



dairy industry
superannuation scheme



Fonterra Brands Takanini Dairy Workers

Annual Report

for the year ended 31 March 2017



Chairman's review

The latest Scheme year has certainly been eventful, both on the investment front and from an administrative perspective. Gloomy predictions about the impact on financial markets of Britain's surprise decision to leave the European Union and then Donald Trump's unexpected election as US President failed to materialise. In fact, since the Brexit vote the UK economy has grown more strongly than most other developed nations. And, spurred by Trump's campaign promises of tax cuts and higher infrastructure spending, US share markets have also performed extremely well.

Strong returns from global sharemarkets, particularly in the final quarter, benefited members investing in the Scheme's Growth and Balanced funds. However, returns from the Cash and Conservative funds were more subdued, perhaps reflecting signs that longer-term interest rates could be on the rise.

Financial Markets Conduct Act

The Scheme officially transitioned to the new Financial Markets Conduct Act regime in September and this annual report is our first under the new legislation.

One aim of the new regime is to make it easier to compare one investment with another. Annual reports now include seven specific sections, while a new document, the fund update, must also be issued annually for each of the Scheme's investment options. The purpose of the fund update is to tell you how an investment option has performed over the past year and the fees charged, to help you compare it with other options.

In addition, the timeframes within which annual review information must be issued have been shortened.

Additional member benefits

Effective 1 October, two new benefits were added to the Scheme:

- › Members who are contributing (or have contributed) to a locked-in account for three or more years can now apply to make a withdrawal from their locked-in account to put towards the purchase of a first home or, in special circumstances, a second home. Four home withdrawal benefits have been approved since this benefit was introduced.
- › Members who are suffering or are likely to suffer significant financial hardship can also apply to withdraw some of their savings in the Scheme. Applicants must satisfy the Trustee that they are suffering or are likely to suffer significant financial hardship. Since 1 October, 26 significant financial hardship benefits have been approved.

A financial summary is no longer required in the annual report. Copies of the full audited financial statements are available from Documents & forms on the Scheme website, on the Companies Office Disclose website or by calling the helpline.

New Scheme administrator

During the year, Peter Alsop, who had administered both this Scheme and the Fonterra scheme for 12 years, retired. Peter had a deep knowledge and understanding of the Scheme and its members, and we wish him a long and happy retirement.

We would like to welcome Chris Luey, who has been appointed as the new Scheme administrator. Prior to joining Mercer, Chris worked as a financial adviser for the Commonwealth Bank in Australia, where superannuation was a key area of advice he provided to the bank's retail clients.

...and finally

This is the third occasion that the annual report and benefit statement have been combined. Later this year we will be carrying out a survey to find out your views on the combined document – please complete it so we know what you think.

I must 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.

I would also like to thank my fellow directors and the Scheme's external service providers for their continuing efforts on behalf of members during the year.



Tim McGuinness
Chairman

A quick guide to using the new Companies Office Disclose website

Go to: www.companiesoffice.govt.nz/disclose

Select:

- › **'Search offers'** for documents such as the product disclosure statement and fund updates; and
- › **'Search schemes'** for documents including the annual report, financial statements, trust deed and statement of investment policy and objectives.

Search Dairy Industry Superannuation Scheme

Your investment options

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). Each option has a different level of risk and return, depending on its mix of growth and income assets. Growth assets are more suited to longer-term savings as their returns fluctuate more in the short term, but tend to be higher over the longer term. Income assets are more suited to shorter-term savings as their returns fluctuate less over the short term, but tend to be lower over the longer term. For the investment risk indicator and long-term return objectives for each of the Scheme's investment options, refer to the product disclosure statement on Documents & forms on www.dairysuper.superfacts.co.nz.

Choosing the right option is important. If you need help, go to the Investor kickstarter tool on sorted.org.nz and/or contact an authorised financial adviser. A list of authorised financial advisers is available on the Financial Markets Authority website www.fma.govt.nz/compliance/lists-and-registers/.

Further information about the investment options and their performance is set out in the fund updates for each investment option, which are available from the Documents and forms page of www.dairysuper.superfacts.co.nz or on www.companiesoffice.govt.nz/disclose.

Credited interest rates for the year to 31 March 2017

Credited interest rates are allocated to your accounts at the end of the Scheme year (31 March). The rate applied varies, depending on which investment option you have chosen. As well as the four main investment funds, Growth, Balanced, Conservative and Cash, you can choose to invest in a combination of adjacent options, so Growth/Balanced, Balanced/Conservative and Conservative/Cash. Further information about the Scheme's investment options is available from the product disclosure statement.

CREDITED INTEREST RATES

Growth	9.0%
Balanced/Growth	8.1%
Balanced	7.2%
Conservative/Balanced	5.5%
Conservative	3.9%
Conservative/Cash	2.7%
Cash	1.5%

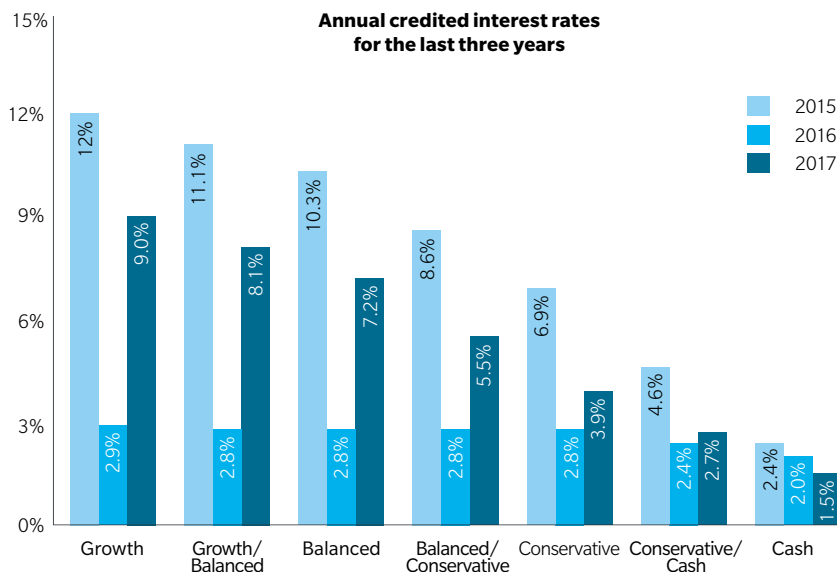
What are credited interest rates?

The investment earnings for each investment option after deduction of tax, all expenses and group life insurance premiums.

Investment performance review

Investment option performance

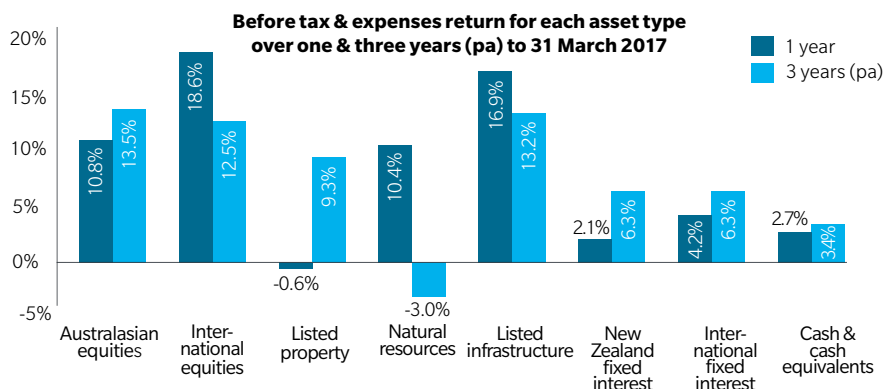
The chart to the right shows how the investment options have performed over each of the past three years. It shows very clearly how volatile equity markets affected 2016's returns and the impact the strong performance of the Scheme's international equities portfolio has had on this year's returns.



Asset class performance

As the chart to the right shows, this year's returns were generally pleasing. Top performers were international equities and listed infrastructure, while listed property posted a small negative for the year but averaged 9.3% pa over three years.

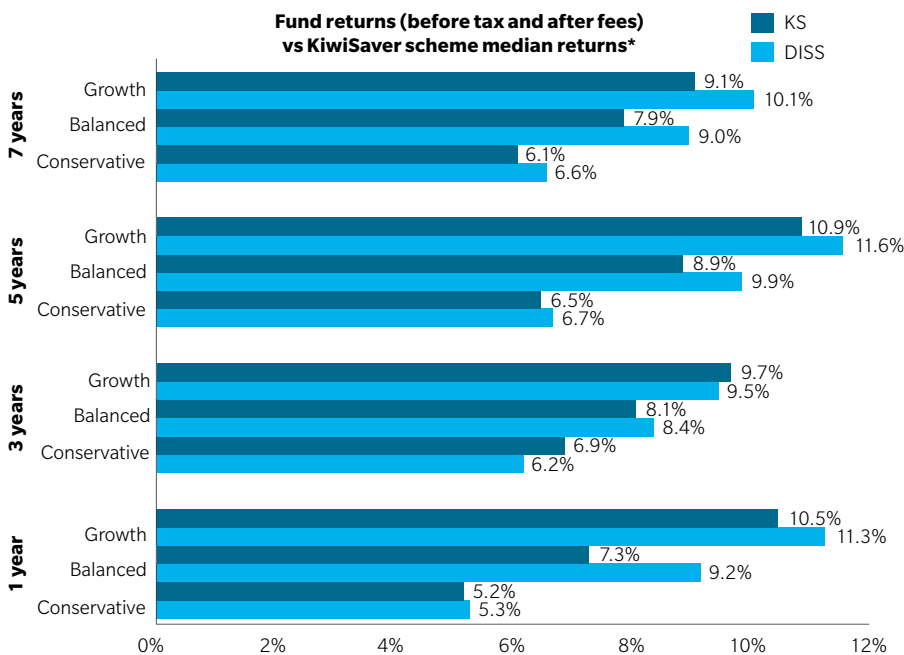
The chart also shows the impact rising bond yields, particularly in the second half of the Scheme year, had on returns from New Zealand and international fixed interest.



Scheme performance compared to KiwiSaver schemes

It's important to know how the Scheme's performance compares with other similar investments. This chart shows how returns from the three main funds compare to the median (or middle) return for KiwiSaver schemes with a similar mix of assets. The Scheme's returns continue to perform favourably, aside from a small underperformance of 0.2% and 0.7% by the Growth and Conservative funds respectively over three years. These returns will vary slightly from those that appear elsewhere in the report as all the returns in this chart are shown before tax and after fees.

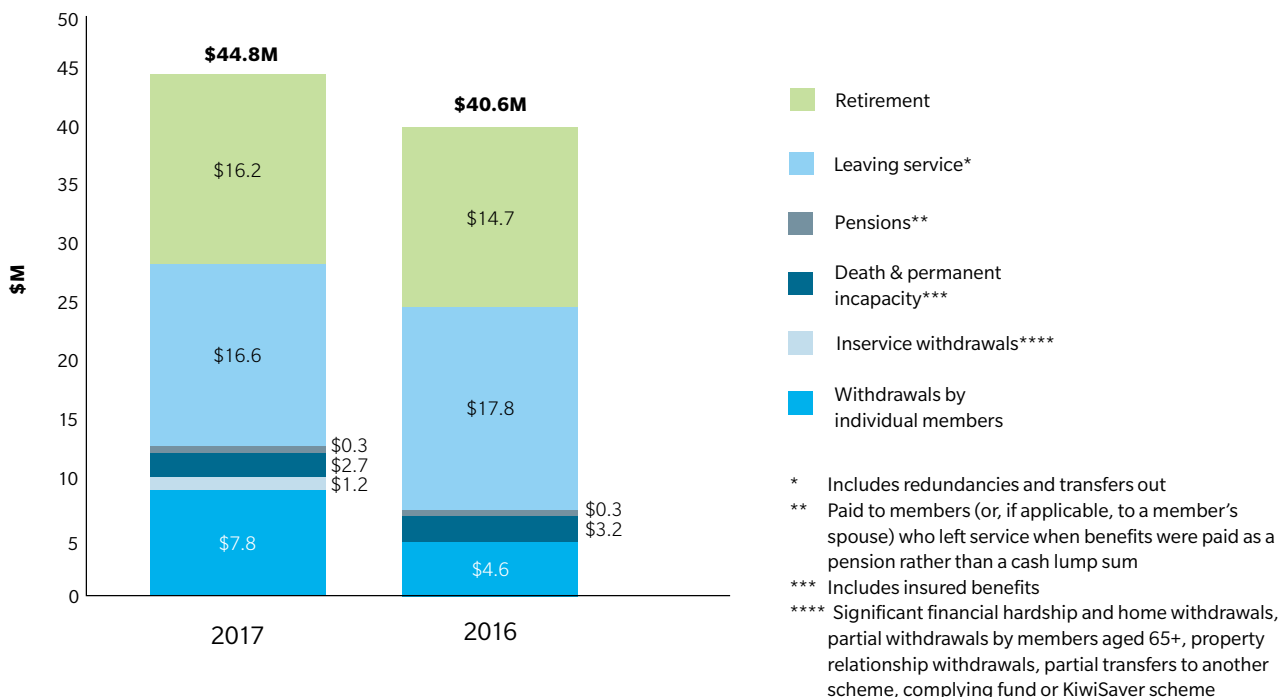
Further information about the Scheme's investment performance is available in the latest fund update for each investment option. Copies of the latest fund updates are available on www.dairysuper.superfacts.co.nz or www.companiesoffice.govt.nz/disclose.



*Source: Mercer KiwiSaver scheme survey.

Scheme pays \$44.8m 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 \$44.8m (2016: \$40.6m).



Payment of your death benefit

You may nominate a beneficiary or beneficiaries as recipients of your benefit should you die while a member of the Scheme. For your nomination to be effective, it is important that you keep it up to date, particularly if your family or marital circumstances change. You can nominate more than one person and you can change this at any time by signing into the Scheme website and going to the Beneficiaries page or by completing and returning a new 'Nomination of Beneficiaries' form (D4) available on Documents & forms on www.dairysuper.superfacts.co.nz or by calling the Scheme helpline 0800 355 900.

While the Trustee will take your nominated beneficiaries into account, it has discretion to pay the benefit to anyone it determines was wholly or partially maintained by you at the date of your death and to anyone it decides you would have wished to be considered as a recipient. It also has discretion as to the amount paid to each beneficiary.

Keeping an eye on 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.

There are three main elements to Scheme expenses:

1. Investment related
2. Administration
3. Insurance premiums

Investment related

Total investment fees and expenses paid by the Scheme last year (including those paid to its consultant) amounted to \$3.0m, compared to \$2.8m 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. Also, the more that is invested in growth assets versus income assets will make a difference.

The key measure is the cost for each dollar invested. On this basis, total investment costs in the last year represented 43 cents for each \$100 of average assets over the year, compared with 43 cents for each \$100 the year before. The current investment related costs for the various funds are shown in the chart to the right:

INVESTMENT FUND	COST PER \$100 INVESTED
Cash	11 cents
Conservative	37 cents
Balanced	57 cents
Growth	62 cents

Administration and operating expenses

The expenses for the Scheme span a wide range of services including, for example, administering member records, communications, directors' fees and legal advice. In 2016/17 there were a number of one-off costs incurred as a result of the new Financial Markets Conduct Act.

EXPENSE TYPE	2016/2017 (\$000's)	2015/2016 (\$000's)
Administration and secretarial services	494	475
Member communications	128	70
Legal, tax and actuarial consulting	174	101
Audit	41	37
Trustee directors' fees and related costs	224	186
Financial Markets Authority levy	69	62
Other expenses	3	3
Total operating cost (before tax) excluding investment costs	1,133	934
Total operating costs as % of funds managed	0.17%	0.15%
Total operating cost per member	\$154 (\$111 after tax)	\$127 (\$91 after tax)

Insurance premiums

The Scheme pays insurance premiums for members' death and permanent incapacity cover. Premiums paid for the year to 31 March 2017 totalled \$3.7 million covering 5,983 members.

Information about the Scheme

1. Details of the Scheme

This is the annual report for the Dairy Industry Superannuation Scheme for the year ended 31 March 2017. The Scheme is a restricted workplace savings scheme. The manager and trustee of the Scheme is Dairy Industry Superannuation Scheme Trustee Limited.

The Scheme's most recent product disclosure statement is dated 15 September 2016 and the Scheme is open for applications.

A fund update dated 31 March 2017 for each of the investment options will be available by 30 June 2017. This will be the first fund update for each option.

The Scheme's latest financial statements are for the year ended 31 March 2017. They were authorised for issue on 16 June 2017, and were lodged (with the auditor's report on those financial statements) with the Registrar of Financial Service Providers on 22 June 2017.

Copies of the fund updates and the financial statements (including the auditor's report) are available on www.dairysuper.superfacts.co.nz or www.companiesoffice.govt.nz/disclose.

2. Information on contributions and Scheme participants

This section provides a summary of changes in the membership of the Scheme over the year ended 31 March 2017.

Membership details

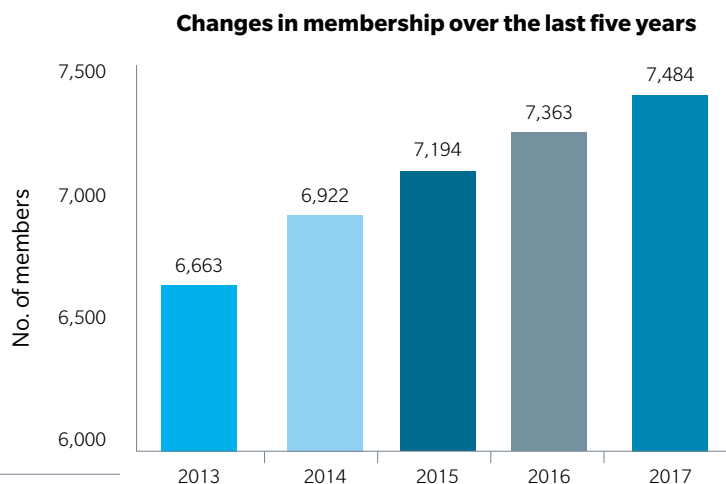
	CONTRIBUTING EMPLOYEE MEMBERS	MEMBERS NOT CONTRIBUTING					TOTAL NON- CONTRIBUTORY MEMBERS	TOTAL
		EMPLOYEE MEMBERS	INDIVIDUAL MEMBERS	PRESERVED MEMBERS	PENSIONERS			
At 1 April 2016	6,693	361	117	139	53	670	7,363	
New members	589	0	14	0	0	14	603	
Transfers in from other schemes	0	0	0	0	0	0	0	
Other new members	0	0	0	0	0	0	0	
Total new members	589	0	14	0	0	14	603	
Contributory status change	(37)	37	0	0	0	37	0	
Ceased members								
Retirements	(116)	0	0	(12)	0	(12)	(128)	
Deaths	(6)	0	0	0	(6)	(6)	(12)	
Transfers to other schemes	(1)	0	0	0	0	0	(1)	
Total other ceased members made up of:	(328)	0	(13)	0	0	(13)	(341)	
› Retrenchment/ redundancy	(23)	0	0	0	0	0	(23)	
› Permanent incapacity	(2)	0	0	0	0	0	(2)	
› Leaving service/ resignation	(303)	0	(13)	0	0	(13)	(316)	
Total ceased members	(451)	0	(13)	(12)	(6)	(31)	(482)	
At 31 March 2017	6,794	398	118	127	47	690	7,484	

*There were no transfers from other schemes into the Scheme during the year.

Members' accumulations

At 1 April 2016 = \$633,064,415
relating to 7,363 members

At 31 March 2017 = \$690,018,201
relating to 7,484 members



TYPE	NUMBER OF MEMBERS	TOTAL AMOUNT
Member contributions	7,942	\$30,340,544
Additional voluntary member contributions	423	\$1,181,831
Total employer or other sponsor contributions made up of:	8,102	\$28,769,124
› Employer contributions	7,644	\$28,543,670
› Member tax credits	458	\$225,454
		\$60,291,499

Deaths

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

During the Scheme year, the following members died:
Christopher Denis Batty, Fonterra; Michael Douglas Fairclough, Fonterra; Erik Heath, Fonterra; Les O'Donnell, Fonterra; Stephen Ross Philip, Fonterra; Waaka Walker Ririnui, Fonterra; Michael James Sweeney, Fonterra.

The following pensioners died:

Beverley Livingstone, Joy Morrison, Ursula Sayer, Tu Tuki Te Whanau, Rose Wray, Donald Young.

3. Changes relating to the Scheme**Trust deed**

The Scheme's trust deed has been amended to align with the requirements of the Financial Markets Conduct Act (FMC Act).

The material changes made to the trust deed were:

- › Updated terminology and new definitions
- › Updated indemnity provisions and delegation powers
- › Provisions providing more detail on how the Scheme's assets are valued and interest rates are set
- › Provisions addressing the Trustee's core FMC Act obligations regarding financial statements, record-keeping, member and pensioner statements, material error corrections, having a licensed independent trustee director, registers, annual reports, related party transactions, rights to information and reporting to the Financial Markets Authority
- › Provisions addressing the Trustee's obligations to maintain and comply with a statement of investment policy and objectives that meets FMC Act requirements; and
- › Removal of references to the Advisory Committee.

The trust deed was also amended to incorporate the new significant financial hardship and first home withdrawal benefits.

Statement of investment policy and objectives

Material changes to the statement of investment policy and objectives, partly required as a result of transitioning to the FMC Act regime, were:

- › Added a policy on 'limit breaks', being any material breach of parameters set out in the statement of investment policy and objectives
- › Updated the asset allocation ranges for each investment fund
- › Expanded the description of investment risks
- › Specified permitted investments
- › Updated certain terminology.

Related party transactions

Mercer (N.Z.) Limited (Mercer) as administrator of the Scheme is regarded as a related party in terms of the FMC Act. Mercer provides the Scheme with a range of services including administration, secretarial, investment consulting and funds management.

Amendments were made to the Trustee's agreements with Mercer to reflect changes required under the FMC Act. The Scheme's investments previously invested in the Mercer Superannuation Investment Trust (MSIT) were also transitioned to the Mercer Investment Trusts New Zealand. All related party transactions entered into during the accounting period were on arm's length commercial terms.

4. Other information for particular types of managed funds

Withdrawals

During the year to 31 March 2017, the following withdrawals were made from the Scheme

LEAVING SERVICE		IN-SERVICE	
Retirements	128	First home	4
Retrenchment/redundancy	23	Property (Relationships) Act	20
Deaths	12	Partial withdrawal by members aged 65+	59
Permanent incapacity	2	Significant financial hardship	26
Leaving service/resignation	316	Partial transfer to another complying superannuation fund/KiwiSaver scheme	6
Transfers to other schemes	1		
Total members who made leaving service withdrawals	482	Total members who made in-service withdrawals	115

Employer contributions

The amounts of employer contributions paid have been in accordance with the recommendations contained in the most recent actuarial report for the Scheme.

Summary of triennial statutory actuarial valuation report as at 31 March 2015

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2015. 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 his 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.

The Actuary also recommended that the next statutory valuation be carried out at 31 March 2018, 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 2017

The interim actuarial valuation at 31 March 2017 showed the Non Allocated Account held \$0.073 million in excess of the value of pension liabilities. The Trustee transferred this amount to the Reserve Account and maintained the Reserve Account at 40% of the value of pension liabilities when setting crediting rates for the year. Therefore, the Non Allocated Account and Reserve Account provided a comfortable margin in excess of the value of pension liabilities at 31 March 2017.

Declared interest rates for the year to 31 March 2017

The declared interest rates are the rates applied to benefits paid out during the year.

	MONTH ENDING	CASH	CASH/ CONSERVATIVE	CONSERVATIVE	CONSERVATIVE/ BALANCED	BALANCED	BALANCED/ GROWTH	GROWTH
2016	APRIL	0.1%	0.2%	0.3%	0.4%	0.4%	0.4%	0.4%
	MAY	0.2%	0.6%	1.1%	1.5%	1.9%	2.1%	2.3%
	JUNE	0.3%	0.7%	1.1%	1.4%	1.6%	1.6%	1.6%
	JULY	0.4%	1.4%	2.3%	3.0%	3.7%	4.0%	4.3%
	AUGUST	0.6%	1.5%	2.3%	2.9%	3.6%	3.8%	4.1%
	SEPTEMBER	0.7%	1.6%	2.4%	3.1%	3.8%	4.1%	4.3%
	OCTOBER	0.8%	1.3%	1.8%	2.2%	2.6%	2.7%	2.9%
	NOVEMBER	0.9%	1.2%	1.5%	2.0%	2.5%	2.7%	2.9%
	DECEMBER	1.0%	1.4%	1.9%	2.8%	3.7%	4.1%	4.6%
	2017	JANUARY	1.1%	1.6%	2.1%	3.0%	3.9%	4.4%
FEBRUARY		1.2%	2.2%	3.1%	4.5%	5.8%	6.6%	7.3%
MARCH		1.5%	2.7%	3.9%	5.5%	7.2%	8.1%	9.0%

Example: Say Pat resigns in February, after the rates for January have been declared. Pat's savings are invested in the Balanced fund, so the declared interest rate applied to Pat's benefit will be 3.9%.

Manager's statement

The Trustee as manager of the Scheme states that:

- › All contributions required to be made to the Scheme in accordance with the terms of the Scheme's trust deed have been made.
- › All the benefits required to be paid from the Scheme in accordance with the terms of the Scheme's trust deed have been paid.
- › The market value of the Scheme's property at 31 March 2017 equalled or exceeded 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 as at 31 March 2017.

On behalf of the Trustee:



T. McGuinness

16 June 2017

Locked-in complying fund section

The information below relates only to the locked-in section.

At 31 March 2017, the market value of the assets subject to the complying fund rules totalled \$15,413,479 relating to 828 members. The value of withdrawals subject to complying fund rules made during the year totalled \$53,662.

5. Changes to persons involved in the Scheme

Trustees

The current directors of the Trustee are:

- › Mark Apiata-Wade
- › Bruce Kerr (Licensed Independent Trustee)
- › Tim McGuinness (Chairman)
- › David Scott
- › Andy Williams
- › Patrice Wynen

Further information about the directors is available from the home page of www.dairysuper.superfacts.co.nz.

Trustee director changes

Debra Marshall resigned as a trustee director on 31 July 2016.

Karen Duffy was appointed as a trustee director on 1 August 2016 and resigned on 8 February 2017.

Who else is involved?

There were no changes to the Scheme's service providers during the year. These providers are:

TITLE	NAME	ROLE
<ul style="list-style-type: none"> › Administration manager › Actuary › Investment consultant › Scheme Secretary 	Mercer (N.Z.) Limited	<ul style="list-style-type: none"> › Looks after the day-to-day running of the Scheme › Advises the Trustee about the Scheme's funding position › Provides investment advice and recommendations › Supports and assists the Trustee directors
Auditor	KPMG	Audits the Scheme's financial statements and the member register
Custodian	Dairy Industry Superannuation Scheme Trustee Limited	Holds the assets of the Scheme
Insurer	Sovereign Assurance Company Limited	Insures the insured portion of the death and permanent incapacity benefits
Underlying fund managers	AMP Capital Investors (NZ) Limited ANZ New Zealand Investments Limited Harbour Asset Management Limited Mercer (N.Z.) Limited Russell Investment Group Limited	Responsible for investing the underlying funds into which the Trustee invests the Scheme's assets in accordance with the statement of investment policy and objectives adopted by the Trustee
Securities Registrar	Mercer (N.Z.) Limited	The holder of the Scheme's member register

Details of the changes to the directors of the Trustee are set out above. There have been no changes to the key personnel of the Trustee.

6. How to find further information

You can find further information relating to the Scheme, including financial statements, annual reports, annual fund updates, the Scheme's trust deed and statement of investment policy and objectives, in the offer register and the scheme register at www.companiesoffice.govt.nz/disclose (search Dairy Industry Superannuation Scheme).

A copy of the information on the offer register and scheme register is available on request from the Registrar of Financial Service Providers.

The above information is also available free of charge on our website at www.dairysuper.superfacts.co.nz or by contacting the Scheme Secretary whose contact details are set out on page 12.



7. Contact details and complaints

If you have any questions or would like further information about the Scheme, please call the Helpline or you can contact the Trustee through the Scheme Secretary.

Call: 0800 355 900 during normal business hours.

Write to:

Scheme Secretary
Dairy Industry Superannuation Scheme
C/- Mercer (N.Z.) Limited
Level 8, PwC Tower
113-119 The Terrace
PO Box 2897, Wellington 6140

How to complain

You can lodge a complaint with the Trustee through the Scheme Secretary.

The Scheme is a member of an approved dispute resolution scheme operated by Financial Services Complaints Limited (FSCL). If you have complained to the Trustee and you have reached the end of our internal complaints process without your complaint being resolved to your satisfaction, FSCL may be able to consider your complaint.

To contact FSCL:

Call: 0800 347 257 during normal business hours

Email: complaints@fscl.org.nz

Write to: Financial Services Complaints Limited, PO Box 5967, Level 4, 101 Lambton Quay, Wellington 6145.

FSCL will not charge a fee to investigate or resolve a complaint.

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

Scheme personnel - here to help you

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

Following the retirement of Peter Alsop, the Scheme's administrator for the past 12 years, Chris Luey has been appointed to take care of the day-to-day running of the Scheme. Chris has worked in financial services for seven years, most recently as a financial adviser for the Commonwealth Bank in Australia. He says he is really enjoying learning about the Scheme and the great benefits it offers members, and is always happy and available to assist no matter how small the enquiry. Please call Chris if there is any aspect of the Scheme or this report you do not understand.



Chris can be contacted at:

Freephone: 0800 355 900

Telephone: (04) 819 2600

Facsimile: (04) 819 2699

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

Correspondence to Chris, Judy or the Securities Registrar should be addressed to Mercer (N.Z.) Limited, PO Box 1849, Wellington 6140 or Freephone 0800 355 900.



The average Scheme member – is male, aged between

50 and 54 years

has a total account balance of

\$116,000

and has been in the Scheme for just over

10 years

It pays to be in for the long haul –

1,672 members

(or 22.48% of the Scheme's total membership)
have account balances of more than

\$150,000

built up over an average of

16.5 years'

Scheme membership

Membership doesn't have to end at 65 years –

250 members

are aged 65+. Their average account balance is

\$162,500

and they've been Scheme members for an average of

13 years