2018 UNISAVER NEW ZEALAND FINANCIAL STATEMENTS

For the year ended 31 December 2018

Contents

UNISAVER NEW ZEALAND

STATEMENT OF NET ASSETS

As at 31 December 2018

	Note	$ 2018	$ 2017
Assets			
Cash at bank		5,929,229	1,449,010
Investments	6	1,000,972,146	1,004,987,159
Accrued income		393,318	240,000
Prepayments		24,403	24,804
Total assets		1,007,319,096	1,006,700,973
Liabilities			
Sundry creditors		431,997	477,407
Contributions refundable – member		1,483	878
Contributions refundable – employer		938	87
Benefits payable		137,119	40,145
Current tax payable		2,403,372	4,675,992
Deferred tax liability	8	193,716	748,721
Total liabilities		3,168,625	5,943,230
Net assets available to pay benefits		1,004,150,471	1,000,757,743
Net assets available to pay benefits			
Represented by:	4 & 5		
Member standard account		604,590,119	596,634,219
Employer standard account		399,560,349	404,123,003
Reserve account	10	3	521
		1,004,150,471	1,000,757,743

For and on behalf of the trustee, UniSaver Limited, who authorised the issue of these financial statements.

Director **Malcolm Johnson** 22 March 2019

Director **Wayne Morgan** 22 March 2019

This statement is to be read in conjunction with the notes on pages 6 to 17

	Note	$ 2018	$ 2017
Investment activities			
Investment income			
(Losses)/gains on financial assets at fair value through profit and loss	7	(58,242,843)	30,401,629
Interest		54,142	45,799
Distribution income	7	22,152,089	96,592,955
		(36,036,612)	127,040,383
Investment expenses			
Investment manager fees		(2,320,619)	(3,434,735)
Investment manager fee rebates		2,317,460	1,234,637
Net investment income	4	(36,039,771)	124,840,285
Other income			
Use of money interest		1,550	23,479
Sundry income		50	53,519
		1,600	76,998
Other expenses			
Administration and actuarial fees		572,608	521,834
Superannuation and investment consulting fees		149,061	162,405
Auditor’s remuneration – audit of financial statements		25,961	26,033
Auditor’s remuneration – audit of registry		–	3,924
Auditor’s remuneration – audit of custodian		–	12,968
Tax agent fees		57,930	76,188
Communication expenses		160,527	101,725
Legal fees		126,921	172,106
Directors’ remuneration		128,848	123,997
Other trustee expenses		39,492	28,172
FMA subscriptions		113,508	1,543
Other expenses		16,673	30,256
Total other expenses		1,391,529	1,261,151
Change in net assets before taxation and membership activities		(37,429,700)	123,656,132
Income tax expense	8	6,918,570	9,434,004
Change in net assets after taxation and before membership activities (carried forward)		(44,348,270)	114,222,128

This statement is to be read in conjunction with the notes on pages 6 to 17

	Note	$ 2018	$ 2017
Change in net assets after taxation and before membership activities (brought forward)		(44,348,270)	114,222,128
Membership activities			
Contributions			
Member contributions		49,784,059	43,540,086
Employer contributions		35,715,718	32,412,715
Member tax credits		1,761,014	1,619,635
Transfers from other schemes		70,012	276,951
Total contributions		87,330,803	77,849,387
Benefits paid			
Retirement		9,296,566	11,875,582
Withdrawals		22,851,755	15,279,760
Redundancy		4,908,513	1,539,122
Death and permanent incapacity		2,505,907	1,136,433
Transfers to other schemes		27,064	100,914
Total benefits paid		39,589,805	29,931,811
Net membership activities		47,740,998	47,917,576
Net (decrease)/increase in net assets during year		3,392,728	162,139,704
Net assets available for benefits at beginning of year		1,000,757,743	838,618,039
Net assets available to pay benefits at end of year		1,004,150,471	1,000,757,743

This statement is to be read in conjunction with the notes on pages 6 to 17

	Note	$ 2018	$ 2017
Cash flows from operating activities			
Cash provided from:			
Member contributions		49,784,664	43,540,329
Employer contributions		35,716,569	32,413,137
Employee tax credits		1,761,014	1,619,635
Transfers from other funds		70,012	276,951
Interest received		53,947	45,464
Sundry income		50	54,218
		87,386,256	77,949,734
Cash applied to:			
Benefits paid		39,492,831	29,892,365
Other expenses		1,319,478	1,287,162
Income tax paid		9,701,601	7,344,177
		50,513,910	38,523,704
Net cash flows from operating activities	9	36,872,346	39,426,030
Cash flows from investing activities			
Cash provided from:			
Sale of investments		78,321,000	3,502,000
Cash applied to:			
Purchase of investments		108,541,000	41,929,000
Investment manager fees		2,172,127	2,773,511
Net cash flows from investing activities		(32,392,127)	(41,200,511)
Net increase/(decrease) in cash held		4,480,219	(1,774,481)
Cash at beginning of year		1,449,010	3,223,491
Cash at end of year		5,929,229	1,449,010

This statement is to be read in conjunction with the notes on pages 6 to 17

1. Scheme description

UniSaver New Zealand (the 'scheme') is a defined contribution superannuation scheme domiciled in New Zealand, covering employees of New Zealand universities. The scheme is registered as a workplace savings scheme under the Financial Markets Conduct Act 2013 ('FMC Act'). Under the scheme, contributions are made by scheme members and by their respective employers.

Registered Office: Mercer (N.Z.) Limited, PO Box 1849, Wellington 6011

Funding arrangements

Each member shall contribute to the scheme a minimum amount equal to:

– Category A member	3% of salary
– Category B member	4% of salary
– Category A/category B locked member	3% or 4% of salary
– All members joining on or after 1 July 2007	4% of salary
– Category A members joining on or after 1 April 2009	4% of salary (but may, subject to legislation and other technical requirements being met, count their employer's compulsory contribution up to 1% of this amount)
– Category B members joining on or after 1 April 2009	4% of salary (category B locked members may, subject to legislation and other technical requirements being met, count their employer's compulsory contribution up to 1% of this amount) or such greater amount as the member elects.

Each employer shall contribute in respect of each category A member who is under the normal retirement age, 1.35 times the member's contributions up to a maximum of 6.75% of the member's salary (gross of withholding tax). The maximum member contribution rate attracting subsidy is 5%. The employer of a Category B member is not required to pay any contributions to the scheme in respect of that member unless the member is also a locked member, in which case, the employer will contribute at the minimum level required under subpart 3a of part 3 of the KiwiSaver Act. A member may from time to time, under certain circumstances and with the consent of the trustee, make additional voluntary contributions. These funding arrangements are consistent with those of previous periods.

Investment policy and objectives

The trustee has approved a *Statement of Investment Policy and Objectives* (SIPO) which establishes investment portfolio objectives and target asset allocations. Performance against these targets is reviewed at least quarterly by the trustee and asset reallocations undertaken as required.

Retirement benefits

The retirement benefits are determined by contributions to the scheme together with investment earnings on those contributions over the period of membership.

Termination terms

The trust deed sets out the basis on which the scheme can be terminated.

Changes in the scheme

The trust deed was amended with effect from 1 February 2018 to:

– introduce UniSteps as a default investment option; and

– bring UniSaver within the Broad Participation Retirement Fund CRS/AEOI exemption.

A decision was made to move all Harbour Asset Management units and ANZ Wholesale Australasian Share Fund units to Russell Investments and this was effected through cash and inspecie transfers. On 2 February 2018 a redemption of all Harbour Asset Management units was completed via inspecie to Russell Investments. The ANZ Wholesale Australasian Share Fund also fully redeemed via a combination of cash and inspecie transfers to Russell Investments. The last transaction occurred on 23 February 2018.

2. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the requirements of the Financial Markets Conduct Act 2013 ('FMC Act') and other relevant legislative requirements as appropriate.

The scheme is a Tier 1 entity and, as such, the financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), other New Zealand accounting standards and authoritative notices as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Measurement base

The measurement base adopted is that of historical cost modified by the revaluation of certain financial assets which are measured at fair value at balance date.

Presentation currency

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the scheme operates and all values are rounded to the nearest dollar ($), except when otherwise indicated.

Classification of assets and liabilities

UniSaver New Zealand operates as a superannuation scheme. As such, the assets and liabilities are disclosed in the statement of net assets in an order that reflects their relative liquidity.

3. Summary of significant accounting policies

The following are the significant accounting policies which have been adopted in the preparation of the financial statements:

Investment income

Dividends and distributions from unitised investments are taken to income on a due and receivable basis. Interest income is recognised using the effective interest rate method.

Net realised and unrealised gains and losses are recognised in the statement of changes in net assets in the period in which they occur.

Foreign currencies

Transactions in currencies other than NZ dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance date. Gains and losses arising on retranslation are included in gains/losses on financial assets at fair value through profit or loss.

Expenses

All expenses are accounted for on an accruals basis.

Taxation

The income tax expense represents the sum of the taxation currently payable and deferred taxation.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from change in net assets before taxation and member activities as reported in the statement of changes in net assets because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The scheme's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of changes in net assets. Deferred tax liabilities include those that arise from taxable income received on investments held in PIE investment funds in the current financial year which will be payable by those PIE investment funds on behalf of the scheme as at 31 March 2019.

Financial instruments

Financial assets and financial liabilities are recognised on the scheme's statement of net assets when the scheme becomes a party to the contractual provisions of the instrument. The scheme shall offset financial assets and financial liabilities if the scheme has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis. Financial assets are derecognised when the right to receive cash flows from the investments has expired or the scheme has transferred substantially all risks and rewards of ownership.

Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of changes in net assets. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of changes in net assets in the period in which they arise.

Fair value estimation

The fair value of units held by the scheme in pooled investment funds is determined by reference to published closing prices released by the investment manager at the close of business on the balance date being the redemption price established by the underlying fund's responsible investment manager.

Sundry debtors

Other receivables do not carry any interest and are short term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. These amounts are initially recognised at fair value, and subsequently measured at amortised cost.

Impairment of assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets the estimated future cash flows of the investment have been impacted.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of changes in net assets to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Sundry creditors

Other payables are not interest bearing and are recognised initially at fair value and subsequently at amortised cost.

Goods and services tax (GST)

The scheme was deregistered for GST and consequently all components of the financial statements are stated inclusive of GST, where appropriate.

Statement of cash flows

The cash flows of the scheme do not include those of the investment managers. The following are definitions of the terms used in the statement of cash flows:

- Cash – comprises cash balances held with banks in New Zealand and overseas.
- Operating activities – include all transactions and other events that are not investing activities.
- Investing activities – comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

Promised retirement benefits

The net assets available to pay benefits (also known as promised retirement benefits) is the scheme's present obligation to pay benefits to members and beneficiaries. It has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities as at balance date.

Contributions and benefits

Contributions and benefits are accounted for on an accruals basis.

New and amended standards adopted by the fund

NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 completely replaces NZ IAS 39 in regards to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those subsequently measured at fair value and those subsequently measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change for financial liabilities is that, in cases where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. NZ IFRS 9 also introduces a new expected credit loss model for calculating the impairment of financial assets.

There are no recognition or measurement changes as a result of adopting NZ IFRS 9. The impact of adopting NZ IFRS 9 on the classification of the scheme's financial assets is that the scheme now classifies cash at bank and sundry receivables as financial assets at amortised cost (previously these were classified as loans and receivables).

This standard is effective for annual reporting periods beginning on or after 1 January 2018. The scheme has elected to adopt NZ IFRS 9 from this date. The adoption of this standard has resulted in amended disclosures but has not impacted the scheme's reported result or financial position.

NZ IFRS 15 (amendment) 'Revenue from Contracts with Customers', was issued in July 2014 effective for periods from 1 January 2018. This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and related interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The scheme's main sources of revenue are dividends, distributions, interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard the adoption of this standard did not have a significant impact on the scheme's financial position and financial performance, or the presentation and disclosures in the financial statements.

There are no other standards, amendments or interpretations that have been issued but are not yet effective that are expected to materially impact the scheme's financial statements.

4. Net assets available to pay benefits

Changes in accrued benefits as at 31 December 2018

	Member standard account $	Employer standard account $	Reserve fund $	Total 2018 $
Opening balance	596,634,219	404,123,003	521	1,000,757,743
Contributions	73,173,674	35,717,180	(21,560,051)	87,330,803
Benefits paid	(38,624,819)	(22,524,988)	21,560,002	(39,589,805)
Investment revenue	–	–	(36,039,771)	(36,039,771)
Other income	–	–	1,600	1,600
Expenses	–	–	(8,310,099)	(8,310,099)
Interest credited	(26,529,431)	(17,754,474)	44,283,905	–
Expenses allocated	(63,524)	(372)	63,896	–
Closing balance	604,590,119	399,560,349	3	1,004,150,471

The member standard account consists of member contributions, including interest and less any fees, as determined by the trustee.
The employer standard account consists of employer contributions along with interest and fees, as determined by the trustee.

Changes in accrued benefits as at 31 December 2017

	Member standard account $	Employer standard account $	Reserve fund $	Total 2017 $
Opening balance	492,913,916	345,199,614	504,509	838,618,039
Contributions	67,133,233	32,532,471	(21,816,317)	77,849,387
Benefits paid	(31,286,674)	(20,473,202)	21,828,065	(29,931,811)
Investment revenue	–	–	124,840,285	124,840,285
Other income	–	–	76,998	76,998
Expenses	–	–	(10,695,155)	(10,695,155)
Interest credited	67,881,993	46,864,466	(114,746,459)	–
Expenses allocated	(8,249)	(346)	8,595	–
Closing balance	596,634,219	404,123,003	521	1,000,757,743

Guaranteed benefits

No guarantees have been made in respect of any part of the net assets available to pay benefits (2017: nil).

5. Vested benefits

Vested benefits are benefits payable to members or beneficiaries under the conditions of the trust deed, on the basis of all members ceasing to be members of the scheme at balance date.

	$ 2018	$ 2017
	1,004,150,473	1,000,757,222

The value of the vested benefits was calculated as the sum required to provide all active members with the benefits to which they would be entitled if they voluntarily leave service.

The number of members in the scheme as at 31 December 2018 is 10,142 (2017: 9,502).

6. Investments – by investment type

		$ 2018	$ 2017
Harbour Asset Management Limited	Equities onshore	–	69,117,948
ANZ New Zealand Investments Limited	Equities onshore	–	61,879,513
	Short-term deposits	70,088,965	112,637,843
Russell Investment Management Limited	Equities offshore	343,425,044	406,846,917
	NZ equities	110,821,519	–
	Bonds offshore	398,548,393	302,942,760
	Property offshore	32,329,634	51,562,178
	Listed infrastructure	45,758,592	–
Total investments – by investment fund		1,000,972,146	1,004,987,159
Harbour Asset Management Limited	Harbour Australasian Equity Fund	–	69,117,948
ANZ New Zealand Investments Limited	ANZ Wholesale Australasian Share Fund	–	61,879,513
	ANZ Wholesale Cash Fund	70,088,965	112,637,843
Russell Investment Management Limited	Russell Investments Global Opportunities Fund – Hedged – Class A	343,425,044	200,505,468
	Russell Investments Global Opportunities Fund – Class D	–	206,341,449
	Russell Investments Global Bond Fund – Class B	350,985,766	302,942,760
	RIC Global Listed Infrastructure Fund – $NZ Hedged – Class B	45,758,592	–
	Russell Investments Global High Yield Fund NZDH-A	47,562,626	–
	Russell Investments NZ Shares Fund	110,821,519	–
	The Global Real Estate Securities Fund – Class NZDH Acc	32,329,634	51,562,178
Total investments		1,000,972,146	1,004,987,159

7. Income

	$ 2018	$ 2017
Gains/(losses) on financial assets at fair value through profit and loss – by asset class		
Equities	(55,380,706)	26,102,413
Bonds	2,564,630	(2,928,032)
Global property	(1,855,159)	4,407,634
Short-term deposits	1,830,927	2,819,614
Listed infrastructure	(5,402,534)	–
	(58,242,843)	30,401,629
Gains/(losses) on financial assets at fair value through profit and loss – by investment manager		
Harbour Asset Management Limited	772,905	16,718,299
ANZ New Zealand Investments Limited	1,105,364	13,207,215
Russell Investment Management Limited	(60,121,112)	476,115
	(58,242,843)	30,401,629
Dividends and interest – by asset class		
Russell Global Opportunities Fund – Class D (Australia)	–	36,666,404
Russell Global Opportunities Fund NZ Hedged – Class A (Australia)	15,381,294	44,531,201
Russell Global Bond Fund – Class B (Australia)	–	15,395,350
RIC Global Listed Infrastructure Fund – $NZ Hedged – Class B	2,891,023	–
Russell Investments NZ Shares Fund	3,879,771	–
	22,152,089	96,592,955
Dividends – by investment manager		
Russell Investment Management Limited	22,152,089	96,592,955
	22,152,089	96,592,955

8. Income tax

	$ 2018	$ 2017
Income tax expense	6,918,570	9,434,004
	6,918,570	9,434,004
Changes in net assets before taxation and membership activities	(37,429,700)	123,656,132
Income tax @ 28%	(10,480,316)	34,623,717
Adjusted for the tax effects of permanent differences		
Non assessable investment gains and distributions	10,105,411	(35,558,909)
Foreign investment fund income	6,987,020	9,245,956
Tax payable on PIE investments	350,087	1,037,479
Non assessable management fees and rebates	(55,547)	85,761
Prior period adjustment	11,915	–
Income tax expense	6,918,570	9,434,004
Represented by:		
Current tax	6,724,854	8,685,282
Deferred tax	193,716	748,722
Income tax expense	6,918,570	9,434,004
Deferred tax		
Balance brought forward	748,721	707,415
Current year charge	193,717	748,722
Transfer to current tax	(748,722)	(707,416)
Deferred tax liability	193,716	748,721

Deferred tax liabilities arising from PIE attributed income and tax credits at 31 December 2018 is $193,716 (2017: $748,721).

9. Reconciliation of net cash flows from operating activities to increase in net assets

	$ 2018	$ 2017
Net increase in net assets during year	3,392,728	162,139,704
Non-cash items		
Changes in net market value of investments	58,242,843	(30,401,629)
Distribution income	(22,152,089)	(96,592,955)
Interest on investment income	(195)	(336)
Investment manager fee rebates	(1,924,143)	(994,637)
Movements in other working capital items		
(Increase)/decrease in accrued income	(153,318)	(26,057)
(Increase)/decrease in prepayments	401	(1,990)
(Decrease)/increase in sundry creditors	(45,410)	28,142
(Decrease)/increase in current tax payable	(2,272,620)	2,024,017
(Decrease) in deferred tax liability	(555,005)	41,306
Increase in benefits payable	96,974	39,446
(Decrease)/increase in contributions refundable	1,456	664
Items classified as investing activities		
Investment manager fees	2,240,724	3,170,355
Net cash flows from operating activities	36,872,346	39,426,030

10. Reserve account

Under the trust deed the trustee shall establish a reserve fund which shall comprise the net assets of the scheme less the member standard account and the employer standard account. The reserve fund may be applied at the trustee's discretion in crediting or debiting interest to the members' accounts; meeting all or part of the cost of insuring benefits payable; meeting all or part of the contributions of the employers; to augment the retirement benefits of all members; to provide benefits (other than retirement benefits) for all members; meeting the expenses of the scheme; increasing the members' accounts on an equitable basis; and in such other manner as the trustee may from time to time consider appropriate.

11. Financial risk management objectives and policies

Risk management

Risk management activities are undertaken by the scheme's investment managers to operate within the guidelines provided by the trustee.

Liquidity risk

All financial assets at fair value through profit and loss can be realised within 12 months. There are no significant financial liabilities and all financial liabilities are due within 12 months. Therefore, the scheme does not have material exposure to liquidity risk.

Credit risk

Financial instruments which potentially expose the scheme to credit risk consist of cash and short-term deposits and receivables and, indirectly, investments in unitised products which invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The significant counterparties of the scheme at balance date are its investment managers: ANZ New Zealand Investments Limited and Russell Investment Management Limited, and their nominee companies, which the trustee considers to be financial institutions of high quality. The investment managers maintain diversified investment portfolios in accordance with the portfolio mix adopted by the trustee.

Currency risk

The scheme is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in unitised products which invest in foreign currency denominated investments. As at balance date the scheme's exposure to indirect currency risk was as follows:

		$ 2018	$ 2017
Russell Investment Management Limited	Reporting currency		
– Offshore equities and bonds	AUD	852,794,955	709,789,677
– Offshore property	USD	32,329,634	51,562,178
		885,124,589	761,351,855

Market risk

Market risk represents the risk that the value of the scheme's investment portfolio will fluctuate as a result of changes in market prices.

This risk is managed by ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. The investment strategies are reviewed by the trustee on a regular basis and are managed in isolation from each other. As such, members can manage this risk through their choice of investments in which to participate.

Market price risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

The tables below shows the sensitivity analysis in market price with all other variables held constant due to a reasonably possible change. The analysis is performed on the same basis as it was for 2017.

Effect on profit before tax

		$ No change	$ 10% increase	$ 10% decrease
31 December 2018	Movement in market prices	–	100,097,215	(100,097,215)
	Profit before tax	(37,429,700)	62,667,515	(137,526,915)
31 December 2017	Movement in market prices	–	100,498,716	(100,498,716)
	Profit before tax	123,656,132	224,154,847	23,157,416

Effect on equity

		$ No change	$ 10% increase	$ 10% decrease
31 December 2018	Movement in market prices	–	100,097,215	(100,097,215)
	Equity	1,004,150,471	1,104,247,686	904,053,256
31 December 2017	Movement in market prices	–	100,498,716	(100,498,716)
	Equity	1,000,757,743	1,101,256,459	900,259,027

Interest rate risk

The scheme is exposed to interest rate risk in that future interest rate movements will affect cash flows and net market values of fixed interest assets and, indirectly, the valuation of investments in unitised products which invest in cash and fixed interest investments. As at balance date the scheme's exposure to indirect interest rate risk was as follows:

	$ 2018	$ 2017
ANZ New Zealand Investments Limited		
Short-term deposits	70,088,965	112,637,843
Russell Investment Management Limited		
Bonds offshore	398,548,393	302,942,760

Interest rate risk management activities are undertaken by the investment manager in accordance with the investment mandate set by the trustee.

12. Financial instruments

Categories of financial instruments – 31 December 2018

	$ Designated at fair value through profit or loss	$ Financial assets at amortised cost	$ Financial liabilities at amortised cost	$ Fair value
Assets				
Investments	1,000,972,146	–	–	1,000,972,146
Cash at bank	–	5,929,229	–	5,929,229
Accrued income	–	393,318	–	393,318
Total assets	1,000,972,146	6,322,547	–	1,007,294,693
Liabilities				
Sundry creditors	–	–	431,997	431,997
Contributions refundable	–	–	2,421	2,421
Benefits payable	–	–	137,119	137,119
Total liabilities	–	–	571,537	571,537

Categories of financial instruments – 31 December 2017

	$ Designated at fair value through profit or loss	$ Financial assets at amortised cost	$ Financial liabilities at amortised cost	$ Fair value
Assets				
Investments	1,004,987,159	–	–	1,004,987,159
Cash at bank	–	1,449,010	–	1,449,010
Accrued income	–	240,000	–	240,000
Total assets	1,004,987,159	1,689,010	–	1,006,676,169
Liabilities				
Sundry creditors	–	–	477,407	477,407
Contributions refundable	–	–	965	965
Benefits payable	–	–	40,145	40,145
Total liabilities	–	–	518,517	518,517

Hierarchy of fair value measurements – 31 December 2018

The following table provides an analysis of financial instruments that are measured subsequent to initial value at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2018			
	$ Level 1	$ Level 2	$ Level 3	$ Total
Description				
Investments	–	1,000,972,146	–	1,000,972,146
Total	–	1,000,972,146	–	1,000,972,146

There were no transfers between Level 1 and 2 in the period.

	2017			
	$ Level 1	$ Level 2	$ Level 3	$ Total
Description				
Investments	–	1,004,987,159	–	1,004,987,159
Total	–	1,004,987,159	–	1,004,987,159

There were no transfers between Level 1 and 2 in the period.

13. Commitments and contingent liabilities

There were no commitments or contingent liabilities outstanding as at 31 December 2018 (2017: nil).

14. Related parties

The scheme holds no direct investments in any of the employer universities or any of their related parties. During the period payments were made to directors of the trustee totalling $168,339 (2017: $152,169) including reimbursement costs. The scheme had no other related party transactions except for employer contributions of $35,715,718 (2017: $32,412,715).

15. Key sources of estimation uncertainty

The preparation of the financial statements requires the trustee to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. The trustee has applied judgement in selecting an accounting policy to designate financial assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. It is possible to determine the fair values of all financial assets as market prices are readily available on request from the investment manager. Therefore there are no material assumptions or major sources of estimation uncertainty that have a significant risk of material adjustment to the carrying amounts of assets at year end. However, as with all investments their value is subject to variation due to market fluctuations. The trustee has also used judgement in the categorisation of its financial assets and liabilities at fair value through profit or loss in accordance with the fair value hierarchy under NZ IFRS 13 'Fair Value Measurement'.

16. Operating segments

The scheme invests in investment managers, ANZ New Zealand Investments Limited and Russell Investment Management Limited. The investment managers hold investments in both local and overseas markets. The scheme holds no direct overseas investments.

17. Events after balance date

In July 2019, the scheme will transition from interest allocation to unitisation. Members' interests in the scheme will be based on the unit price of the investment options. In the opinion of the trustee, this event is not likely to affect significantly the operations of the scheme, the results of those operations of the scheme, or the state of affairs of the scheme.

Independent auditor's report to the Members of UniSaver New Zealand
Report on the audit of the financial statements

Opinion

We have audited the financial statements of UniSaver New Zealand ("the Scheme") on pages 2 to 17, which comprise the statement of net assets of the Scheme as at 31 December 2018, and the statement of changes in net assets and statement of cash flows for the year then ended of the Scheme, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 2 to 17 present fairly, in all material respects, the financial position of the Scheme as at 31 December 2018 and its changes in net assets 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 audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

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

Other than in our capacity as auditor we have no 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 audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit 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 audit 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

Why significant

- As disclosed in Note 6 of the financial statements, the Scheme's portfolio of investments represents almost 100% of its total assets.
- As detailed in the Scheme's accounting policy, as described 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.*
- Volatility and other market drivers can have a significant impact on the value of these financial assets and the financial statements, therefore the recognition and measurement of the investment portfolio is considered a key area of audit focus.
- Disclosures regarding the Scheme's investments are included in Note 6 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 investment portfolio.
- Receiving third party confirmations directly from the investment managers, for each underlying fund, of the number of units issued to the Scheme and their respective exit price at balance date and comparing these to the amounts recorded in the Scheme's financial records.
- Obtaining and reviewing the Independent Assurance Reports on Controls for the managers of the funds. We have considered the implications of any control deficiencies for our audit. We relied on these controls to gain assurance over the recognition and valuation of the investment balances.
- Assessing the performance of each investment against a range of similarly structured wholesale funds to assess the appropriateness of the reported performance against expectations derived from broader market performance.
- Assessing whether the disclosures in the financial statements appropriately reflect the Scheme's exposure to financial instrument risk with reference to *NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans, NZ IFRS 7 Financial Instruments: Disclosures* and *NZ IFRS 13 Fair Value Measurement.*

Those charged with governance responsibilities for the financial statements

Those charged with governance are responsible, on behalf of the Scheme, for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the Scheme or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: https://www.xrb.govt.nz/standards-for-assurancepractitioners/ 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 David Borrie.

Ernst + Young

Chartered Accountants
Wellington
22 March 2019