



# NZ Funds KiwiSaver Scheme Audited Financial Statements

For the period ended  
31 March 2022

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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, Growth and Balanced Strategy (each a "Strategy" and collectively the "Strategies", being the Strategies of the Scheme) on pages 5 to 26, which comprise the statement of net assets available for benefits of each Strategy and the Scheme as at 31 March 2022, and the statement of changes in net assets available for benefits and statement of cash flows for the period 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 26 present fairly, in all material respects, the financial position of each Strategy and the Scheme as at 31 March 2022 and their financial performance and cash flows for the period 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 period. 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.

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.



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## Investment Assets at Fair Value Through Profit or Loss (“FVTPL”)

### Why significant

- ▶ Each Strategy’s and the Scheme’s investment assets at FVTPL represents the significant majority of the respective Strategy’s and Scheme’s total assets.
- ▶ As disclosed in Note 4 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 as a whole, therefore the recognition and valuation of the investment assets at FVTPL is considered a key area of audit focus.
- ▶ Disclosures regarding each Strategy’s and the Scheme’s investment assets at FVTPL at 31 March 2022 are included in Notes 6 and 7 in 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 investment assets at FVTPL.
- ▶ For each Strategy’s and Scheme’s investment assets at FVTPL, we:
  - ▶ reconciled the recorded value of each investment asset at FVTPL to the net asset value of that investment taking into account the percentage ownership in that investment;
  - ▶ for a sample of investments held by each investment asset at FVTPL, obtained confirmation directly from the custodian, counterparty or investment manager of the investment held;
  - ▶ to provide evidence of the investment asset at FVTPLs’ net asset value:
    - ▶ for all listed and exchange traded investments, verified their exit prices at 31 March 2022 to independent sources;
    - ▶ for a sample of over the counter derivatives, engaged our valuation specialists to assess the inputs used in their valuation to information available from independent third party pricing sources;
    - ▶ for all unlisted managed funds, obtained confirmation directly from the investment manager of the net asset value per share and considered the latest audited financial statements in assessing this net asset value; and,
  - ▶ tested a sample of applications and redemptions by the Strategies and Scheme to gain evidence of the appropriateness of the recorded proportion of each investment asset at FVTPL held by each Strategy and the Scheme.
- ▶ Assessing whether the disclosures in the financial statements appropriately reflect each Strategy’s and the Scheme’s exposure to financial instrument risk with reference to NZ IFRS 7 *Financial Instruments: Disclosures*.



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### **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.

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 &amp; Young' is written in a black, cursive script font.

Chartered Accountants  
Auckland  
15 July 2022

Statement of changes in net assets available for benefits  
For the period ended 31 March 2022

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Interest income	-	-	-	-
Net gain/(loss) on financial instruments at fair value through profit or loss	1,963	8,866	(16,300)	36,492
<b>Total income</b>	<b>1,963</b>	<b>8,866</b>	<b>(16,300)</b>	<b>36,492</b>
Audit fees	(6)	(2)	(9)	(4)
Management fees and reimbursable expenses	(697)	(452)	(1,138)	(744)
Supervisor fees	(20)	(14)	(30)	(21)
<b>Total expenses</b>	<b>(723)</b>	<b>(468)</b>	<b>(1,177)</b>	<b>(769)</b>
<b>Net profit/(loss) before taxation</b>	<b>1,240</b>	<b>8,398</b>	<b>(17,477)</b>	<b>35,723</b>
Taxation expense	-	-	-	-
<b>Net profit/(loss) after taxation and total comprehensive income/(loss)</b>	<b>1,240</b>	<b>8,398</b>	<b>(17,477)</b>	<b>35,723</b>
Contributions received				
Employer contributions	2,171	1,611	2,600	1,937
Government contributions	742	416	847	569
Member contributions	5,918	4,201	7,587	5,387
Switches in	23,101	7,279	17,372	4,226
Transfers in from other schemes	11,715	20,625	20,725	14,942
<b>Total contributions and switches in</b>	<b>43,647</b>	<b>34,132</b>	<b>49,131</b>	<b>27,061</b>
Benefits paid:				
Administration fees	(58)	(39)	(50)	(35)
Withdrawals	(7,207)	(5,072)	(4,218)	(2,121)
PIE tax (expense)/income	1,948	(3,837)	4,164	(7,425)
Switches out	(4,430)	(3,087)	(3,240)	(1,610)
Transfers out to other schemes	(9,382)	(2,319)	(6,345)	(2,312)
<b>Total withdrawals and switches out</b>	<b>(19,129)</b>	<b>(14,354)</b>	<b>(9,689)</b>	<b>(13,503)</b>
<b>Net membership activities</b>	<b>24,518</b>	<b>19,778</b>	<b>39,442</b>	<b>13,558</b>
<b>Increase in net assets available for benefits</b>	<b>25,758</b>	<b>28,176</b>	<b>21,965</b>	<b>49,281</b>

The accompanying notes form part of these financial statements.



Statement of changes in net assets available for benefits  
For the period ended 31 March 2022

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Interest income	-	1	-	-	-	1
Net gain/(loss) on financial instruments at fair value through profit or loss	(117,771)	240,084	(44)	-	(132,152)	285,442
<b>Total income</b>	<b>(117,771)</b>	<b>240,085</b>	<b>(44)</b>	<b>-</b>	<b>(132,152)</b>	<b>285,443</b>
Audit fees	(48)	(20)	-	-	(63)	(26)
Management fees and reimbursable expenses	(5,361)	(3,197)	-	-	(7,196)	(4,393)
Supervisor fees	(133)	(84)	-	-	(183)	(119)
<b>Total expenses</b>	<b>(5,542)</b>	<b>(3,301)</b>	<b>-</b>	<b>-</b>	<b>(7,442)</b>	<b>(4,538)</b>
<b>Net profit/(loss) before taxation</b>	<b>(123,313)</b>	<b>236,784</b>	<b>(44)</b>	<b>-</b>	<b>(139,594)</b>	<b>280,905</b>
Taxation expense	-	-	-	-	-	-
<b>Net profit/(loss) after taxation and total comprehensive income/(loss)</b>	<b>(123,313)</b>	<b>236,784</b>	<b>(44)</b>	<b>-</b>	<b>(139,594)</b>	<b>280,905</b>
Contributions received						
Employer contributions	14,902	9,587	46	-	19,719	13,135
Government contributions	4,779	2,752	-	-	6,368	3,737
Member contributions	33,444	21,333	82	-	47,031	30,921
Switches in	5,579	3,780	3,374	-	49,426	15,285
Transfers in from other schemes	116,509	84,567	931	-	149,880	120,134
<b>Total contributions and switches in</b>	<b>175,213</b>	<b>122,019</b>	<b>4,433</b>	<b>-</b>	<b>272,424</b>	<b>183,212</b>
Benefits paid:						
Administration fees	(207)	(135)	-	-	(315)	(209)
Withdrawals	(10,956)	(5,375)	24	-	(22,357)	(12,568)
PIE tax (expense)/income	22,850	(35,964)	25	-	28,987	(47,226)
Switches out	(40,512)	(10,588)	(1,244)	-	(49,426)	(15,285)
Transfers out to other schemes	(34,525)	(11,029)	(523)	-	(50,775)	(15,660)
<b>Total withdrawals and switches out</b>	<b>(63,350)</b>	<b>(63,091)</b>	<b>(1,718)</b>	<b>-</b>	<b>(93,886)</b>	<b>(90,948)</b>
<b>Net membership activities</b>	<b>111,863</b>	<b>58,928</b>	<b>2,715</b>	<b>-</b>	<b>178,538</b>	<b>92,264</b>
<b>Increase in net assets available for benefits</b>	<b>(11,450)</b>	<b>295,712</b>	<b>2,671</b>	<b>-</b>	<b>38,944</b>	<b>373,169</b>

The accompanying notes form part of these financial statements.

Statement of net assets available for benefits  
As at 31 March 2022

In thousands of New Zealand dollars	Note	Income Strategy		Inflation Strategy	
		2022	2021	2022	2021
<b>Assets</b>					
Cash and cash equivalents		68	356	100	329
Receivables	4	49	136	94	130
Investment assets at fair value through profit or loss	7	92,163	65,231	126,658	104,619
<b>Total assets</b>		<b>92,280</b>	<b>65,723</b>	<b>126,852</b>	<b>105,078</b>
<b>Liabilities</b>					
Payables	5	3,095	2,296	4,125	4,316
<b>Net assets available for benefits</b>	<b>8</b>	<b>89,185</b>	<b>63,427</b>	<b>122,727</b>	<b>100,762</b>

For and on behalf of the Manager, New Zealand Funds Management Limited,  
who authorised the issue of these financial statements on 14th July 2022.



\_\_\_\_\_  
Director



\_\_\_\_\_  
Director

The accompanying notes form part of these financial statements.



**Statement of net assets available for benefits**  
**As at 31 March 2022**

In thousands of New Zealand dollars	Note	Growth Strategy 2022	2021	Balanced Fund 2022	2021	Total of the Scheme 2022	2021
<b>Assets</b>							
Cash and cash equivalents		582	2,380	69	-	819	3,065
Receivables	4	409	617	2	-	554	883
Investment assets at fair value through profit or loss	7	485,666	501,094	2,616	-	707,103	670,944
<b>Total assets</b>		<b>486,657</b>	<b>504,091</b>	<b>2,687</b>	<b>-</b>	<b>708,476</b>	<b>674,892</b>
<b>Liabilities</b>							
Payables	5	15,500	21,484	16	-	22,736	28,096
<b>Net assets available for benefits</b>	<b>8</b>	<b>471,157</b>	<b>482,607</b>	<b>2,671</b>	<b>-</b>	<b>685,740</b>	<b>646,796</b>

The accompanying notes form part of these financial statements.

**Statement of cash flows**  
**For the period ended 31 March 2022**

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
<b>Cash flows from operating activities</b>				
<b>Cash was provided from:</b>				
Interest income	-	-	-	-
Sale of investment assets at fair value through profit or loss	11,601	5,487	8,431	5,705
	<b>11,601</b>	<b>5,487</b>	<b>8,431</b>	<b>5,705</b>
<b>Cash was applied to:</b>				
Management fees	676	430	1,113	701
Supervisor fees	19	13	29	19
Other expenses	4	3	6	5
Purchase of investment assets at fair value through profit or loss	36,434	27,373	46,641	23,493
Payments for unallocated investment subscriptions	49	136	94	130
	<b>37,182</b>	<b>27,955</b>	<b>47,883</b>	<b>24,348</b>
<b>Net cash flows used in operating activities</b>	<b>(25,581)</b>	<b>(22,468)</b>	<b>(39,452)</b>	<b>(18,643)</b>
<b>Cash flows from financing activities</b>				
<b>Cash was provided from:</b>				
Employer contributions	2,171	1,611	2,600	1,937
Government contributions	742	416	847	569
Member contributions	5,918	4,201	7,587	5,387
Switches in	23,101	7,279	17,372	4,226
Transfers in from other schemes	11,715	20,625	20,725	14,942
	<b>43,647</b>	<b>34,132</b>	<b>49,131</b>	<b>27,061</b>
<b>Cash was applied to:</b>				
Administration fees	58	40	51	37
Withdrawals	7,220	5,009	4,190	2,104
PIE tax receipts	(2,736)	995	(3,918)	2,115
Switches out	4,430	3,087	3,240	1,610
Transfers out to other schemes	9,382	2,319	6,345	2,312
	<b>18,354</b>	<b>11,450</b>	<b>9,908</b>	<b>8,178</b>
<b>Net cash flows from financing activities</b>	<b>25,293</b>	<b>22,682</b>	<b>39,223</b>	<b>18,883</b>
Net increase/(decrease) in cash and cash equivalents	(288)	214	(229)	240
Cash at beginning of year	356	142	329	89
<b>Closing cash and cash equivalents carried forward</b>	<b>68</b>	<b>356</b>	<b>100</b>	<b>329</b>

The accompanying notes form part of these financial statements.

Statement of cash flows  
For the period ended 31 March 2022

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
<b>Reconciliation of changes in net assets available for benefits to cash flows from operating activities</b>				
Net profit/(loss) after taxation	1,240	8,398	(17,477)	35,723
Add/(less) net losses/(gains) on financial instruments at fair value through profit or loss	(1,963)	(8,866)	16,300	(36,492)
<b>Add/(less) movements in working capital items:</b>				
Increase in investment assets at fair value through profit or loss	(24,969)	(21,936)	(38,339)	(17,852)
(Increase) in receivables	87	(88)	36	(67)
Increase/(decrease) in payables	24	24	28	45
<b>Net cash flows used in operating activities</b>	<b>(25,581)</b>	<b>(22,468)</b>	<b>(39,452)</b>	<b>(18,643)</b>

**Statement of cash flows**  
For the period ended 31 March 2022

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
<b>Cash flows from operating activities</b>						
<b>Cash was provided from:</b>						
Interest income	-	1	-	-	-	1
Sale of investment assets at fair value through profit or loss	65,281	28,056	1,471	-	86,784	39,248
	<b>65,281</b>	<b>28,057</b>	<b>1,471</b>	<b>-</b>	<b>86,784</b>	<b>39,249</b>
<b>Cash was applied to:</b>						
Management fees	5,349	2,919	-	-	7,138	4,050
Supervisor fees	134	77	-	-	182	109
Other expenses	29	20	-	-	39	28
Purchase of investment assets at fair value through profit or loss	167,006	106,813	4,131	-	254,212	157,679
Payments for unallocated investment subscriptions	409	617	2	-	554	883
	<b>172,927</b>	<b>110,446</b>	<b>4,133</b>	<b>-</b>	<b>262,125</b>	<b>162,749</b>
<b>Net cash flows used in operating activities</b>	<b>(107,646)</b>	<b>(82,389)</b>	<b>(2,662)</b>	<b>-</b>	<b>(175,341)</b>	<b>(123,500)</b>
<b>Cash flows from financing activities</b>						
<b>Cash was provided from:</b>						
Employer contributions	14,902	9,587	46	-	19,719	13,135
Government contributions	4,779	2,752	-	-	6,368	3,737
Member contributions	33,444	21,333	82	-	47,031	30,921
Switches in	5,579	3,780	3,374	-	49,426	15,285
Transfers in from other schemes	116,509	84,567	931	-	149,880	120,134
	<b>175,213</b>	<b>122,019</b>	<b>4,433</b>	<b>-</b>	<b>272,424</b>	<b>183,212</b>
<b>Cash was applied to:</b>						
Administration fees	209	117	-	-	318	194
Withdrawals	11,006	5,254	(22)	-	22,394	12,367
PIE tax receipts	(16,886)	10,766	(41)	-	(23,581)	13,876
Switches out	40,512	10,588	1,242	-	49,424	15,285
Transfers out to other schemes	34,524	11,029	523	-	50,774	15,660
	<b>69,365</b>	<b>37,754</b>	<b>1,702</b>	<b>-</b>	<b>99,329</b>	<b>57,382</b>
<b>Net cash flows from financing activities</b>	<b>105,848</b>	<b>84,265</b>	<b>2,731</b>	<b>-</b>	<b>173,095</b>	<b>125,830</b>
Net increase/(decrease) in cash and cash equivalents	(1,798)	1,876	69	-	(2,246)	2,330
Cash at beginning of year	2,380	504	-	-	3,065	735
<b>Closing cash and cash equivalents carried forward</b>	<b>582</b>	<b>2,380</b>	<b>69</b>	<b>-</b>	<b>819</b>	<b>3,065</b>

The accompanying notes form part of these financial statements.

**Statement of cash flows**  
**For the period ended 31 March 2022**

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
<b>Reconciliation of changes in net assets available for benefits to cash flows from operating activities</b>						
Net profit/(loss) after taxation	(123,313)	236,784	(44)	-	(139,594)	280,905
Add/(less) net losses/(gains) on financial instruments at fair value through profit or loss	117,771	(240,084)	44	-	132,152	(285,442)
<b>Add/(less) movements in working capital items:</b>						
Increase in investment assets at fair value through profit or loss	(102,343)	(79,112)	(2,660)	-	(168,311)	(118,900)
(Increase) in receivables	209	(262)	(2)	-	330	(417)
Increase/(decrease) in payables	30	285	-	-	82	354
<b>Net cash flows used in operating activities</b>	<b>(107,646)</b>	<b>(82,389)</b>	<b>(2,662)</b>	<b>-</b>	<b>(175,341)</b>	<b>(123,500)</b>



## Notes to the financial statements For the period ended 31 March 2022

### 1. Reporting entities

The reporting entity is the NZ Funds KiwiSaver Scheme ('the Scheme') which comprises the Income Strategy; the Inflation Strategy; the Growth Strategy and the Balanced Fund ('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').

The Balanced Fund was established on 26 August 2021 and commenced operations on 31 August 2021. The financial statements of the Balanced Fund cover the period from 31 August 2021 (the Commencement Date) to 31 March 2022.

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 five investment options: three actively managed funds (Income Strategy, Inflation Strategy, and Growth Strategy), a passively managed fund (Balanced Fund) 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.

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

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. Significant accounting policies

#### a) Basis of preparation

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').

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.

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.

The statement of net assets available for benefits is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

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.



Notes to the financial statements  
For the period ended 31 March 2022

2. Significant accounting policies (continued)

- b) Interest income  
Interest income is recognised using the effective interest method.
- c) Net gain/(loss) on financial instruments at fair value through profit or loss  
Net gain/(loss) on financial instruments at fair value through profit or loss comprise gains less losses related to investment assets. This includes all realised and unrealised fair value changes and foreign exchange differences.
- d) 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.
- e) 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.
- f) Accounting 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.  
  
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.
- g) 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.

**Notes to the financial statements**  
**For the period ended 31 March 2022**

**3. Amendment to the trust deed**

A supplemental trust deed establishing the Balanced Fund was executed 26 August 2021.

**4. Financial assets**

Financial assets are initially recognised at fair value plus, in case of a financial asset not at fair value through profit or loss, transaction costs. Transaction costs relating to the acquisition and incurrence of financial instruments at fair value through profit or loss are recognised in profit or loss as incurred.

The Scheme's financial assets, at initial recognition, are classified as subsequently measured at fair value through profit or loss or amortised cost.

Financial assets at fair value through profit or loss include investment assets at fair value through profit or loss.

Investment assets at fair value through profit or loss comprise of investments in the unlisted unit trusts or managed funds 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 ('the Wholesale Trust'). All investment assets are measured at fair value, with gains or losses recognised in the Statement of Changes in Net Assets Available for Benefits. Such financial assets are included in this category because they are not held within a business model whose objective is to either collect the contractual cash flow, or collect contractual cash flows and sell the financial assets. I.e., they are mandatorily measured at fair value through profit or loss. Purchases and sales of investments are recognised on the trade date, the date on which the Scheme commits to purchase or sell the investment.

Financial assets at amortised cost include cash and cash equivalents and receivables from other unit trusts.

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

Financial assets at amortised cost are measured at amortised cost using the effective interest method less the provision for expected credit losses (ECL). A general approach is applied by the Schemes in calculating an allowance for expected credit losses. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months. For credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure.

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Unallocated investment in wholesale units	49	136	94	130
<b>Total receivables</b>	<b>49</b>	<b>136</b>	<b>94</b>	<b>130</b>

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Unallocated investment in Wholesale units	409	617	2	-	554	883
<b>Total receivables</b>	<b>409</b>	<b>617</b>	<b>2</b>	<b>-</b>	<b>554</b>	<b>883</b>

**5. Financial liabilities**

Financial liabilities are initially recognised at fair value plus or minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs directly attributable to their acquisition or issue. Transaction costs are expensed in profit or loss as incurred.

The Scheme's financial liabilities, at initial recognition, are classified as subsequently measured at amortised cost.

Financial liabilities at amortised costs include amounts payable to the Supervisor, the Manager, other service providers, payables to other unit trusts and other accruals. These liabilities are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of changes in net assets available for benefits when the liabilities are derecognised, as well as through the amortisation process.

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Accruals	5	2	8	5
Administration fees payable	5	5	5	5
Benefits payable	125	138	96	69
Investment management fees payable	72	52	113	89
PIE tax payable	2,886	2,097	3,900	4,145
Supervisor fees payable	2	2	3	3
<b>Total payables</b>	<b>3,095</b>	<b>2,296</b>	<b>4,125</b>	<b>4,316</b>



Notes to the financial statements  
For the period ended 31 March 2022

5. Financial liabilities (continued)

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Accruals	41	14	-	-	54	21
Administration fees payable	30	30	-	-	40	40
Benefits payable	198	248	-	-	419	455
Investment management fees payable	450	445	-	-	635	586
PIE tax payable	14,769	20,734	16	-	21,571	26,976
Supervisor fees payable	12	13	-	-	17	18
<b>Total payables</b>	<b>15,500</b>	<b>21,484</b>	<b>16</b>	<b>-</b>	<b>22,736</b>	<b>28,096</b>

6. 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 Strategies are unable to meet payment obligations when due.

In the investment management of the Scheme and the Wholesale Trusts, NZ Funds uses an active management approach. The active management approach is designed to better meet the unitholder-orientated objectives of each Strategy and to take advantage of investment opportunities as they arise. NZ Funds' active management approach means it makes ongoing investment decisions, searches for emerging opportunities, buying or selling securities as deemed appropriate, and uses sophisticated instruments and techniques in seeking to achieve the investment objective of each Strategy.

Dynamic asset allocation

As part of NZ Funds' active management approach, each Strategy's asset allocation is dynamic (able to change over time) rather than strategic (a fixed allocation over time). Each Strategy has a target investment mix which represents the long-term asset allocation for that Strategy. NZ Funds considers variances from the target investment mix should opportunities present to enhance return or minimise risk over the short to medium term. NZ Funds regularly reviews the target investment mix for each of the Strategies to ensure that it continues to represent the long-term asset allocation of that Strategy.

NZ Funds' Investment team selects each Strategy's asset allocation at any time based on their investment knowledge and/or research, and considering each Strategy's investment objective and timeframe. Securities, currencies, commodities, derivatives and specialist investment managers can be used (where included in the authorised asset classes for a Strategy) to achieve a desired Strategy asset allocation. The way NZ Funds implements its active management approach may change over time as, for example, the nature of the investment opportunities it sees changes. This may result in the Strategies being constructed with different combinations of investments. To allow these changes to occur, each Strategy has a wide mandate.

Active risks

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

Wide investment mandates

All Strategies have wide investment mandates. This means that while there may be long-term target asset allocations for the Strategies, in managing each Strategy, NZ Funds can take a wide range of actions and is not constrained by a benchmark or target. The actions NZ Funds may take include (but are not limited to):

- (i) altering the proportion invested in each security or asset class;
- (ii) altering the manner in which a Strategy is exposed to each security or asset class;
- (iii) investing directly or indirectly;
- (iv) using derivatives and leverage;
- (v) using collective investment vehicles;
- (vi) using specialist investment managers (including hedge funds);
- (vii) using commodities and alternative assets (including digital assets, such as cryptocurrencies);
- (viii) taking foreign currency positions;
- (ix) applying hedging; or
- (x) taking short positions.

## Notes to the financial statements For the period ended 31 March 2022

### 6. Financial instruments and risk management (continued)

#### a) Overview (continued)

##### Investment managers

NZ Funds may select specialist investment managers (including hedge funds) where it considers that the manager's investment approach will help meet the objectives of the Strategies. Specialist investment managers can complement NZ Funds' own investment skills and can provide unitholders with access to diverse investment approaches.

The appointment of specialist investment managers is subject to due diligence and an approval process. In addition, all specialist investment managers are subject to monitoring and review, including consideration of the manager's performance, portfolio composition, and statistical measures of effectiveness. The specialist investment managers may change over time as part of NZ Funds' active management approach. The current specialist investment managers NZ Funds works with can be found on its website at [www.nzfunds.co.nz](http://www.nzfunds.co.nz).

##### Derivatives

NZ Funds uses leverage (via derivatives) in managing the Strategies to seek to both increase returns (by taking active positions) and reduce risk (by taking hedge positions). The use of leverage may increase or decrease the risk of a Strategy. The use of leverage is managed through NZ Funds' active management approach and through the processes and policies surrounding its investment guidelines. The investment guidelines include estimates of the leverage that may be used in each authorised asset class. However, leverage is only used in seeking to achieve each Strategy's investment objective.

##### Foreign Currency

NZ Funds actively manage the foreign currency exposure 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 dollar or retain a foreign currency exposure. Irrespective of whether a Strategy holds investments in that currency, a Strategy can also take active foreign currency positions by investing in non-New Zealand dollar cash or foreign currency derivatives.

##### Collaborative process

NZ Funds take 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 members of 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.

Not all investment decisions follow the same investment process. For example, trading derivatives may require investment individuals to react quickly and autonomously. NZ Funds has a process to monitor and record such investments when they occur.

##### 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 may invest with specialist investment managers, some of which have the potential to profit from asset price declines, such as trend following managers, managers who take short positions in 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 in one or more additional asset classes with the potential to offset the returns of the Strategy's initial assets.

While designed to mitigate the downside, these downside-orientated managers, tools and techniques may not be successful in mitigating the downside and may instead add to a Strategy's losses. NZ Funds may also use the same tools and techniques to seek to enhance the returns of a Strategy and, in doing so, the Strategy may be leveraged.

##### Strategy construction

As part of NZ Funds' active management, asset classes, securities and specialist investment managers are selected based on NZ Funds' analysis of those assets which will, in its opinion, in combination with the Strategy's other investments, help achieve the Strategy's objectives. 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 and may periodically revisit the assumptions used as economic and market conditions change.



## Notes to the financial statements For the period ended 31 March 2022

### 6. Financial instruments and risk management (continued)

#### a) Overview (continued)

##### Balanced Fund

NZ Funds uses a passive investment approach when managing the Balanced Fund. This approach allocates funds using a combination of local and international indices. NZ Funds may choose to modify those indices or choose different indices to ensure the Balanced Fund meets NZ Funds' responsible investment policy. The Balanced Fund's investment mandate allows NZ Funds to take a variety of actions to manage the fund. The actions NZ Funds may take include (but are not limited to):

- (i) investing directly or indirectly;
- (ii) using derivatives; or
- (iii) applying hedging.

The Balanced Fund may also use derivatives to gain exposure to asset classes but does not use derivatives to create leverage. Where the Balanced Fund holds assets denominated in a foreign currency, NZ Funds hedges the foreign currency exposure of international fixed interest and Australian equities back to the New Zealand dollar, while international equities and/or international equity market futures are held in international currencies.

NZ Funds uses a passive investment approach in managing the Balanced Fund meaning it seeks to replicate the performance of chosen indices. It targets a 50% allocation to bonds and 50% allocation to shares. The actual investment mix may deviate from the target allocation from time to time, due to factors such as funds flows or movements in securities prices. NZ Funds may allocate funds in line with the chosen indices by investing directly via a wholesale fund, via an index tracking futures contract or via an index tracking fund. The performance of the Balanced Fund may not replicate the chosen indices due to the practicalities of investment management, including the timing of purchases and sales, funds flows, liquidity and in order to meet NZ Funds' responsible investment policy.

##### Capital management

Capital is represented by the Net Assets of the Strategy. The Strategies are not subject to externally imposed capital requirements. Capital is managed through the risk management procedures as follows.

#### b) Risk mitigation structure

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

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

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

NZ Funds' investment strategy review process commences with the Research & Portfolio Meeting which includes oversight 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. Any material matters arising from these meetings are raised at the Investment Committee meeting.

Overall responsibility for investment process review and monitoring rests with the Investment Committee under delegated authority from the NZ Funds Board. The Investment Committee meets regularly on scheduled dates to review investment matters including investment performance, risk indicators, 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. Special meetings are also held on an as required basis. The Investment Committee minutes are included as a standing item at the NZ Funds Board meeting.

The NZ Funds Board meets regularly on scheduled dates. Special Board Meetings to discuss specific matters are held on an as required basis. In addition to the Investment Committee minutes and associated reports, the NZ Funds Board reviews NZ Funds' risk register overview 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 at each meeting.

##### Investment guidelines

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 timeframe. The guidelines set out the ranges within which each Strategy will usually (but not always) invest in each authorised asset class, and also address other investment matters such as the ability of a Strategy to use leverage and the level of liquidity that a Strategy will target. The internal investment guidelines can be exceeded from time to time over the course of an economic cycle.

The exceeding of an investment guideline, or a deviation from the target investment mix for a Strategy, does not amount to a limit break. However, the purchase of an unauthorised asset class constitutes a SIPO limit break. Guidelines, and any changes to them, must be approved by the Investment Committee and ratified by the NZ Funds Board.

##### 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. Performance is measured on an absolute basis (after fees), and on a relative basis (before fees) against term deposits and one or more, or a combination of, relevant market indices. Investment performance is also considered from a unitholder's perspective by taking recommended portfolio allocations into account when assessing performance outcomes.

Notes to the financial statements  
For the period ended 31 March 2022

6. Financial instruments and risk management (continued)

c) Risk measurement

The Scheme's risks are measured by:

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

d) Market risk

The Scheme identifies three components of market risk: interest rate risk, currency risk and equity price risk. NZ Funds manage these risks by ensuring that all investment activities are transacted in accordance with established policies and procedures.

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

The Scheme's exposure to investment in the Wholesale Trusts is set out in Note 9 *Related party*.

(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 investment assets. NZ Funds actively monitors the currency risk exposure and takes actions as necessary.

The Scheme has no direct currency exposure in the current year (2021: 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 investment assets.

Sensitivity to the 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.

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
	2022 %	2022 \$000	2022 \$000	2021 %	2021 \$000	2021 \$000
Income Strategy	6.2	5,696	(5,696)	4.0	2,629	(2,629)
Inflation Strategy	12.8	16,149	(16,149)	10.7	11,205	(11,205)
Growth Strategy	18.8	91,257	(91,257)	15.5	77,670	(77,670)
Balanced Fund	7.5	197	(197)	-	-	-
<b>Total of the Scheme</b>		<b>113,299</b>	<b>(113,299)</b>		<b>91,504</b>	<b>(91,504)</b>

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 period ended 31 March 2022**

6. Financial instruments and risk management (continued)

(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, holding investment assets and cash and cash equivalents. Interest rate risk is addressed within equity risk. NZ Funds actively monitors interest rate risk exposure. This includes regular review of interest rates applicable to cash balances. The Scheme has no significant direct investments subject to interest rate risk.

e) Credit risk

The Scheme's cash and cash equivalent are not past due or impaired. No ECL allowance has been recorded for the Scheme's receivables. The carrying amount of these assets best represents their maximum credit risk exposure at balance date

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 AA-. The Scheme's remaining assets are with unrated counterparties.

Direct credit risk

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
<b>Breakdown of credit exposure</b>				
Cash and cash equivalents	68	356	100	329
Receivables	49	136	94	130
<b>Total credit exposure net of provision for impairment</b>	<b>117</b>	<b>492</b>	<b>194</b>	<b>459</b>

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
<b>Breakdown of credit exposure</b>						
Cash and cash equivalents	582	2,380	69	-	819	3,065
Receivables	409	617	2	-	554	883
<b>Total credit exposure net of provision for impairment</b>	<b>991</b>	<b>2,997</b>	<b>71</b>	<b>-</b>	<b>1,373</b>	<b>3,948</b>

f) Liquidity risk

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.

Notes to the financial statements  
For the period ended 31 March 2022

6. Financial instruments and risk management (continued)

f) Liquidity risk (continued)

As set out in Note 8 *Net assets available for 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.

Contractual maturity analysis of financial assets and financial liabilities

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
<b>Financial assets</b>				
On demand/due within 30 days				
Cash and cash equivalents	68	356	100	329
Receivables	49	136	94	130
Investment assets at fair value through profit or loss	92,163	65,231	126,658	104,619
<b>Total</b>	<b>92,280</b>	<b>65,723</b>	<b>126,852</b>	<b>105,078</b>
<b>Financial liabilities</b>				
On demand/due within 30 days				
Payables	3,095	2,296	4,125	4,316
<b>Total</b>	<b>3,095</b>	<b>2,296</b>	<b>4,125</b>	<b>4,316</b>

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
<b>Financial assets</b>						
On demand/due within 30 days						
Cash and cash equivalents	582	2,380	69	-	819	3,065
Receivables	409	617	2	-	554	883
Investment assets at fair value through profit or loss	485,666	501,094	2,616	-	707,103	670,944
<b>Total</b>	<b>486,657</b>	<b>504,091</b>	<b>2,687</b>	<b>-</b>	<b>708,476</b>	<b>674,892</b>
<b>Financial liabilities</b>						
On demand/due within 30 days						
Payables	15,500	21,484	16	-	22,736	28,096
<b>Total</b>	<b>15,500</b>	<b>21,484</b>	<b>16</b>	<b>-</b>	<b>22,736</b>	<b>28,096</b>

**Notes to the financial statements**  
**For the period ended 31 March 2022**

**7. Fair valuation of financial instruments**

Investment assets and derivatives recognised at fair value are categorised according to the fair value hierarchy that show the extent of judgment used in determining their fair value. The techniques used by the Scheme to value its financial instruments at 31 March 2022 are consistent with the prior year and remain as follows:

Level 1: Fair value of financial instruments is based on the last quoted price (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value for financial instruments that are either unlisted or listed but not in active markets is based on valuation techniques. The Scheme's investment assets and some derivatives are classified as Level 2. The Scheme has direct 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. OTC foreign exchange forward contracts are valued using discounted cash flow models.

Level 3: Fair value of financial instruments where no observable market data for significant inputs is available is based on the valuation techniques. The Scheme does not have direct investments in financial instruments classified as Level 3.

The Scheme does not have direct investments in financial instruments classified as Level 3. There were no transfers between Level 2 and Level 3 during the reporting period.

**Level 2 investment**

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy		Growth Strategy		Balanced Fund		Total of the Scheme	
	Level 2		Level 2		Level 2		Level 2		Level 2	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Investment assets at fair value through profit or loss:										
Unlisted unit trusts	92,163	65,231	126,658	104,619	485,666	501,094	2,616	-	707,103	670,944



Notes to the financial statements  
For the period ended 31 March 2022

8. Net assets available for benefits

Net assets available for benefits is represented by the assets less liabilities other than 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.

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 20 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.

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Units on issue at the beginning of the year (in number of units)	38,895	25,807	44,592	36,448
Units issued (in number of units)	32,349	22,631	29,341	15,418
Units redeemed (in number of units)	(16,099)	(9,543)	(9,458)	(7,274)
Units on issue at the end of the year (in number of units)	55,145	38,895	64,475	44,592
<b>Net assets available for benefits</b>				
Balance at the beginning of the year (in \$000)	63,427	35,251	100,762	51,481
Change in accrued benefits (in \$000)	25,758	28,176	21,965	49,281
Balance at the end of the year (in \$000)	89,185	63,427	122,727	100,762
<b>Represented by :</b>				
Balance allocated to members' accounts (in \$000)	89,185	63,096	122,727	100,489
Balance not yet allocated to members' accounts (in \$000)	-	331	-	273
Net assets available for benefits (in \$000)	89,185	63,427	122,727	100,762
Net assets available for benefits per unit (\$)	1.62	1.63	1.90	2.26

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Units on issue at the beginning of the year (in number of units)	139,889	112,711	-	-	223,376	174,966
Units issued (in number of units)	73,082	52,597	4,599	-	139,371	90,646
Units redeemed (in number of units)	(34,745)	(25,419)	(1,842)	-	(62,144)	(42,236)
Units on issue at the end of the year (in number of units)	178,226	139,889	2,757	-	300,603	223,376
<b>Net assets available for benefits</b>						
Balance at the beginning of the year (in \$000)	482,607	186,895	-	-	646,796	273,627
Change in accrued benefits (in \$000)	(11,450)	295,712	2,671	-	38,944	373,169
Balance at the end of the year (in \$000)	471,157	482,607	2,671	-	685,740	646,796
<b>Represented by :</b>						
Balance allocated to members' accounts (in \$000)	471,157	480,514	2,671	-	685,740	644,099
Balance not yet allocated to members' accounts (in \$000)	-	2,093	-	-	-	2,697
Net assets available for benefits (in \$000)	471,157	482,607	2,671	-	685,740	646,796
Net assets available for benefits per unit (\$)	2.64	3.45	0.97	-	2.28	2.90

There were member contributions of \$2,992,811 (2021: \$2,696,983) received but not yet allocated at 31 March 2022. These were subsequently allocated as issued units in the following year.

Notes to the financial statements  
For the period ended 31 March 2022

9. 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:

	Purchases		(Redemptions)		Balance of investments	
	2022	2021	2022	2021	2022	2021
Income Strategy	36,434	27,373	(11,601)	(5,487)	92,163	65,231
Inflation Strategy	46,641	23,493	(8,431)	(5,705)	126,658	104,619
Growth Strategy	167,006	106,813	(65,281)	(28,056)	485,666	501,094
Balanced Fund	4,131	-	(1,471)	-	2,616	-
<b>Total of the Scheme</b>	<b>254,212</b>	<b>157,679</b>	<b>(86,784)</b>	<b>(39,248)</b>	<b>707,103</b>	<b>670,944</b>

The Wholesale Trusts are resident in New Zealand and have a principal place of business in New Zealand and the following Strategies have/had equal to or more than a 50% ownership of certain Wholesale Trusts. These Strategies' investments in the Wholesale Trusts as a percentage are detailed in Table 1A below:

	Investment	Percentage ownership	
		2022	2021
Income Strategy	Wholesale Investment Trust 1	100%	100%
Inflation Strategy	Wholesale Investment Trust 2	100%	100%
Growth Strategy	Wholesale Investment Trust 3	100%	100%
Balanced Fund	Wholesale Investment Trust 3	100%	0%

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.

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

Table 2

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Management fees incurred	676	451	1,107	743
Investment expense reimbursement incurred	21	1	31	1

  

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Management fees incurred	5,221	3,191	-	-	7,004	4,385
Investment expense reimbursement incurred	140	6	-	-	192	8



Notes to the financial statements  
For the period ended 31 March 2022

9. Related party (continued)

The outstanding net investment management fees, expense reimbursements and manager's expense contributions as at 31 March 2022 and 31 March 2021 are payable or receivable on normal trading terms as follows:

Table 2A

In thousands of New Zealand dollars	Income Strategy		Inflation Strategy	
	2022	2021	2022	2021
Net amount (payable to)/receivable from NZ Funds at reporting date	72	52	112	89

In thousands of New Zealand dollars	Growth Strategy		Balanced Fund		Total of the Scheme	
	2022	2021	2022	2021	2022	2021
Net amount (payable to)/receivable from NZ Funds at reporting date	450	445	-	-	634	586

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 (2021: 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, by key management personnel employed by NZ Funds, and their close family members.

Table 3

In thousands of New Zealand dollars	Balance of holdings		Net contributions/ (withdrawals)	
	2022	2021	2022	2021
Income Strategy	821	410	372	5
Inflation Strategy	1,067	785	384	(122)
Growth Strategy	6,990	8,424	530	(555)
Balanced Fund	-	-	2	-
<b>Total of the Scheme</b>	<b>8,878</b>	<b>9,619</b>	<b>1,288</b>	<b>(672)</b>

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

10. Capital commitments and contingent liabilities

No significant capital commitments or contingent liabilities exist as at 31 March 2022 (2021: nil) for the Scheme.

11. 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 2022 for the Income Strategy are \$89,185,468.71 (2021: \$63,427,012), Inflation Strategy are \$122,726,726.18 (2021: \$100,761,375), the Growth Strategy are \$471,155,946.02 (2021: \$482,607,133) and the Balanced Fund are \$2,671,491.99 (2021: nil).

12. Guarantees

No guarantees exist as at 31 March 2022 for the Scheme (2021: nil).



Notes to the financial statements  
For the period ended 31 March 2022

13. Membership movements

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

	Opening balance 1 April 2021	New members	(With- drawls)	Closing balance 31 March 2022
Income Strategy	13,655	4,358	1,598	16,415
Inflation Strategy	12,976	4,378	1,375	15,979
Growth Strategy	14,375	5,179	1,653	17,901
Balanced Fund	-	117	8	109
<b>Total of the Scheme</b>	<b>41,006</b>	<b>14,032</b>	<b>4,634</b>	<b>50,404</b>
	Opening balance 1 April 2020	New members	(With- drawls)	Closing balance 31 March 2021
Income Strategy	9,095	5,293	733	13,655
Inflation Strategy	8,939	4,712	675	12,976
Growth Strategy	9,190	5,883	698	14,375
Balanced Fund	-	-	-	-
<b>TOTAL OF THE SCHEME</b>	<b>27,224</b>	<b>15,888</b>	<b>2,106</b>	<b>41,006</b>

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.

14. Subsequent events

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

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