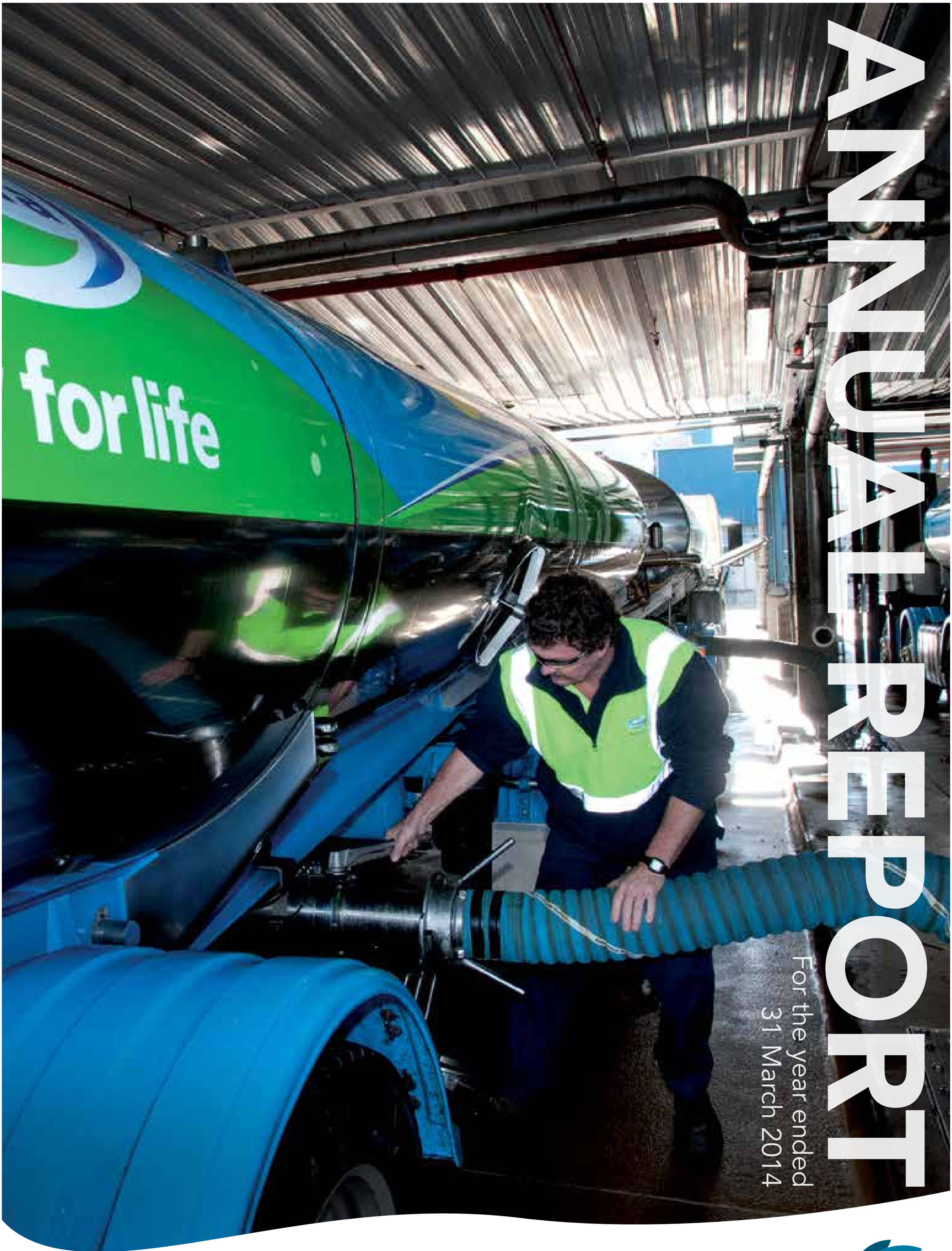


ANNUAL REPORT

For the year ended 31 March 2014

A mua ake
For the future

dairy industry
superannuation scheme

HOW TO READ THIS ANNUAL REPORT

Go to the Chairman's letter on page 2

WHAT IS IT?

An overview of the Scheme's progress over the year.

WHY IT MATTERS

This is your opportunity to see a summary of this year's investment performance as well as recent developments affecting the Scheme and the Trustee's focus for the next year.

Visit the credited interest rates section on page 4

WHAT IS IT?

The table shows the credited interest rates for the investment options for each of the last three years and the average annual return over five years

WHY IT MATTERS

Since retirement savings are generally long term, it is important to focus on more than the current year. It includes a chart demonstrating how $1,000 invested in each option five years ago would have accumulated.

See the declared interest rates on page 5

WHAT IS IT?

These are the interest rates applied to the accounts of members who left the Scheme during the year.

WHY IT MATTERS

For many of us this is the most important section! It shows how each investment option has performed over the year and events that have affected returns.

Take a look at the investment choice snapshot on page 6

WHAT IS IT?

A summary of the four main funds and how they have performed over the year

WHY IT MATTERS

The Scheme's returns need to be competitive with other similar schemes. Read this section to see the main investment funds, performance compared with both longer-term expectations as well as the return for KiwiSaver schemes with a similar mix of assets.

Go to the costs and expenses section on page 12

WHAT IS IT?

A summary of the costs and expenses deducted during the year

WHY IT MATTERS

Costs and expenses impact on your savings because they are deducted from the Scheme's investment earnings before interest is applied to your account balances.

Over a longer timeframe, even a relatively small difference in interest rates can have a significant impact on your retirement savings.

See the statutory information section on page 15

WHAT IS IT?

Disclosures required by law.

WHY IT MATTERS

This section is really about the Scheme's housekeeping. It includes important certifications relating to contributions and benefits, the Scheme's viability and a summary of the Scheme's financial statements (including a comparison with the previous year).

PLANNING FOR RETIREMENT

It's sometimes said that "if we fail to plan, we plan to fail".

This is particularly true of retirement. While each of us has a different vision of our 'ideal' retirement, being able to enjoy life and have the freedom to do what we want without worrying too much about money is likely to make life more enjoyable for most of us.

That's why our theme for this year's report is 'Planning for retirement'. With that in mind we asked two members to tell us how Scheme membership is helping them.

Maria Kumeroa has worked at Fonterra Whareroa (Taranaki) for the last 15 years. Sadly her husband, Puna, who was also a Scheme member, passed away earlier this year.

Maria told us how the Scheme has helped her through this very difficult time.

"I am so thankful that Puna and I both joined the super scheme when we first started in the dairy industry.

Maria is a long-serving Union Delegate at Fonterra Whareroa. She is a DWU Department Delegate and the Union's Central Region Women's Committee Representative. Puna was also a long-serving Union Delegate.

Puna got ill unexpectedly last year and sadly passed away earlier this year. The death insurance cover and super is a huge help in relieving the financial burden. I really do encourage all dairy workers to make sure they make the effort to join the Scheme and get the insurance cover."

- Maria Kumeroa

"We are both 54 years old this year and superannuation is really important for us as retirement looms in the not too distant future"

- Lucy Apiata-Wade

Lucy Apiata-Wade works at Fonterra Canpac in Hamilton as a machine operator and husband Mark is the National Organiser for the Dairy Workers Union and a Director of the Scheme's Trustee, Dairy Industry Superannuation Scheme Trustee Limited.

Lucy has been at Canpac for 15 years. Since she started she has chosen to contribute the maximum member contribution of 6% of her pay in order to get the maximum employer contribution of 9% and has always invested in the Balanced option. If she left Canpac tomorrow, Lucy would get a tax-paid cheque for $128,000. Currently, she also has insurance cover for death and permanent incapacity of $273,000.

Lucy and Mark Apiata-Wade at their graduation from Te Wananga o Aotearoa (Maori Language University).

Lucy told us that "we are both 54 years old this year and superannuation is really important for us as retirement looms in the not too distant future."

She went on to say "there is no way we would ever have saved this amount of money without being in the Scheme and whilst it would have been really helpful to have been able to draw some of it out at times – we are absolutely rapt now that we couldn't as it will be a great nest egg when we no longer have paid employment."

CHAIRMAN'S LETTER

It is now over five years since the worst of the global financial crisis, when it seemed to many commentators that life, in investment terms anyway, would never be the same again.

Well, the Scheme has had a fifth year of good results and is now in a very healthy position overall. It again shows how careful you should be when things are dire, and to not assume that the gloom will last forever.

It is easier in bad times to focus on the immediate picture and struggle to see much hope for improvement ahead. Time and again investment markets have found ways to show that this is usually not the case. It also continues to reinforce the message that, for superannuation investments, a medium to long-term time frame will generally be the most appropriate one to take.

This report, which I encourage you to read, contains details of our investment results for the year and how they stack up against the various performance measurements we apply. All in all, the Scheme continues to fare well based on its core measures of investment success.

The theme underlying this year's annual report is the value of planning for retirement rather than just falling into it unprepared. I encourage you when thinking about retirement to think first of what retirement might look like for you or what you desire from it, no matter how far away it is. This base can then lead to an idea of the general level of savings in schemes such as ours that will be required for this to actually happen. We will continue to build up the tools and information available on our website and through other sources to help members think along these lines and improve their chances of achieving their retirement goals.

A very important element of the Scheme's benefits is the death and disability insurance provisions for qualifying members. We continue to see the practical and real benefits provided to the families of members who unfortunately die or are disabled while still working.

The total annual insurance premium paid by the Scheme is approximately $3.8 million, so it is very important that we test the insurance provider through a competitive tender process from time to time. The directors undertook such an exercise last year, the result of which saw a shift of Scheme insurer from AMP to Sovereign Insurance. While AMP (and before it AXA) had provided a good product and responsive service to members for many years, the directors also saw elements in the Sovereign offering that were very attractive to the Scheme. This change in insurer has gone well, with no issues being experienced.

In previous reports I have noted the heavy level of legislative and regulatory change that the Scheme has faced. This fits with the laudable goal of the Government and relevant authorities to build confidence generally across New Zealand's various financial markets. Much of this has been behind the scenes for members and we have a lot more changes to face over the next couple of years. This will place extra work on the Scheme's directors and our providers and additional cost on members to ensure we meet the new requirements. Notwithstanding some likely cost increases, the directors remain comfortable that the Scheme is a good size (both in terms of assets and number of members), with solid prospects for continuing growth to accommodate the changes and remain a viable and effective savings vehicle for members.

I must also acknowledge the role and commitment of our key sponsoring employers, particularly Fonterra, and the support we receive in many different ways from the Dairy Workers Union in this positive Scheme outlook.

The Scheme does not have its own in-house management team, with the directors outsourcing investment, operational and advisory requirements to a strong set of professional suppliers. The diagram on page 25 shows the suppliers and the services they provide. It is good to note that these suppliers continue to provide strong support for the Scheme and its members. As mentioned earlier, the demand on the directors of the Trustee has certainly not diminished over the last year and I thank them for their services on behalf of members.

Tim McGuinness
Chairman

> "I must also acknowledge the role and commitment of our key sponsoring employers, particularly Fonterra, and the support we receive in many different ways from the Dairy Workers Union in this positive Scheme outlook."

Tim McGuinness
Chairman

CREDITED INTEREST RATES

The table below shows the credited interest rates for each of the last three years and the average annual rate for the last five years.

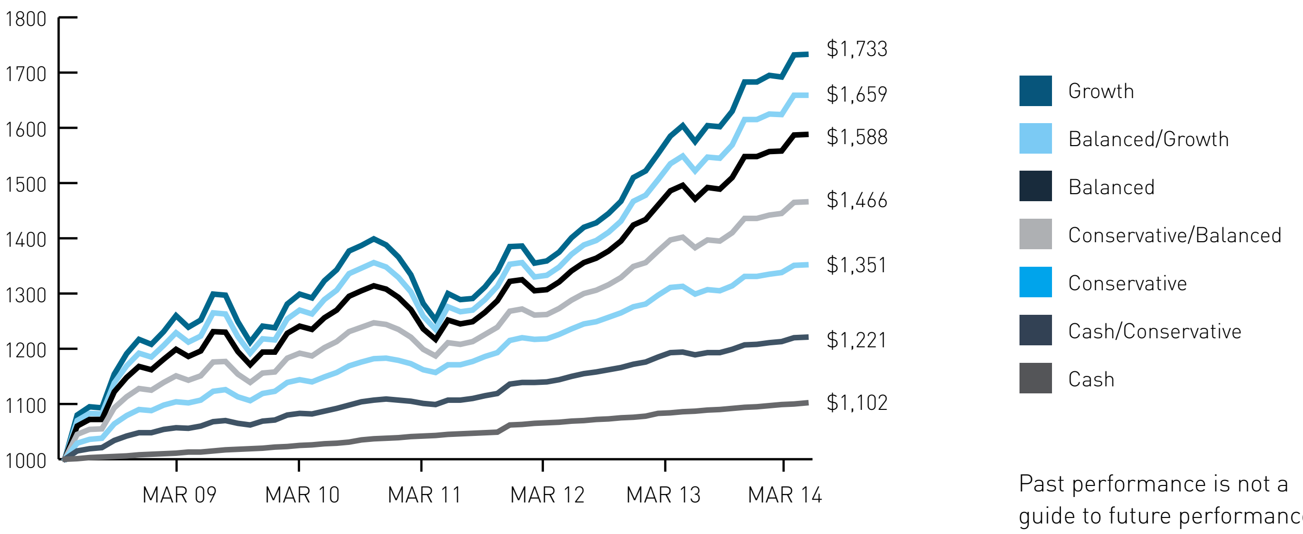
	2014	2013	2012	Average over 5 years
Cash	1.8%	2.0%	2.6%	2.0%
Cash/Conservative	3.0%	4.3%	3.0%	3.9%
Conservative	4.3%	6.7%	3.3%	6.2%
Conservative/Balanced	6.5%	8.6%	2.4%	8.0%
Balanced	8.8%	10.4%	1.3%	9.8%
Balanced/Growth	10.2%	11.3%	0.6%	10.9%
Growth	11.6%	12.2%	-0.2%	12.0%

WHAT ARE CREDITED INTEREST RATES?

These are the investment returns allocated to your accounts at the end of each Scheme year. The rate varies, depending on the performance of the investment option.

The chart below shows how $1,000 invested in each investment option on 1 April 2009 would have grown over the five years to 31 March 2014. It demonstrates how returns from the Growth and Balanced options have been up (and down) more steeply than those of the Conservative and Cash options, but how over the full five years, returns from Growth and Balanced have been significantly better.

Growth of $1,000 invested in each option over the past five years



Past performance is not a guide to future performance.

DECLARED INTEREST RATES

Balanced and Growth options benefit as share markets rally

Although returns are a little lower than last year, they are still ahead of the longer-term expectation for each fund. (Refer to page 6 for the expected longer-term return (or objective) for each fund.)

Returns were particularly strong for investors in the Balanced and Growth funds, which have a target mix of 58% and 77% respectively in growth assets (shares and property). While the global economy continued to face significant challenges, the Scheme's investments, particularly in shares, still delivered very good results.

The return from the Conservative fund, which invests mainly in income assets (fixed interest and cash), was lower as interest rates started to rise, having been at record lows since the global financial crisis. The Cash fund also posted a moderate return as short-term interest rates stayed low.

WHAT ARE DECLARED INTEREST RATES?

The rates applied to benefits paid during the year.

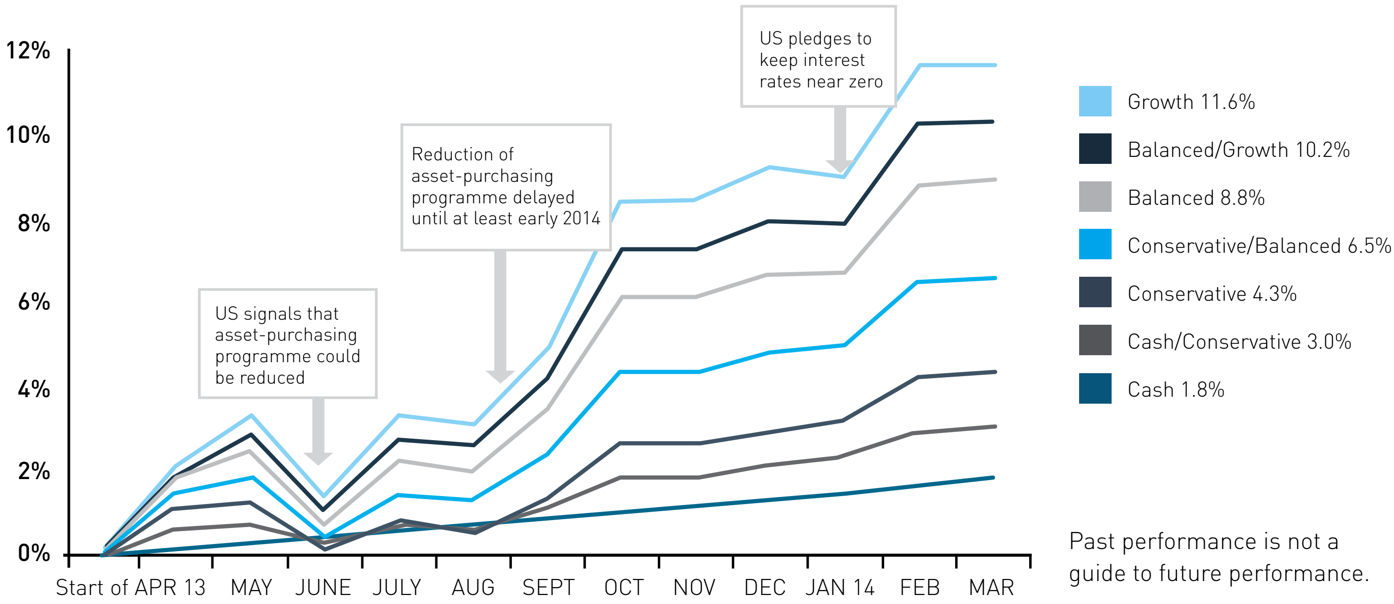
WHAT IS A SHARE MARKET RALLY?

A period of sustained increases in the price of shares.

WHY DO RETURNS FROM INVESTMENTS IN FIXED INTEREST FALL WHEN INTEREST RATES RISE?

A fixed interest security has an interest rate attached to it at the time of purchase. When interest rates rise, the value of existing securities with lower interest rates falls.

Declared interest rates for the year to 31 March 2014



Past performance is not a guide to future performance.

INVESTMENT CHOICE SNAPSHOT

About your choices

The Scheme offers you a choice of seven investment options. You can choose one of the four main funds – Growth, Balanced, Conservative and Cash, or a combination of two adjacent funds (Cash/Conservative, Conservative/Balanced and Balanced/Growth).

The funds range from the higher risk/higher long-term return Growth fund through to the low risk/lower return Cash fund. As the table on page 7 shows, the Growth fund, which over time is expected to achieve higher returns than the other funds, contains more in shares and property (growth assets) and less in fixed interest and cash (income assets) than the other funds.

About investment objectives

Each fund's *benchmark asset mix* is designed to meet its general risk/return profile shown on page 7.

A fund's *investment objective* is a guide to the likely long-term return above inflation that a fund with the same benchmark mix of assets could be expected to achieve.

The *timeframe* over which each fund's return is measured varies, depending on the type of assets it invests in. For example, because it invests mostly in growth assets, the Growth fund has a longer timeframe than the Conservative fund which invests mostly in income *assets*.

The *risk/return profile* is the risk of the fund achieving a negative return and the expected return. Low risk investments are generally expected to provide lower returns, while higher risk investments are expected to provide higher long-term returns.

The flexibility to change investment options as we near retirement makes planning easier.

- Lucy Apiata-Wade

Change to investment objectives for Growth, Balanced and Conservative funds

Following a review in conjunction with the Scheme's investment consultant, we have reduced the percentage by which each fund can be expected to outperform the increase in inflation. From 1 April 2013 the objectives for the Growth and Balanced funds were cut by 0.5% to 3.5% and 2.5% respectively, while the Conservative fund's objective was lowered from 2% to 1%.

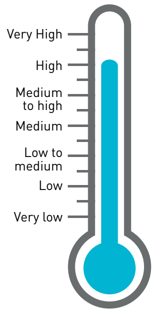
The changes have been made to reflect an expected decrease in returns from fixed interest investments over the next three to five years as the global economy improves and interest rates rise. (Rising interest rates reduce the value of existing fixed interest securities.)

GROWTH FUND

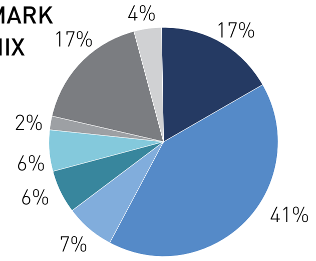
RISK/RETURN PROFILE Expect higher returns than the other funds over the long term, but higher losses in bad years.

OBJECTIVE To exceed inflation by 3.5% pa after tax and expenses over rolling 15-year periods.

RISK LEVEL



BENCHMARK ASSET MIX



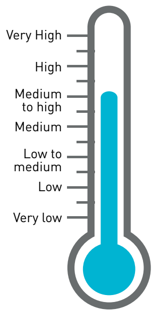
GROWTH 77% INCOME 23%

BALANCED FUND

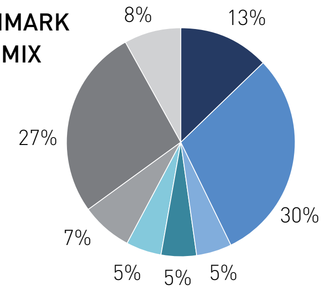
RISK/RETURN PROFILE Expect reasonable returns (but lower than the Growth fund), but reduced losses in bad years.

OBJECTIVE To exceed inflation by 2.5% pa after tax and expenses over rolling 10-year periods.

RISK LEVEL



BENCHMARK ASSET MIX



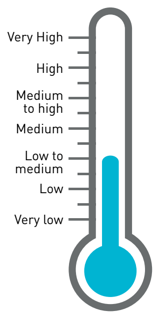
GROWTH 58% INCOME 42%

CONSERVATIVE FUND

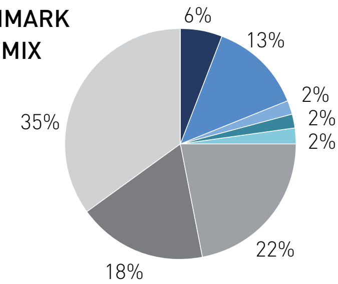
RISK/RETURN PROFILE Expect lower returns over the long term, but less risk of losses.

OBJECTIVE To exceed inflation by 1.0% pa after tax and expenses over rolling 5-year periods.

RISK LEVEL



BENCHMARK ASSET MIX



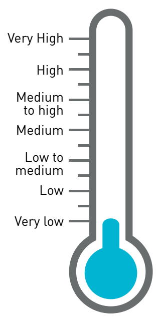
GROWTH 25% INCOME 75%

CASH FUND

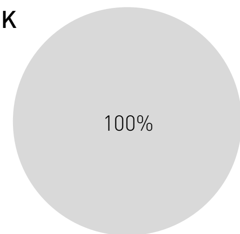
RISK/RETURN PROFILE Expect very low risk of negative returns, but has historically earned the lowest returns over the long term.

OBJECTIVE To achieve a return close to the 90-Day Bank Bill rate before tax and all expenses.

RISK LEVEL



BENCHMARK ASSET MIX



GROWTH 0% INCOME 100%

GROWTH ASSETS

- Trans-Tasman Shares
- International Shares
- Global Listed Property
- Listed Infrastructure
- Natural Resources

INCOME ASSETS

- NZ Fixed Interest
- International Fixed Interest
- NZ Cash

The asset allocations for the Growth/Balanced, Balanced/Conservative and Conservative/Cash options are 50% from each of the main investment funds.

INVESTMENT PERFORMANCE

We monitor the Scheme's investment performance in three ways.

1. Each fund's return against its objective
2. Each fund's return against the median return from KiwiSaver schemes with a similar mix of assets
3. Each of the Scheme's investment managers against the appropriate index for the particular asset class.

Fund performance against objective

Until recently both the Growth and Balanced funds have had some way to go to meet their longer-term objectives. This was because the timeframe over which returns from these funds are measured includes years when share markets fell sharply as a result of the global financial crisis of 2008/2009.

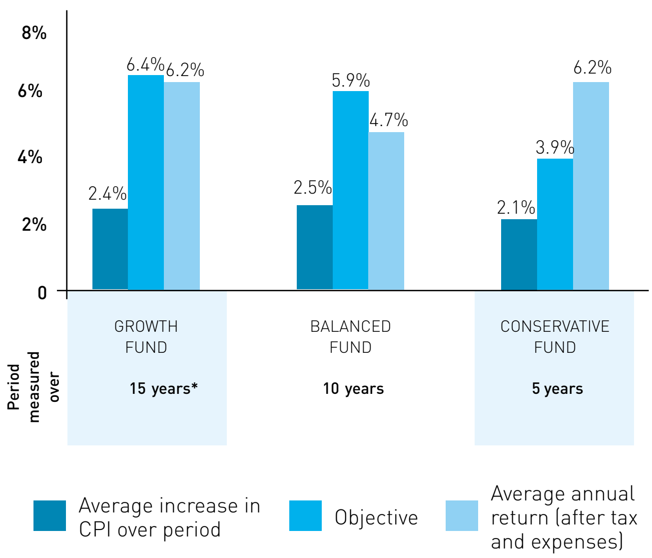
While the Balanced fund still has some way to go, it is still comfortably exceeding the rate of inflation, meaning that the value of members' account balances is at least being maintained in real terms. The Growth fund on the other hand is close to its objective. The difference between the returns for the Growth and Balanced funds is because the Growth fund's return is measured over 11 years, which includes the very strong return (20.1%) achieved by this fund for the 2003/2004 Scheme year, whereas the Balanced fund's return is measured over 10 years.

The Conservative fund's significant outperformance reflects its lower objective, the shorter timeframe over which its returns are measured (five years, which now excludes the global financial crisis) and its lower weighting to shares, which were hardest hit by the European debt crisis.

The Growth fund's return is measured over rolling 15-year periods (as the Growth fund started in 2003, data is only available for 11 years), the Balanced over 10 years and the Conservative over five years.

The Cash fund's objective is to achieve a return close to the 90 Day Bank Bill rate before tax. For the year to 31 March 2014 it returned 3.4% before tax and expenses, and 1.8% after tax and expenses, against a 90-Day Bank Bill rate of 2.7% before tax.

Increase in inflation, objective and actual average return



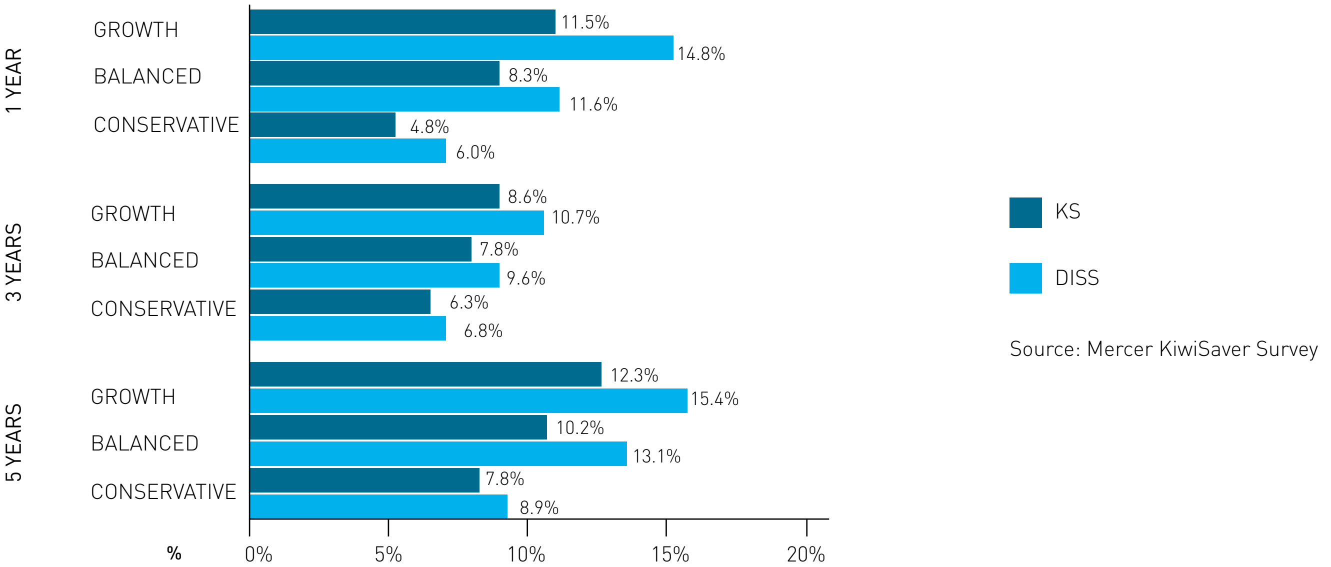
*Currently measured over 11 years.

Fund performance compared to the KiwiSaver scheme median

We monitor the performance of each of the Scheme's investment funds against the median (mid-point) of KiwiSaver schemes invested in a similar way.

It is pleasing to see that the returns from all three funds over one, three and five years outperformed the median (mid-point) of KiwiSaver schemes with a similar asset mix as surveyed by Mercer.

Returns compared to KiwiSaver scheme median



Source: Mercer KiwiSaver Survey

Investment manager performance — against appropriate index for asset class

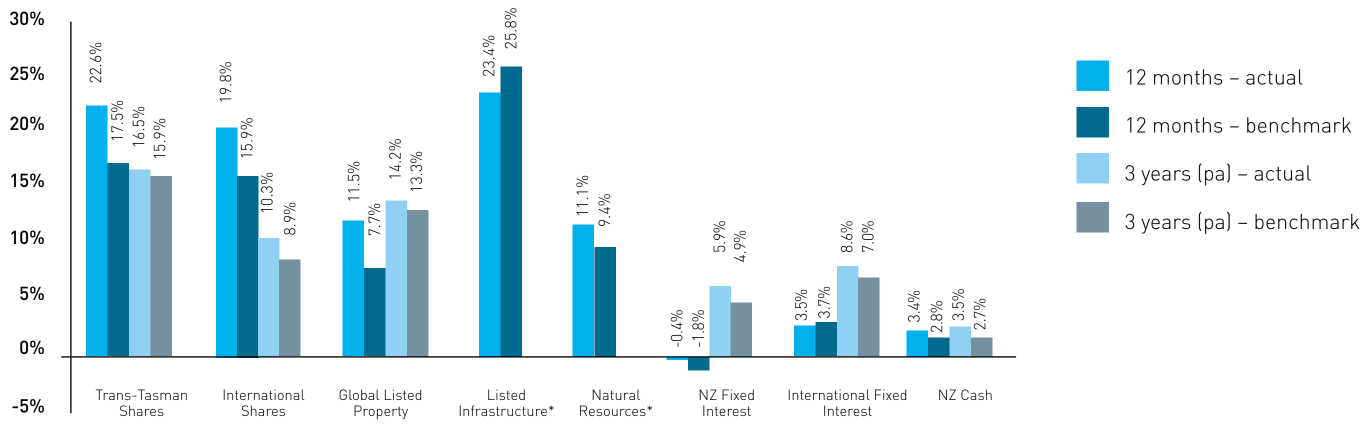
To check on the investment managers' performances we compare their performance (before investment fees, Scheme expenses and income tax) against an appropriate index for the particular asset class they are managing.

Overall, our managers continue to provide good results. As the graph below shows, aside from listed infrastructure over the last year, all asset types equalled or outperformed their benchmark over both one and three years. Listed infrastructure's underperformance is mostly because the portfolio has a lower weighting to Japanese infrastructure shares than the index. While this detracted from returns for much of the year, it proved to be an advantage in the final quarter when the Japanese share market dropped sharply.

WHAT IS AN INDEX?

A sample of assets used to track changes in the market over time. For example, returns from the Scheme's investments in trans-Tasman shares are measured against the NZX50, which is made up of the top 50 shareholdings on the New Zealand share market.

Actual returns v index for each asset type
Over 1 & 3 years to 31 March 2014 (before tax & expenses)



*Since investments in listed infrastructure and natural resources only started in July 2012, returns and the index are only shown over 12 months.

HOW THE SCHEME'S INVESTMENTS PERFORMED

Trans-Tasman shares 70% Harbour Asset Management Limited 30% ANZ New Zealand Investments Limited*	Trans-Tasman shares had another impressive year, especially New Zealand shares, which outperformed most other markets. Across the Tasman, weakness in the mining sector, mixed economic data and concerns about China moderated returns from Australian shares.
International shares AMP Capital Investors (NZ) Limited	Despite a difficult patch early on and a bumpy final quarter, international shares also had a very good year. Strongest returns came from developed market shares, the US and Japan in particular. Returns from emerging markets (countries going through a period of rapid growth and industrialisation) were weaker than expected as investors started to withdraw capital from those markets in anticipation of the US Federal Reserve starting to reduce (or 'taper') its huge asset-purchasing programme. The strong New Zealand dollar meant that assets which were hedged against currency movements performed much more strongly than assets which had not been hedged. In both the developed and emerging market sectors, the fund manager added value through active management enhancing returns for members.
Global listed property AMP Capital Investors (NZ) Limited	The sound return from global listed property reflects low interest rates for much of the year and the improving global economy. Returns in the final quarter were exceptionally strong in this regard. As with international shares, hedging the currency back to New Zealand dollars added value as did the manager's active management style.
Listed infrastructure Mercer Investments (New Zealand) Limited	One of the Scheme's newer asset classes, listed infrastructure provided the Scheme's strongest return, benefiting from continuing growth in the global economy.
Natural resources Mercer Investments (New Zealand) Limited	Natural resources, the Scheme's other newer asset class, had a strong year thanks in large part to surging timber prices. Other returns were mixed as gold fell out of favour with investors and a harsh northern winter raised prices of commodities, ranging from natural gas to beef.
International fixed interest** Russell Investments Limited (using Implemented Investment Solutions Limited)	Rising interest rates following indications that the US Federal Reserve was going to start reducing its asset-purchasing programme kept returns from this asset class subdued. However, against recent trends, the Scheme's investments in international fixed interest outperformed international shares in the final quarter.
New Zealand fixed interest 52% AMP Capital Investors (NZ) Limited 48% ANZ New Zealand Investments Limited*	Despite a better final quarter, it proved to be a difficult year for the Scheme's investments in New Zealand fixed interest as New Zealand interest rates followed global interest rates higher following the US Federal Reserve's decision to reduce the pace of its asset-purchasing programme.
Cash 57% AMP Capital Investors (NZ) Limited 43% ANZ New Zealand Investments Limited*	Cash posted another moderate return as the Reserve Bank left the official cash rate unchanged at 2.50% until March, when it increased it to 2.75%. Continuing rises in the official cash rate should increase returns from cash during the next 12 months, although this will be tempered by the fact that the additional premium from some securities (term deposits in particular) will shrink over the year.

WHAT IS HEDGING?

Currency hedging is used to protect an investment against changes in the value of the NZ dollar.

WHAT IS ACTIVE MANAGEMENT?

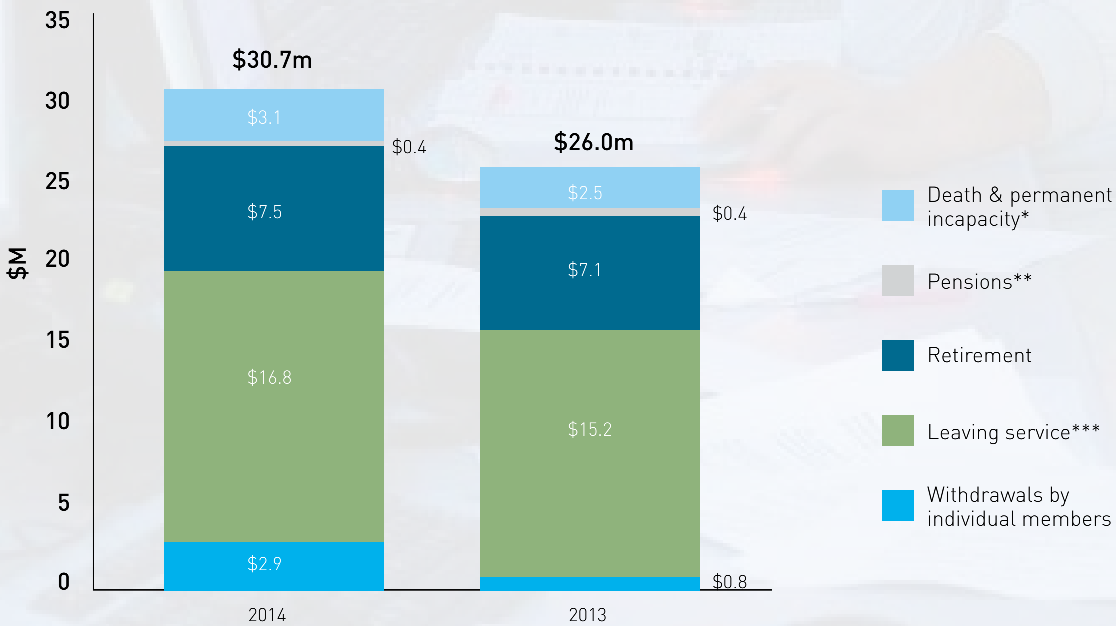
An active manager can adjust the assets it manages to try and improve returns, as opposed to a passive manager which must invest the assets it manages in accordance with an index.

* Effective 20 September 2013, OnePath (NZ) Limited changed its name to ANZ New Zealand Investments Limited.
** In February 2014, some of the international fixed interest investments were transitioned to the AMP Short Duration fund.

Scheme pays $30.7m in benefits

The chart below shows a breakdown of the different benefits paid from the Scheme over each of the last two years. This year, benefits paid to members totalled $30.7m (2013:$26.0m).

Benefits paid during the year



* Includes insured benefits.
** Paid to members (or if applicable to a member's spouse) who left service when benefits were paid as a pension rather than a cash lump sum.
*** Includes redundancies and transfers out.

KEEPING AN EYE ON COSTS AND EXPENSES

The Trustee regularly monitors the Scheme's costs and expenses to ensure that they are reasonable and competitive compared to most other savings options.

Scheme fees and expenses fall into three main areas:

- Fees and costs related to **investing** the Scheme's assets
- Expenses of **operating and administering** the Scheme
- **Insurance** premiums for the Scheme's life and permanent incapacity insurance cover.

Investment fees and expenses

Total investment fees and expenses paid by the Scheme last year (including those paid to its consultant) amounted to $2.2m compared to $1.6m the year before. Investment fees are charged on the amount of money being managed, so if the Scheme is growing in size, total costs increase. The key measure is the cost for each dollar invested. On this basis, total investment costs in the last year represented 0.40% of average assets over the year compared with 0.33% the year before.

The fee for each investment fund varies, depending on the asset mix. Because of the additional work involved, managers who invest growth-type assets such as shares, typically charge higher fees than those looking after income-type assets (fixed interest and cash). This means that if you invest in the Conservative fund, for example, the investment fee will be lower than if you invest in the Growth fund. The current allowances for the various fund choices are:

INVESTMENT FUND	INVESTMENT COST ALLOWANCE (%pa)
Cash	0.2%
Conservative	0.4%
Balanced	0.6%
Growth	0.8%

The Trustee believes these levels of investment costs for the various fund options stand up well against market comparisons.

Expenses of operating and administering the Scheme

Operating expenses for the Scheme span a wide range of services including: administration of member and general Scheme records; meeting securities law requirements; member reporting and communications; audit; legal, tax and actuarial advice; and directors' fees and costs. Some of these costs are linked to the number of members of the Scheme and some are fixed.

The following table is a summary of expenses for the year compared to the previous year. As the table shows, the Scheme's total operating costs as a percentage of assets managed has decreased, which largely reflects a significant reduction in legal, tax and actuarial consulting fees. The Trustee continues to maintain a close watch on these expenses. However, we believe they are very reasonable overall considering the size of your Scheme with some 6,900 members and $537.8 million in assets.

Insurance

Following a full review of the Scheme's insurance in 2013, Sovereign was appointed as the Scheme's insurer in place of AMP.

The Scheme pays insurance premiums for members' death and permanent incapacity cover. Premiums paid for the year to 31 March 2014 totalled $3.8 million covering 5,337 members. This compares to the previous Scheme year when premiums totalled $3.7 million covering 5,138 members. These insurance premiums reduced the after-tax declared interest rates for each investment option by 0.50% last year.

Total operating cost per member reduces

EXPENSE TYPE	2013/2014 ($000s)	2012/2013 ($000s)
Administration and secretarial services	429	413
Member communications	94	81
Legal, tax and actuarial consulting	86	181
Audit	37	37
Trustee directors' fees and related costs	168	169
Financial Markets Authority (FMA) levy	40	40
Other expenses	5	5
Total operating cost (before tax) excluding investment costs	**859**	**926**
Total operating costs as % of funds managed	0.16% (0.12% after tax)	0.20% (0.15% after tax)
Total operating cost per member	$124 ($89 after tax)	$139 ($100 after tax)

SUPER NEWS

Anti-money laundering legislation update

Until recently, it was unclear exactly how anti-money laundering legislation introduced last year would affect the Scheme. We have been granted a conditional exemption from the legislation on the basis that the Scheme poses a very low risk in relation to money laundering or terrorism financing.

Although the new legislation removes some flexibility in how members contribute to the Scheme, gaining the exemption means that in certain circumstances, members can still make voluntary contributions.

The letter you received recently explains the exemption in detail, but briefly the Scheme's trust deed has had to be amended so that, generally, voluntary contributions must now be made through payroll.

The only exceptions are:

- If you are on leave of absence you can pay contributions either to payroll or to the Scheme's administration manager. However, your contributions must be for the same amount and made at the same frequency as your contributions immediately before you went on leave of absence.
- If you have a locked-in account, you can make voluntary contributions outside payroll to bring your contributions up to the minimum $1,043 to qualify for the maximum member tax credit.

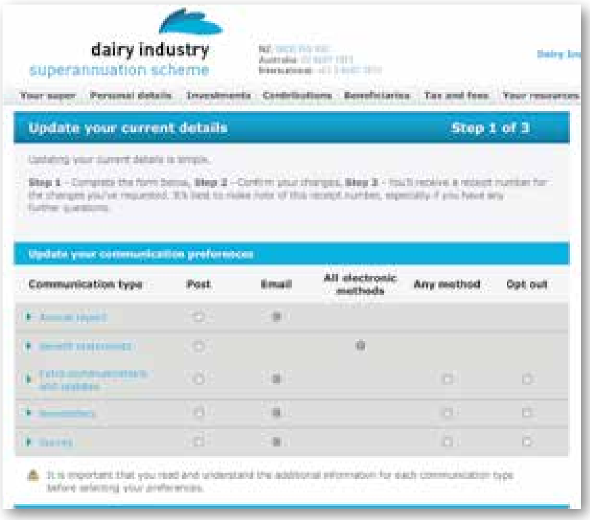
Would you like to receive future annual reports and benefit statements by email?

Almost 70% of members receive Scheme newsletters by email. If you would also like to receive your annual report and benefit statement by email, please make sure we have your correct email address. If we don't hold one for you, you will be prompted to provide one when you sign on to www.dairysuper.superfacts.co.nz. If you change your mind at any stage, you can amend your preference on the Scheme's personal details page.

New communications preferences tool added to the website

So that you can let us know how you would like to receive communications from the Scheme in future, a new communications preferences module has been added to the website.

When you go to the Personal details page you will see the pre-selected preferences. To update your preferences simply follow the steps.



STATUTORY INFORMATION

Scheme management

Dairy Industry Superannuation Scheme Trustee Limited is the corporate trustee for the Scheme. The Board has seven directors, four elected by the employer companies, one elected by employer/s identified by the Trustee, one elected by the Dairy Division, NZ Institute of Food Science and Technology and one by the Dairy Workers Union.

It is the Board's job to ensure that the Scheme is run according to the trust deed and superannuation law.

The current directors of the Trustee are:

Mark Apiata-Wade

Ko tainui toku waka
Ko taupiri toku maunga
Ko Waikato toku awa
Ko Waikato toku iwi
Ko Mark Apiata-Wade taku ingoa
Tihei mauri ora

I'm the National Organiser for the Dairy Workers Union – Te Runanga Wai U – and the DWU-elected representative/director on the Board. I've been a director for almost 20 years. I live in Horotiu, work in Hamilton and am a passionate believer in the Scheme and the benefits and peace of mind it offers to workers and their families.

Bruce Kerr

I joined the Board in March 2011 as an employer-elected director. Wellington-based, I'm widely experienced in the workplace retirement savings area, being the Executive Director of Workplace Savings NZ (the peak industry organisation representing employers, trustees and members of workplace super and KiwiSaver savings schemes, as well as industry service providers). I am also a professional trustee of two other workplace super schemes.

Outside work I enjoy running, playing golf and socialising with good friends.

Debra Marshall

I have been an employer-elected member of the Board since August 2007. My contribution to the Board stems from my role as a Rewards Manager New Zealand in Fonterra's People & Property Solutions group. Based in Auckland, I have an extensive knowledge of employee remuneration practices and superannuation in particular. Away from work I enjoy spending time with my young family.

Tim McGuinness (Chairman)

I have been on the Board since 2007 and combine my role as Chairman with the trusteeship/directorship of a number of other significant superannuation schemes (including the Police and Fire Service superannuation schemes) and investment funds, and several related consultancy assignments. I bring to the Board a broad knowledge and understanding of investment, financial and superannuation matters as well as general governance experience as a director of a number of entities over the last 13 years or so. Outdoor and sporting pursuits including golf and tramping are a feature of my non-work time.

David Scott

I was appointed as an employer-elected director of the Trustee Board in 2003. Prior to that I was a trustee of the NZ Dairy Group Superannuation Plan for a number of years, initially as a member-elected representative and later as a company representative. In my Regional Optimisation Manager role with Fonterra, I have regular contact with a wide range of corporate, transport and manufacturing staff.

Outside work my wife Sandy and I have three adult children and two lovely grandaughters, and I still enjoy playing football and softball and the occasional game of golf.

Andy Williams

I have represented the Dairy Division, NZ Institute of Food Science and Technology (which covers a wide range of food industries) on the Board since 2006. I was elected by the NZ Institute of Food Science and Technology to represent the views of their members and other people in similar positions. I am employed by Fonterra as a Product Manager. In my spare time I enjoy masters rowing and watching rugby.

Patrice Wynen

I am the Director of Fonterra's Finance Delivery Centre in Hamilton. A qualified chartered accountant, I have more than 20 years' experience in finance and management roles within the dairy industry and bring strong financial management skills to the Board. I am married with two children and am also the Chair of my children's School Board of Trustees.

Trustee Statement

The Trustee certifies, in accordance with the Superannuation Schemes Act 1989, that:

- All contributions required to be made to the Scheme in accordance with the terms of the trust deed and the most recent actuarial valuation report have been made.
- All benefits required to be paid from the Scheme in accordance with the terms of the trust deed have been paid.
- The market value of the assets of the Scheme at 31 March 2014 equalled the total value of benefits that would have been payable had all members of the Scheme ceased to be members at that date and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries at that date.

T. McGuinness
For the Trustee

Additional complying superannuation fund disclosures

As at 31 March 2014:

- The market value of the Scheme's assets subject to complying fund rules is $7,431,588 relating to 584 members.
- The value of withdrawals subject to complying fund rules totals $371,090.

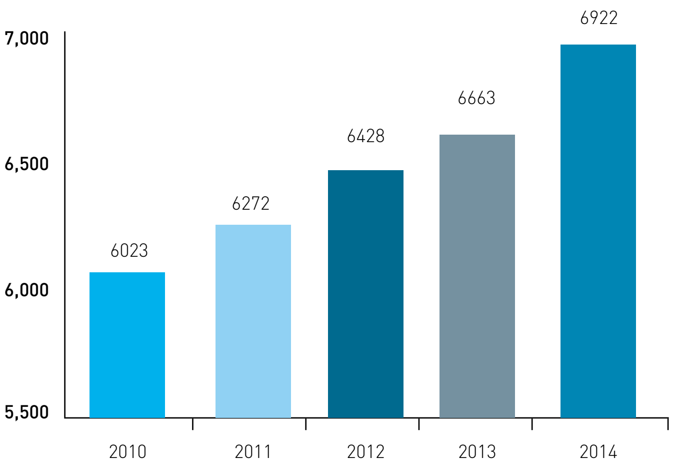
Membership

	Employee Members	Individual Members	Preserved Members	Pensioners	Total
At 1 April 2013	**6,341**	**86**	**160**	**76**	**6,663**
New members	637	20	-	4	661
Transfers in	4	-	-	-	4
Retirements	(74)	-	-	-	(74)
Resignations	(281)	-	-	-	(281)
Withdrawals	-	(10)	(8)	-	(18)
Redundancies	(11)	-	-	-	(11)
Deaths	(4)	-	-	(10)	(14)
Disablements	(6)	-	-	-	(6)
Transfer out	(2)	-	-	-	(2)
At 31 March 2014	**6,604**	**96**	**152**	**70**	**6,922**

Total membership increased by 259 (4%) over the year.

Changes in membership over the last five years

The following graph shows the change in scheme membership over the past five years.



Deaths

Sympathy is extended to the families of members and pensioners who have died.

The following members died:

CR Burgess (Fonterra), M Harrison (Fonterra), SJ Kirkcaldie (Fonterra), GA Pollard (Fonterra).

The following pensioners died during the Scheme year:

M Bell, LG Christiansen, AJ Jamieson, MT Linn, J Moczydlowski, B Notman, M Schofield, DJ Stevenson, RT Whitford, EV Wray.

DAIRY INDUSTRY SUPERANNUATION SCHEME

SUMMARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2013 $		2014 $	
	Statement of Changes in Net Assets		Summarises the Scheme's income and expenses during the year
	Investment Activities		
44,747,081	Net Investment Income	45,042,317	Investment earnings less the investment managers' fees
1,874,682	Group Life Claims	2,160,838	Payments from the insurer
46,621,763	**Net Income**	47,203,155	
	Less		
	Other Expenses		Costs of running the Scheme
727,223	Administration and Consulting Fees	653,267	
36,829	Auditor's Remuneration – Audit Fees	36,829	
21,987	Auditor's Remuneration – Taxation Services	21,056	
3,720,327	Group Life Premiums	3,814,471	
40,092	FMA Levy	40,092	
139,287	Other Expenses	141,151	
167,102	Trustee Remuneration	167,929	
4,852,847	**Total Other Expenses**	4,874,795	
41,768,916	**Change in Net Assets before Taxation and Membership Activities**	42,328,360	Investment income less expenses
6,275,744	Income Tax Expenses	6,494,857	
35,493,172	**Change in Net Assets after Taxation and Membership Activities**	35,833,503	Investment income less tax and expenses
	Membership Activities		
24,841,799	Member Contributions	26,271,815	
942,612	Voluntary Member Contributions	983,500	
126,897	Member Tax Credits	150,681	
25,142,243	Employer Contributions	25,890,152	
274,600	Transfers in from Other Schemes	141,118	
26,003,037	*Less* Benefits Paid	30,675,841	
25,325,114	**Net Membership Activities**	22,761,425	Contributions paid into the Scheme less benefits paid
60,818,286	**Net Increase in Net Assets during the Year**	58,594,928	Investment income less tax and expenses plus net membership activities

2013 $		2014 $	
	Statement of Net Assets		Summarises what the Scheme owns and what it owes
	Assets		
479,023,542	Financial Assets - Fair Value Through Profit or Loss	538,088,738	The Scheme's assets held with the investment managers
334,568	Current Assets	939,207	
117,246	Income Tax Receivable	23,552	
10,503	Prepayments	10,503	
85,710	Deferred Tax Asset	70,923	
479,571,569	**Total Assets**	539,132,923	
	Less		
	Current Liabilities		Liabilities are amounts owed to others
-	Contributions Refundable	750	
228,948	Benefits Payable	1,233,582	
134,399	Sundry Creditors	95,450	
9	Income Tax Payable	-	
363,356	**Total Liabilities**	1,329,782	
479,208,213	**Net Assets Available for Benefits**	537,803,141	Total assets less current liabilities
468,218,722	**Vested Benefits***	526,786,035	Benefits payable had all members left the Scheme at balance date
	Statement of Cash Flows		Summarises cash flows through the Scheme during the year
22,515,784	Net Cash Flows from Operating Activities	21,443,373	Contributions less benefit payments & operating expenses
(22,899,999)	Net Cash Flows from Investing Activities	(20,838,734)	
(384,215)	Net Increase/(Decrease) in Cash Held	604,639	Total cash flow
718,783	Cash at Beginning of Year	334,568	Plus cash held at beginning of year
334,568	**Cash at End of Year**	939,207	

* 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.

NOTES TO THE SUMMARY FINANCIAL STATEMENTS

A summary of the Scheme's audited financial statements for the year ended 31 March 2014 which were authorised for issue by the Trustee on 4 July 2014 is shown on page 18 of this annual report and above. The summary financial statements have been extracted from the full audited financial statements dated 31 March 2014 which were authorised for issue on 4 July 2014. The summary financial statements have been prepared in accordance with FRS-43 Summary Financial Statements.

The full financial statements have been prepared in accordance with generally accepted accounting practice and they comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The Scheme has made an explicit and unreserved statement of compliance with NZ IFRS in note 2 of its full financial statements. The financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Scheme operates.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements of changes in net assets, net assets and cash flows of the Scheme. A copy of the full financial statements can be obtained, free of charge, from the Scheme's administration manager. The Scheme is a profit orientated entity.

The auditor has examined the summary financial statements for consistency with the audited financial statements and has issued an unmodified opinion on both the summary financial statements and the full financial statements.

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

To the members of Dairy Industry Superannuation Scheme

The accompanying summary financial statements on pages 18 and 19, which comprise the summary statement of net assets as at 31 March 2014 and the summary statements of changes in net assets and cash flows for the year then ended, and related notes, are derived from the audited financial statements of Dairy Industry Superannuation Scheme ("the scheme") for the year ended 31 March 2014.

We expressed an unmodified audit opinion on those financial statements in our report dated 4 July 2014. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Dairy Industry Superannuation Scheme.

Trustee's responsibility for the financial statements

The trustee is responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43 *Summary Financial Statements*.

Auditor's responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810 *Engagements to Report on Summary Financial Statements*.

Our firm has also provided other services to the scheme in relation to taxation. This matter has not impaired our independence as auditor of the scheme. The firm has no other relationship with, or interest in, the scheme.

Opinion

In our opinion, the summary financial statements have been correctly extracted from the audited financial statements of Dairy Industry Superannuation Scheme for the year ended 31 March 2014, and the information reported in the summary financial statements is consistent, in all material respects, with the audited financial statements, in accordance with FRS-43 *Summary Financial Statements*.

KPMG

4 July 2014
Wellington

SCHEME DOCUMENTS

Trust deed

No amendments were made to the trust deed during the Scheme year. However, it was amended by a deed dated 10 June 2014 to comply with the terms of the Trustee's ministerial exemption from anti-money laundering legislation.

As a result of the amendment, in most circumstances voluntary contributions must now be made through payroll.

The only exceptions are:

- If you are on leave of absence you can pay contributions either to payroll or to the Scheme's administration manager. However, your contributions must be for the same amount and made at the same frequency as your contributions immediately before you went on leave of absence.
- If you have a locked-in account, you can make voluntary contributions outside payroll to bring your contributions up to the minimum $1,043 to qualify for the maximum member tax credit.

Prospectus

The Scheme's most recent prospectus was registered on 20 September 2013 and amended on 27 February 2014 and 10 June 2014.

Summary of triennial statutory actuarial valuation report as at 31 March 2012

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2012. The Actuary concluded that the value of the accrued benefits of both the Allocated and Non Allocated (the pensions) sections are fully covered by the Scheme's assets. In this report, the Actuary recommended that the employers continue not making additional contributions other than those required under the trust deed in respect of allocated members (pensioners).

The Actuary also recommended that the next statutory valuation be carried out at 31 March 2015, or earlier if there is a substantial fall in the value of the assets which is expected to be permanent.

Summary of interim actuarial report as at 31 March 2014

An interim actuarial valuation was carried out as at 31 March 2014. The valuation assumptions were the same as those used for the 2012 actuarial valuation which anticipated investment returns of 5.5% pa.

The actuarial review reported a surplus and the actuary recommended a transfer of $0.217 million from the Non-Allocated Account to the Reserve Account. The Trustee has adopted this recommendation and the Non Allocated section is in a balanced position as at 31 March 2014.

SCHEME PERSONNEL – HERE TO HELP YOU

Peter Alsop continues to take care of the day-to-day running of the Scheme. Please call Peter or the Member Helpline if there is any aspect of the Scheme or this report you do not understand.

Peter can be contacted at:
Freephone: 0800 355 900
Telephone: (04) 819 2600
Facsimile: (04) 914 0434
P O Box 1849, Wellington 6140

Judy Fletcher continues to be responsible for the running of the Scheme in respect of pensioners. Please call Judy on the Pensioner Helpline if you have a query about your pension from the Scheme.

Judy can be contacted at:
Freephone: 0508 473 674
Telephone: (09) 928 3200
Facsimile: (09) 928 3201
P O Box 1849, Wellington 6140

Derek Vincent continues as Scheme Secretary. Contact Derek if you would like to correspond with the Trustee, have any questions about this report, or for a copy of the Scheme's audited financial statements. Copies of the Scheme's statement of investment policy and objectives are also available free of charge from Derek.

Derek can be contacted at:
Freephone: 0800 355 900
Telephone: (04) 819 2600
Facsimile: (04) 914 0434
P O Box 2897, Wellington 6140

INTRODUCING DEREK VINCENT

Derek is an experienced superannuation specialist having worked in the industry for over 30 years. He has worked for Mercer in Wellington for nine years and has acted as Scheme Secretary since 2007. Prior to emigrating to NZ in 2005, Derek worked for a number of large companies, including Jaguar Cars for 10 years. Outside work, Derek enjoys tramping and watching the Hurricanes and the All Blacks (even when they are playing England).

MY, HOW WE'VE GROWN IN 10 YEARS!

	2004/2005	2013/2014	
MEMBERSHIP			
• Members	5,473	6,852	1,379 extra members
• Pensioners	168	70	
Total net assets	$243.63m	$537.80m	$294m more in total net assets
CONTRIBUTIONS			
• Members	$15.33m	$27.41m*	$12m increase in members contributions
• Employers	$14.60m	$25.89m	$11m increase in employer contributions
EXPENSES			
• Investment	$0.64m	$2.00m	
• Operating	$0.67m	$1.06m	
INSURANCE PREMIUM	$1.84m	$3.81m	
Total expenses	$2.50m	$6.87m	
BENEFITS PAID	$24.38m	$30.68m	$6m increase in benefits paid

* Includes member tax credits

DIRECTORY

ADMINISTRATOR

All correspondence should be addressed to:

Scheme Secretary
Dairy Industry Superannuation Scheme
C/- Mercer (N.Z.) Limited
P O Box 2897
Wellington 6140

Freephone: 0800 355 900
Telephone: (04) 819 2600
Facsimile: (04) 915 0434

Administers the Scheme on behalf of the Trustee.

INVESTMENT MANAGERS

AMP Capital Investors (NZ) Limited

ANZ New Zealand Investments Limited*

Harbour Asset Management Limited

Mercer (N.Z.) Limited

Russell Investments Limited

Responsible for investing the Scheme's assets in accordance with the investment policy adopted by the Trustee.

* Effective 20 September 2013, OnePath (NZ) Limited changed its name to ANZ New Zealand Investments Limited.

As noted in last year's annual report, BT Funds Managment ceased to invest assets on the Scheme's behalf effective 30 April 2013.

ACTUARY

Mercer (N.Z.) Limited

Conducts actuarial reviews.

AUDITOR

KPMG

Audits the Scheme's financial statements.

INSURANCE PROVIDER**

AMP

Provides cover for the insurance benefits.

**Effective 1 September 2013, Sovereign replaced AMP as the Scheme's insurer.

SOLICITORS

Kensington Swan

Advises the Trustee on legal issues affecting the Scheme.

INVESTMENT CONSULTANT

Mercer Investment Consulting

Assists the Trustee in setting investment policy and monitoring the investment managers.

PRIVACY ACT

Your personal information may be held for the purposes of the Scheme and when necessary passed between your employers, the Trustee and the Scheme's professional advisers. If you wish to check or amend your personal information, please contact the Scheme Secretary.

TO MAKE A COMPLAINT

1. Call the helpline to discuss your concerns.
2. Depending on the nature of your complaint, the helpline will direct it either to the administration team or to the Scheme Secretary.

The Trustee has 40 working days to respond to your complaint. If you are not satisfied by the response, you may refer the matter to FSCL by emailing info@fscl.org.nz or calling FSCL on 0800 347 257.

Alternatively you may write to FSCL at:

Financial Services Complaints Limited
45 Johnston Street
P O Box 5967, Lambton Quay
Wellington 6145

Full details of how to access the FSCL scheme can be obtained on their website www.fscl.org.nz.

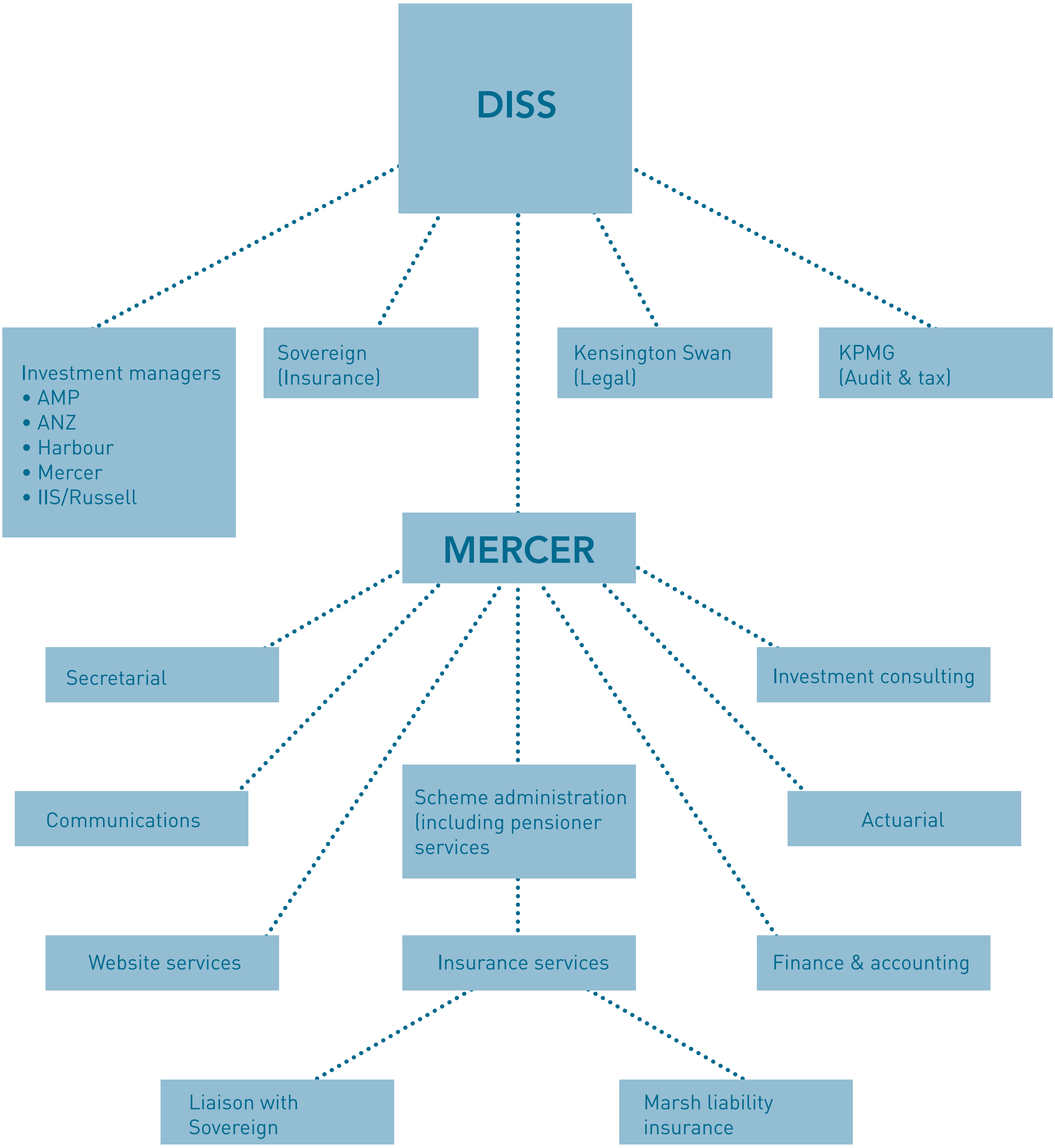
LOOKING FOR MORE INFORMATION?

Internet access:
www.dairysuper.superfacts.co.nz

Member Helpline: 0800 355 900
(9.00am to 7.00pm on business days)

SCHEME SERVICE PROVIDERS

The diagram below shows how the Scheme providers interconnect to provide services to the Scheme



The year in numbers

NEW MEMBERS
665

NET ASSETS AVAILABLE TO PAY BENEFITS
$537.80M

TOTAL MEMBERSHIP
6,922

WEBSITE VISITS
52,423

MEMBER AND EMPLOYER CONTRIBUTIONS
$53.44M*

CALLS TO THE HELPLINE
2,432

BENEFITS PAID
$30.68M

* Includes member tax credits & transfers