)	(6,383)
PIE Tax Income / (Expense)		2,845	(397)	4,007	(675)
Switches Out		(3,675)	(4,494)	(8,014)	(6,056)
Transfers Out to Other Schemes		(7,113)	(5,128)	(9,983)	(7,201)
Net Membership Activities		41,269	19,838	54,514	31,415
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS		22,377	25,616	32,064	40,803

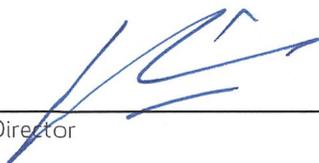
The accompanying notes form part of these financial statements.

Statement of Net Assets Available for Benefits

As at 31 March 2020

	NOTE	INCOME STRATEGY		INFLATION STRATEGY	
		2020	2019	2020	2019
		\$000	\$000	\$000	\$000
ASSETS					
Cash and Cash Equivalents		142	73	89	117
Receivables	7	793	21	1,227	7
Trading Portfolio Assets	8	34,429	30,580	50,276	47,286
TOTAL ASSETS		35,364	30,674	51,592	47,410
LIABILITIES					
Payables	13	113	387	111	652
NET ASSETS AVAILABLE FOR BENEFITS		35,251	30,287	51,481	46,758
Represented by:					
LIABILITY FOR RETIREMENT BENEFITS	11	35,251	30,287	51,481	46,758

For and on behalf of the Manager, New Zealand Funds Management Limited,
who authorised the issue of these financial statements on 10 July 2020.



Director



Director

The accompanying notes form part of these financial statements.

Statement of Net Assets Available for Benefits

As at 31 March 2020

	NOTE	GROWTH STRATEGY		TOTAL OF THE SCHEME	
		2020	2019	2020	2019
		\$000	\$000	\$000	\$000
ASSETS					
Cash and Cash Equivalents		504	379	735	569
Receivables	7	4,819	2	6,839	30
Trading Portfolio Assets	8	181,899	166,294	266,604	244,160
TOTAL ASSETS		187,222	166,675	274,178	244,759
LIABILITIES					
Payables	13	327	2,157	551	3,196
NET ASSETS AVAILABLE FOR BENEFITS		186,895	164,518	273,627	241,563
Represented by:					
LIABILITY FOR RETIREMENT BENEFITS	11	186,895	164,518	273,627	241,563

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	INCOME STRATEGY		INFLATION STRATEGY	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of Investments	3,252	2,308	3,226	2,101
	3,252	2,308	3,226	2,101
Cash was applied to:				
Management Fees	314	248	548	513
Trustee Fees	10	8	16	14
Other Expenses	9	30	10	55
Purchase of Investments	7,599	7,274	8,340	8,807
Payments for Unallocated Investment Subscriptions	48	-	63	-
	7,980	7,560	8,977	9,389
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(4,728)	(5,252)	(5,751)	(7,288)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Employer Contributions	925	790	1,384	1,270
Government Contributions	290	283	486	474
Member Contributions	2,928	2,247	4,115	3,635
Switches In	2,832	3,081	1,885	2,320
Transfers In from Other Schemes	4,652	2,467	4,800	2,966
	11,627	8,868	12,670	10,665
Cash was applied to:				
Administration Fees	32	28	45	42
Withdrawals	3,204	1,860	1,768	1,586
PIE Tax Receipts/(Payments)	574	(148)	945	(272)
Switches Out	1,756	1,019	2,583	776
Transfers Out to Other Schemes	1,264	797	1,606	1,160
	6,830	3,556	6,947	3,292
NET CASH FLOWS FROM FINANCING ACTIVITIES	4,797	5,312	5,723	7,373
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	69	60	(28)	85
Cash at beginning of year	73	13	117	32
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	142	73	89	117

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	INCOME STRATEGY		INFLATION STRATEGY	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES				
Increase in Net Assets Available for Benefits	4,964	6,450	4,723	8,737
Add/(Less) Items Classified as Financing Activities:				
Employer Contributions	(925)	(790)	(1,384)	(1,270)
Government Contributions	(290)	(283)	(486)	(474)
Member Contributions	(2,928)	(2,247)	(4,115)	(3,635)
Switches In	(2,832)	(3,081)	(1,885)	(2,320)
Transfers In from Other Schemes	(4,652)	(2,467)	(4,800)	(2,966)
Administration Fees	32	28	45	42
Withdrawals	3,204	1,860	1,768	1,586
PIE Tax Receipts/(Payments)	574	(148)	945	(272)
Switches Out	1,756	1,019	2,583	776
Transfers Out to Other Schemes	1,264	797	1,606	1,160
Add/(Less) Movements in Working Capital Items:				
Increase in Trading Portfolio Assets	(3,849)	(6,471)	(2,990)	(9,748)
(Increase)/Decrease in Receivables	(772)	(6)	(1,220)	612
(Decrease)/Increase in Payables	(274)	87	(541)	484
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(4,728)	(5,252)	(5,751)	(7,288)

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Sale of Investments	8,873	8,684	15,351	13,093
	8,873	8,684	15,351	13,093
Cash was applied to:				
Management Fees	2,052	1,934	2,914	2,695
Trustee Fees	56	48	82	70
Other Expenses	39	165	58	250
Purchase of Investments	41,271	27,497	57,210	43,578
Payments for Unallocated Investment Subscriptions	355	-	466	-
	43,773	29,644	60,730	46,593
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(34,900)	(20,960)	(45,379)	(33,500)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Employer Contributions	6,435	5,785	8,744	7,845
Government Contributions	2,231	2,068	3,007	2,825
Member Contributions	15,229	12,741	22,272	18,623
Switches In	3,297	1,162	8,014	6,563
Transfers In from Other Schemes	25,725	11,212	35,177	16,645
	52,917	32,968	77,214	52,501
Cash was applied to:				
Administration Fees	194	175	271	245
Withdrawals	3,575	2,913	8,547	6,359
PIE Tax Receipts/(Payments)	3,335	(1,043)	4,854	(1,463)
Switches Out	3,675	4,768	8,014	6,563
Transfers Out to Other Schemes	7,113	5,038	9,983	6,995
	17,892	11,851	31,669	18,699
NET CASH FLOWS FROM FINANCING ACTIVITIES	35,025	21,117	45,545	33,802
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
	125	157	166	302
Cash at beginning of year	379	222	569	267
CLOSING CASH AND CASH EQUIVALENTS CARRIED FORWARD	504	379	735	569

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
RECONCILIATION OF CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS TO CASH FLOWS FROM OPERATING ACTIVITIES				
Increase in Net Assets Available for Benefits	22,377	25,616	32,064	40,803
Add/(Less) Items Classified as Financing Activities:				
Employer Contributions	(6,435)	(5,785)	(8,744)	(7,845)
Government Contributions	(2,231)	(2,068)	(3,007)	(2,825)
Member Contributions	(15,229)	(12,741)	(22,272)	(18,623)
Switches In	(3,297)	(1,162)	(8,014)	(6,563)
Transfers In from Other Schemes	(25,725)	(11,212)	(35,177)	(16,645)
Administration Fees	194	175	271	245
Withdrawals	3,575	2,913	8,547	6,359
PIE Tax Receipts/(Payments)	3,335	(1,043)	4,854	(1,463)
Switches Out	3,675	4,768	8,014	6,563
Transfers Out to Other Schemes	7,113	5,038	9,983	6,995
Add/(Less) Movements in Working Capital Items:				
Increase in Trading Portfolio Assets	(15,605)	(26,971)	(22,444)	(43,190)
(Increase)/Decrease in Receivables	(4,817)	143	(6,809)	749
(Decrease)/Increase in Payables	(1,830)	1,369	(2,645)	1,940
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(34,900)	(20,960)	(45,379)	(33,500)

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2020

1. REPORTING ENTITIES

The reporting entity is the NZ Funds KiwiSaver Scheme ('the Scheme') which comprises the Income Strategy; the Inflation Strategy; and the Growth Strategy ('the Strategies'). The New Zealand Guardian Trust Company Limited is the Supervisor of the Scheme. The Scheme is governed by the NZ Funds KiwiSaver Scheme Master Trust Deed dated 21 September 2010 (as amended and consolidated on 12 October 2016) ('Trust Deed').

Units in the Scheme are offered under the managed investment scheme called the "NZ Funds KiwiSaver Scheme", scheme number SCH10783. The Scheme is a defined contribution scheme and is registered under the KiwiSaver Act 2006. The registration number is 10072. Under the terms of the Trust Deed, contributions can be made by or on behalf of the Scheme's members, by their employers and by the Government. The retirement benefits are determined by contributions to the Scheme together with net investment earnings on these contributions over the period of the membership. The Trust Deed sets out the basis on which the Scheme can be terminated.

The Scheme offers four investment options: three actively managed funds (Income Strategy, Inflation Strategy, and Growth Strategy, collectively the 'Strategies') and a LifeCycle investment option which automatically allocates a Member's investment across the Strategies based on the Member's age. The investments and other assets of each Strategy are held by the Supervisor exclusively as that Strategy's property and will not be used to meet any liabilities of another Strategy.

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

2. BASIS OF PREPARATION

a) Statement of compliance

The Scheme's financial statements have been prepared in accordance with the Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), the KiwiSaver Act 2006, the KiwiSaver Amendment Act 2011, the Financial Markets Conduct Act 2013 and the Trust Deed. They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS').

b) Going concern

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

c) Basis of measurement

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

d) Functional and presentation currency

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

e) Use of estimates

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

Notes to the Financial Statements

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Classification

The Strategies classify financial assets and financial liabilities at initial recognition into the following categories:

- (i) Financial assets or financial liabilities measured at fair value through profit or loss ("FVPL"). This category of financial assets and liabilities at FVPL is sub-divided into:
 - (a) Financial instruments designated as at FVPL upon initial recognition - Financial assets and liabilities are measured at fair value through profit or loss if at initial recognition they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis. This category includes trading portfolio assets.
 - (b) Financial assets and liabilities held for trading - Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. All derivatives instruments are classified as held for trading. The Scheme policy is not to apply hedge accounting.
- (ii) Financial assets at amortised cost. This category includes cash and cash equivalents, margin on derivatives and receivables from other unit
- (iii) Other financial liabilities. All financial liabilities, other than those classified as at FVPL. This category includes amounts payable to the Supervisor, the Manager, other service providers, payables to other unit trusts and other accruals.

b) Recognition

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

c) Derecognition

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Initial measurement

Financial assets and financial liabilities at FVPL are recorded in the Statement of Net Assets Available for Benefits at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets at amortised cost or other liabilities (other than those classified as at FVPL) are measured initially at their fair value plus or minus any directly attributable incremental costs of acquisition or issue.

e) Subsequent measurement

After initial measurement, the Scheme measures financial instruments which are classified as at FVPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in Net Trading Gains/Losses in the Statement of Changes in Net Assets Available for Benefits. Interest and dividends earned on these instruments are recorded separately as interest revenue and dividend revenue in the Statement of Changes in Net Assets Available for Benefits.

Financial assets at amortised cost and other financial liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process. A simplified approach is applied by the Scheme in calculating an allowance for expected credit losses for financial assets at amortised cost. The Scheme uses a provision matrix which is based on its historical credit loss experience, adjusted for forward-looking factors specific to receivables and the economic environment.

f) Cash and cash equivalents

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

g) Receivables

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

h) Translation of foreign currencies

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

i) Trading portfolio assets

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

Notes to the Financial Statements

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- j) **Determination of fair value**
The determination of fair value for financial assets and financial liabilities is based on quoted market prices from active markets. If such quoted prices are not available, the fair value of the financial instrument is determined using valuation techniques. Valuation techniques include using arm's length market transactions, reference to the current market value of another similar financial instrument, discounted cash flow analysis and valuation models.
- Inputs to valuation models are taken from observable markets where feasible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include consideration of various factors used in the inputs to the valuation models. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
- k) **Derivative instruments**
The Scheme may use derivative instruments for trading purposes. Derivative instruments are recognised initially at fair value and transaction costs are expensed immediately. After initial recognition, derivative instruments are carried at fair value. Gains/(losses) realised on disposal and unrealised gains/(losses) from changes in the fair value of derivatives are reported as net trading gains/(losses) in the Statement of Changes in Net Assets Available for Benefits.
- l) **Past due, impaired and restructured assets**
Past due assets are assets that have not been paid for by the counterparty when contractually due. Impaired assets are assets where the present value of expected future cash flows discounted at the original effective interest rate is less than the carrying value. Restructured assets are assets where the terms of a contract have been changed due to a counterparty having difficulty in complying with the original terms of the contract.
- An allowance for expected credit losses ('ECL') is recognised for all debt instruments not held at fair value through profit or loss. A simplified approach is applied by the Strategies in calculating an allowance for ECL. The Strategies use a provision matrix that is based on their historical credit loss experience, adjusted for forward-looking factors specific to receivables and the economic environment.
- m) **Offsetting**
Financial assets and liabilities are offset and the net amount presented in the Statement of Net Assets Available for Benefits when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.
- Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.
- n) **Interest revenue**
Interest revenue is recognised using the effective interest method.
- o) **Net trading gains/(losses)**
Net trading gains/(losses) comprise gains less losses related to trading portfolio assets. This includes all realised and unrealised fair value changes and foreign exchange differences.
- p) **Fees and expenses**
The Scheme incurs fees and expenses for a range of services it receives from various service providers. Fees and expenses are accrued as services are rendered. Administration fees are deducted from members' accounts and recognised as part of Membership Activities in the Statement of Changes in Net Assets Available for Benefits. Administration fees payable on behalf of members are recognised in the Statement of Net Assets Available for Benefits.

Notes to the Financial Statements

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Taxation

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

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

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

r) Goods and Services Tax ('GST')

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

s) Net assets available for benefits

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

t) Contributions and transfers in

Contributions and transfers in are accounted for as the cash and/or other financial asset are received by the Administration Manager.

u) New and amended standards and interpretations

All new standards or amendments were adopted by the Scheme during the reporting period. There was no material impact on the financial statements.

v) Standards issued but not effective

Following due enquiry, the Manager has concluded that standards and interpretations that are issued, but not yet effective, will not materially impact the financial statements of the Scheme.

The Scheme intends to adopt these standards, if applicable, when they become effective.

Notes to the Financial Statements

For the year ended 31 March 2020

4. COMMENCEMENT OF BUSINESS

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

5. AMENDMENT TO THE TRUST DEED

There have been no amendments to the Trust Deed for the year ended 31 March 2020.

6. PRINCIPAL BUSINESS ACTIVITY

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

7. RECEIVABLES

	INCOME STRATEGY		INFLATION STRATEGY	
	2020	2019	2020	2019
	€000	€000	€000	€000
PIE tax receivables	745	-	1,164	-
Unallocated investment in Wholesale units	48	21	63	7
Other receivables	-	-	-	-
TOTAL RECEIVABLES	793	21	1,227	7

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020	2019	2020	2019
	€000	€000	€000	€000
PIE tax receivables	4,464	-	6,373	-
Unallocated investment in Wholesale units	355	-	466	28
Other receivables	-	2	-	2
TOTAL RECEIVABLES	4,819	2	6,839	30

8. TRADING PORTFOLIO ASSETS

The Strategies invest substantially all of their assets, each in different proportions (refer to Note 14 *Related party*) into the trusts established under the Trust Deed Relating to the Issue of Units Other Than to the Public, for which New Zealand Funds Superannuation Limited is the trustee ('Wholesale Trusts').

INVESTMENTS IN TRADING PORTFOLIO ASSETS

	2020	2019
	€000	€000
Income Strategy	34,429	30,580
Inflation Strategy	50,276	47,286
Growth Strategy	181,899	166,294
TOTAL OF THE SCHEME	266,604	244,160

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Overview

The Scheme's risks discussed below are:

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

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

Dynamic asset allocation

As part of NZ Funds' active investment management approach, each Strategy's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time). NZ Funds selects each Strategy's asset allocation at any time, based on its investment knowledge and/or research, with reference to each Strategy's investment objective and risk profile. Securities, currencies, commodities, derivatives and/or external specialist investment managers (External Manager) can be used to achieve a desired Strategy asset allocation.

Wide investment mandates

In managing each Strategy, NZ Funds takes a wide variety of actions and are not constrained by a benchmark. The actions taken include:

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

External manager

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

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

Foreign Currency

NZ Funds actively manages the foreign currency of each Strategy. Where a Strategy holds assets denominated in a foreign currency, NZ Funds has the choice of whether to hedge back to the New Zealand dollars or retain a foreign currency exposure. The Strategy may also take active foreign currency positions by holding non-New Zealand dollars cash or foreign currency derivatives.

Risks of an active investment management approach

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Collaborative process

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

These meetings enable portfolio managers and investment analysts to present investment research and thinking in a way that encourages wide participation in, and peer review of, investment decisions.

Investment tools and techniques

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

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

Strategy construction

As part of NZ Funds' active management, asset classes, securities and External Manager, are selected based on NZ Funds' analysis of those assets which will, in its opinion, in combination with the other investments in the Strategy, help to achieve the objectives of the Strategy.

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

Capital Management

Capital is represented by the Net Assets of the Strategies. The Strategies are not subject to externally imposed capital requirements. Capital is managed through the risk management procedures described in Note 9 *Financial Instruments and Risk Management*.

b) Risk mitigation structure

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

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

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

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

The Investment Guidelines Meeting monitors compliance with the internal investment guidelines and SIPO. Any material matters arising from these meetings are raised at the Investment Committee meeting.

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Overall responsibility for investment strategy review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets at least six times a year to review investment matters which include the investment component of NZ Funds' risk register, investment counterparty risk, liquidity risk, redemption risk, stress testing, and the minutes of internal investment related meetings. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets approximately six weekly. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register which summarises the major risks and controls (including those related to investment management). The NZ Funds Board also receives a direct report from the Chief Investment Officer.

Investment guidelines

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

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

Investment performance

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

Investment performance reports are prepared and reviewed by the Investment Committee. Long-term performance is also monitored for various periods. Performance is measured on an absolute basis (after fees and expenses), against term deposits as well as relative to one or more, or a combination of, relevant market indices.

c) Risk measurement

The Scheme's risks are measured by:

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

d) Market risk

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

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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

Concentration of market risk could exist if the Scheme has significant positions in a single financial instrument, or aggregate positions in several financial instruments. The Scheme's exposure to investments in the Wholesale Trusts is set out in Note 14 *Related Party*.

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

(i) Currency risk

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

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

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

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

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

The Scheme has no direct currency exposure in the current year (2019: nil). Indirect currency exposure is considered part of equity price risk.

(ii) Equity price risk

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

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

Concentration of equity price risk could exist if the Scheme has significant positions in a single financial instrument exposed to equity price risk, or aggregate positions in several financial instruments exposed to equity price risk. The Scheme's exposure to investments in the Wholesale Trusts are set out in Note 14 *Related party*. The Wholesale Trusts are domiciled in New Zealand.

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

EXPOSURE OF FINANCIAL INSTRUMENTS TO EQUITY PRICE RISK	2020 \$000	2019 \$000
Income Strategy	34,429	30,580
Inflation Strategy	50,276	47,286
Growth Strategy	181,899	166,294
TOTAL OF THE SCHEME	266,604	244,160

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

	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE	CHANGE IN EQUITY PRICE RELATIVE TO EXPOSURE TO EQUITY PRICE RISK	\$ IMPACT GIVEN MARKET PRICES INCREASE	\$ IMPACT GIVEN MARKET PRICES DECREASE
	2020 %	2020 \$000	2020 \$000	2019 %	2019 \$000	2019 \$000
Income Strategy	3.2	1,088	(1,088)	1.8	550	(550)
Inflation Strategy	10.4	5,239	(5,239)	8.2	3,877	(3,877)
Growth Strategy	13.5	24,502	(24,502)	12.1	20,122	(20,122)
TOTAL OF THE SCHEME		30,829	(30,829)		24,549	(24,549)

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

(iii) Interest rate risk

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

e) Credit risk

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

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

Concentration of credit risk could exist if the Scheme has significant exposure to a single counterparty, or aggregate exposure to several counterparties. For risk management purposes, the Scheme's credit exposure to investments in the Wholesale Trusts set out in Note 14 *Related party*, is considered equity price risk and is captured in the equity price risk exposure.

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

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

DIRECT CREDIT RISK

Breakdown of credit exposure

Cash and cash equivalents

Receivables

TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT

INCOME STRATEGY		INFLATION STRATEGY	
2020	2019	2020	2019
\$000	\$000	\$000	\$000
142	73	89	117
793	21	1,227	7
935	94	1,316	124

Breakdown of credit exposure

Cash and cash equivalents

Receivables

TOTAL CREDIT EXPOSURE NET OF PROVISION FOR IMPAIRMENT

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2020	2019	2020	2019
\$000	\$000	\$000	\$000
504	379	735	569
4,819	2	6,839	30
5,323	381	7,574	599

f) Liquidity risk

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2020

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Concentration of liquidity risk could exist if the Scheme has significant positions in a single financial instrument or counterparty, or aggregate positions in several financial instruments or counterparties which become illiquid. The Scheme's exposure to investments in the Wholesale Trusts are set out in Note 14 *Related Party*.

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

Financial assets

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

Financial liabilities

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

CONTRACTUAL MATURITY ANALYSIS OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	INCOME STRATEGY		INFLATION STRATEGY	
	2020	2019	2020	2019
	£000	£000	£000	£000
FINANCIAL ASSETS				
<i>On demand/due within 30 days</i>				
Cash and cash equivalents	142	73	89	117
Receivables	793	21	1,227	7
Trading portfolio assets	34,429	30,580	50,276	47,286
TOTAL	35,364	30,674	51,592	47,410
FINANCIAL LIABILITIES				
<i>On demand/due within 30 days</i>				
Payables	113	387	111	652
Liability for retirement benefits	35,251	30,287	51,481	46,758
TOTAL	35,364	30,674	51,592	47,410

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020	2019	2020	2019
	£000	£000	£000	£000
FINANCIAL ASSETS				
<i>On demand/due within 30 days</i>				
Cash and cash equivalents	504	379	735	569
Receivables	4,819	2	6,839	30
Trading portfolio assets	181,899	166,294	266,604	244,160
TOTAL	187,222	166,675	274,178	244,759
FINANCIAL LIABILITIES				
<i>On demand/due within 30 days</i>				
Payables	327	2,157	551	3,196
Liability for retirement benefits	186,895	164,518	273,627	241,563
TOTAL	187,222	166,675	274,178	244,759

Notes to the Financial Statements

For the year ended 31 March 2020

10. USE OF ESTIMATES AND VALUATION OF FINANCIAL INSTRUMENTS

FAIR VALUE BASIS

Financial assets and liabilities recorded at fair value

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

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

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

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

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

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

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

LEVEL 2 INVESTMENT

	INCOME STRATEGY LEVEL 2		INFLATION STRATEGY LEVEL 2		GROWTH STRATEGY LEVEL 2		TOTAL OF THE SCHEME LEVEL 2	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Trading portfolio assets:								
Unlisted unit trusts	34,429	30,580	50,276	47,286	181,899	166,294	266,604	244,160

Notes to the Financial Statements

For the year ended 31 March 2020

11. LIABILITY FOR RETIREMENT BENEFITS

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

	INCOME STRATEGY		INFLATION STRATEGY	
	2020 000	2019 000	2020 000	2019 000
Units on issue at the beginning of the year (in number of units)	21,718	17,871	31,645	27,197
Units issued (in number of units)	8,765	6,837	9,157	7,473
Units redeemed (in number of units)	(4,676)	(2,990)	(4,354)	(3,025)
UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)	25,807	21,718	36,448	31,645
LIABILITY FOR RETIREMENT BENEFITS				
Balance at the beginning of the year (in \$000)	30,287	23,837	46,758	38,021
Change in accrued benefits (in \$000)	4,964	6,450	4,723	8,737
BALANCE AT THE END OF THE YEAR (IN \$000)	35,251	30,287	51,481	46,758
Represented by :				
Balance allocated to members' accounts (in \$000)	35,125	30,245	51,390	46,719
Balance not yet allocated to members' accounts (in \$000)	126	42	91	39
LIABILITY FOR RETIREMENT BENEFITS (IN \$000)	35,251	30,287	51,481	46,758
NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)	1.37	1.39	1.41	1.48
	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020 000	2019 000	2020 000	2019 000
Units on issue at the beginning of the year (in number of units)	90,416	79,287	143,779	124,355
Units issued (in number of units)	31,799	19,659	49,721	33,969
Units redeemed (in number of units)	(9,504)	(8,530)	(18,534)	(14,545)
UNITS ON ISSUE AT THE END OF THE YEAR (IN NUMBER OF UNITS)	112,711	90,416	174,966	143,779
LIABILITY FOR RETIREMENT BENEFITS				
Balance at the beginning of the year (in \$000)	164,518	138,902	241,563	200,760
Change in accrued benefits (in \$000)	22,377	25,616	32,064	40,803
BALANCE AT THE END OF THE YEAR (IN \$000)	186,895	164,518	273,627	241,563
Represented by :				
Balance allocated to members' accounts (in \$000)	186,448	164,314	272,963	241,278
Balance not yet allocated to members' accounts (in \$000)	447	204	664	285
LIABILITY FOR RETIREMENT BENEFITS (IN \$000)	186,895	164,518	273,627	241,563
NET ASSETS AVAILABLE FOR BENEFITS PER UNIT (\$)	1.66	1.81	1.56	1.68

There were member contributions of \$663 323 (2019: \$284 855) received but not yet allocated at 31 March 2020. These were subsequently allocated as issued units in the following year.

Notes to the Financial Statements

For the year ended 31 March 2020

12. FEES AND EXPENSES

	INCOME STRATEGY		INFLATION STRATEGY	
	2020	2019	2020	2019
	€000	€000	€000	€000
Audit fees	3	2	4	4
Investment management fees	344	255	554	487
Expense reimbursements	-	27	-	43
Supervisor fees	10	8	16	14
Other expenses	-	-	1	-
TOTAL FEES AND EXPENSES	357	292	575	548

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020	2019	2020	2019
	€000	€000	€000	€000
Audit fees	15	14	22	20
Investment management fees	2,015	1,987	2,913	2,729
Expense reimbursements	-	154	-	224
Supervisor fees	57	50	83	72
Other expenses	4	-	5	-
TOTAL FEES AND EXPENSES	2,091	2,205	3,023	3,045

The total audit fees incurred by the Scheme include other assurance fees of \$1,750 net of GST.

13. PAYABLES

	INCOME STRATEGY		INFLATION STRATEGY	
	2020	2019	2020	2019
	€000	€000	€000	€000
Accruals	3	3	5	9
Administration fees payable	4	5	8	8
Benefits payable	76	67	52	102
Investment management fees payable	29	25	45	45
PIE tax payable	-	286	-	487
Supervisor fees payable	1	1	1	1
TOTAL PAYABLES	113	387	111	652

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020	2019	2020	2019
	€000	€000	€000	€000
Accruals	10	57	18	69
Administration fees payable	11	33	23	46
Benefits payable	127	169	255	338
Investment management fees payable	174	178	248	248
PIE tax payable	-	1,715	-	2,488
Supervisor fees payable	5	5	7	7
TOTAL PAYABLES	327	2,157	551	3,196

Notes to the Financial Statements

For the year ended 31 March 2020

14. RELATED PARTY

Overview

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

Underlying investment portfolios and their Trustee

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

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

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

TABLE 1

	PURCHASES		(REDEMPTIONS)		BALANCE OF INVESTMENTS	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000	2020 \$000	2019 \$000
Income Strategy	7,599	7,272	(3,252)	(2,329)	34,429	30,580
Inflation Strategy	8,340	8,808	(3,226)	(2,107)	50,276	47,286
Growth Strategy	41,271	27,498	(8,873)	(8,654)	181,899	166,294
TOTAL OF THE SCHEME	57,210	43,578	(15,351)	(13,090)	266,604	244,160

The Strategies have/had more than 50% direct ownership of certain Wholesale Trusts as at 31 March 2020 and 31 March 2019. Wholesale Trusts are resident in New Zealand and have a principal place of business in New Zealand. The Strategies' investments in the Wholesale Trusts as a percentage are

Table 1A

	INVESTMENT	PERCENTAGE OWNERSHIP	
		2020	2019
Income Strategy	Wholesale Investment Trust 1	100.0%	100.0%
Inflation Strategy	Wholesale Investment Trust 2	100.0%	100.0%
Growth Strategy	Wholesale Investment Trust 3	100.0%	100.0%

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

TABLE 2

	INCOME STRATEGY		INFLATION STRATEGY	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
Management fees incurred	344	255	554	487
Investment expense reimbursement incurred	-	27	-	43

	GROWTH STRATEGY		TOTAL OF THE SCHEME	
	2020 \$000	2019 \$000	2020 \$000	2019 \$000
Management fees incurred	2,015	1,987	2,913	2,729
Investment expense reimbursement incurred	-	154	-	224

Notes to the Financial Statements

For the year ended 31 March 2020

14. RELATED PARTY (CONTINUED)

The outstanding net investment management fees, expense reimbursements and manager's expense contributions as at 31 March 2020 and 31 March 2019 are payable or receivable on normal trading terms as follows:

TABLE 2A

Net amounts payable to NZ Funds at reporting date

INCOME STRATEGY		INFLATION STRATEGY	
2020	2019	2020	2019
\$000	\$000	\$000	\$000
29	27	45	49

Net amounts payable to NZ Funds at reporting date

GROWTH STRATEGY		TOTAL OF THE SCHEME	
2020	2019	2020	2019
\$000	\$000	\$000	\$000
174	193	248	269

Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. No related party debts were forgiven or written off during the year (2019: nil).

The Scheme does not employ key management personnel. Management services are provided by NZ Funds. The following is a summary of significant investment transactions in the Scheme during the year, and the investment balances in the Scheme as at 31 March 2020 and 31 March 2019, by key management personnel employed by NZ Funds, and their close family members.

TABLE 3

Income Strategy
Inflation Strategy
Growth Strategy
TOTAL OF THE SCHEME

BALANCE OF HOLDINGS		NET CONTRIBUTIONS/ (WITHDRAWALS)	
2020	2019	2020	2019
\$000	\$000	\$000	\$000
297	530	(378)	63
522	610	64	105
4,080	4,379	883	557
4,899	5,519	569	725

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

15. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

No significant capital commitments or contingent liabilities exist as at 31 March 2020 (2019: nil) for the Scheme.

16. VESTED BENEFITS

Vested benefits are benefits, the rights of which, under the conditions of the Scheme, are not conditional on continued membership. Vested benefits as at 31 March 2020 for the Income Strategy are \$35,250,642 (2019: \$30,287,278), Inflation Strategy are \$51,480,856 (2019: \$46,758,138) and the Growth Strategy are \$186,895,208 (2019: \$164,518,453).

Notes to the Financial Statements

For the year ended 31 March 2020

17. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of vested benefits (2019: nil).

18. MEMBERSHIP MOVEMENTS

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

	OPENING BALANCE	NEW MEMBERS	(WITH- DRAWALS)	CLOSING BALANCE
	1 April 2019			31 March 2020
Income Strategy	7,653	1,887	445	9,095
Inflation Strategy	7,608	1,783	452	8,939
Growth Strategy	7,807	1,849	466	9,190
TOTAL OF THE SCHEME	8,087	1,970	451	9,606

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

19. SUBSEQUENT EVENTS (COVID-19)

At 31 March 2020, financial markets were affected by the on-going COVID-19 pandemic and were unusually volatile. Actual economic events and conditions in the future may be materially different from those recorded at reporting date. In the event the impacts from the COVID-19 pandemic are more severe or prolonged than anticipated, this may have further adverse impacts to the fair values of the Strategies' investments. The financial statements have been prepared based upon conditions existing at 31 March 2020.

The latest available unaudited Net Asset Value Per Units as at 10 July 2020, this being the date the financial statements are authorised for issue, and as at 31 March 2020 are summarised in the following table. Movements in the fair value of investments at FVPL after reporting date are a non-adjusting

	10 July 2020 (Unaudited) \$000	31 March 2020 \$000
Income Strategy	1.45	1.37
Inflation Strategy	1.53	1.41
Growth Strategy	1.79	1.66

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