



dairy industry
superannuation scheme



Annual Report

for the year ended 31 March 2018



On the cover: Taabeta Tebau, Goodman Fielder, Puhoi
Above: John Doran, Fonterra Operations Dairy Fert, Dairyworkers Union Member

Chairman's review

Despite a somewhat rocky finish, the 12 months to 31 March 2018 provided another strong year for investors. All investment options delivered positive returns.

Politics continued to influence investor sentiment, particularly in February and March 2018 when we saw the markets go up and down. President Donald Trump was never far from the headlines, first clashing with North Korea over nuclear missile tests, before announcing tariffs on Chinese exports and blocking Chinese takeovers of US companies. In between, Trump also signed off on the largest tax cuts in US history, a US\$1.5 trillion deal, which should see increased corporate earnings and with it a modest boost to economic growth.

The Scheme continues to grow

It is pleasing to see the Scheme grow not just in terms of the funds we manage on behalf of our members, but also in terms of membership. During the year we have welcomed 736 new members. If you have an important milestone coming up and are thinking of retiring or leaving the industry, remember membership in the Scheme doesn't have to end at 65 or when you leave your current employer.

Your feedback

As the Scheme continues to grow, we wanted to understand what is important to our members and seek feedback on what is working or may need to be looked at. In February this year we asked members to provide feedback and were very pleased to see so many of you engage and provide your input. The survey was completed by 2,059 members from the total 7,509 members who were invited to participate.

What you said:

- › Most members (77%) described the combined annual report and benefit statement as helpful or very helpful. Although one in five members mentioned that they have not read the report. The latest report is available online.
- › Most of you were overwhelmingly in favour of receiving information about the Scheme electronically. In fact, only 2.6% of members were not in favour of this channel.
- › Four out of five members have indicated that they would be interested in receiving communications about the Scheme, the benefits and alerts from the Scheme by text. We are exploring this option.
- › Many of you use Helpline. More than half of respondents had called the Scheme's helpline at some stage, with a quarter of those having called it in the last year. Of those, the majority (84%) described their experience with the helpline as excellent or good.

- › Just under half of respondents access the Scheme's website on a desktop, while 29% use a combination of a desktop and a smartphone. Forgetting their log in details (member number and/or PIN) was the overwhelming reason for not using the website. See instruction on how to reset your PIN below.

Stay in the loop

All new members should now be receiving a copy of the product disclosure statement and a newly redesigned member information booklet. If you have been in the Scheme for over six months, you may consider re-reading these important documents as a refresher on how the scheme works.

The product disclosure statement is an official offer document, which was last updated in September 2017. As the product disclosure statement largely contains prescribed wording, the member information booklet was also redesigned to give members additional information on how to grow and invest your savings, as well as information on benefits available in the Scheme. Both documents are available from Document & Forms section of the website www.dairy.superfacts.co.nz.

Thank you

Thank you to my fellow directors, our employers (particularly Fonterra) in their support for the retirement savings of our members and the Dairy Workers Union particularly in assisting the Scheme on the "front line" with members in the workplace. I'd also like to thank all the service providers who continue to deliver outstanding services to our members.

The Scheme is in a good shape as we continue to look into the future!

Tim McGuinness



Tim McGuinness
Chairman

Communication preferences

Consider whether the communication preferences you have selected are appropriate for you today and if you have opted out or perhaps chose to receive your communication by post, you may wish to review that choice. Providing or updating your communication preference is easy, just log in to your account at www.dairysuperfacts.co.nz.

Communication type	Post	Email	All electronic methods	Any method	Opt out
Benefit statement package	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Extra communications and updates	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Newsletters	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Surveys	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

It is important that you read and understand the additional information for each communication type before selecting your preferences.

Set up or reset your own PIN

If you've forgotten your PIN (Personal Identification Number) and your email address is already registered then you can reset your PIN online at any time.

Instructions

To reset your PIN online, or to register for a PIN to use the website, you will need to have:

1. Your member number
2. A valid email address registered in our system
3. Your date of birth

Click on submit button and it will send you an email containing instructions on how to reset your PIN online.

Please check your email and follow the instructions within 30 minutes to continue the process.

If you don't have all of the above information, or if you are having trouble using this service, you can reset your PIN by calling the Helpline on 0800 355 900.

SECURE PASSWORDS ARE IMPORTANT!

Your investment options

About your choices

Choosing the right option is important and the Scheme offers you seven investment options to choose from. 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.

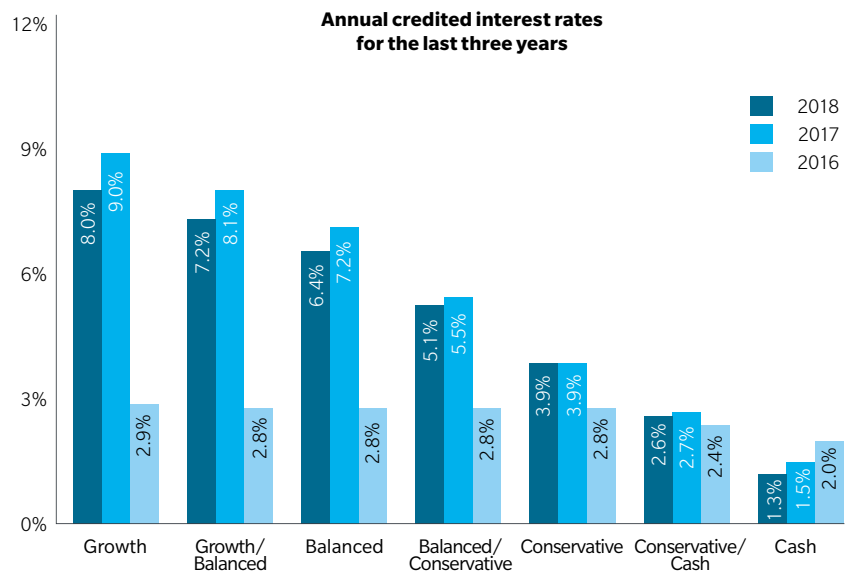
If you need help, go to the Investor kickstarter tool on sorted.org.nz and/or contact an authorised financial adviser. A list of authorised financial advisers is available on the Financial Markets Authority website www.fma.govt.nz/compliance/lists-and-registers.

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.disclose-register.companiesoffice.govt.nz.

Credited interest rates

Credited interest rates are allocated to your accounts at 31 March each year. The rate applied varies, depending on which investment option you have chosen. Credited interest rates are the investment earnings for each investment option after deduction of tax, all expenses and group life insurance premiums. Further information about the Scheme’s investment options is available from the product disclosure statement.

The chart to the right shows how the investment options have performed over each of the past three years.

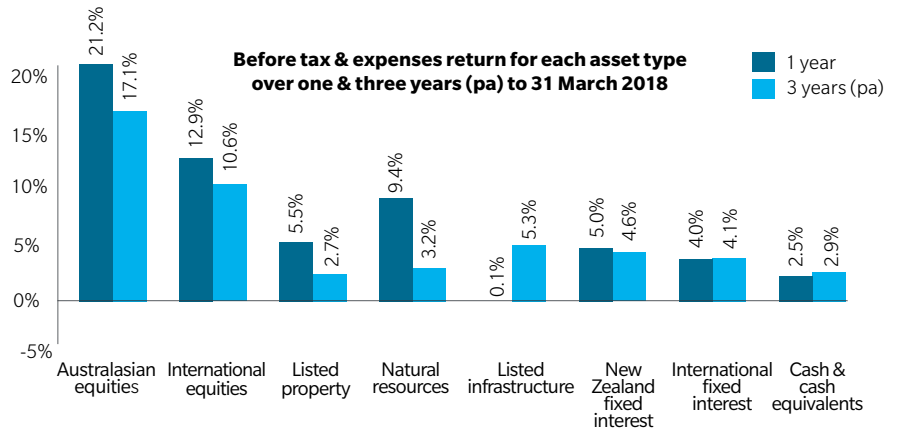


Investment performance review

Asset class performance

As the chart to the right shows, this year's returns were generally pleasing. Top performers were Australasian equities and international equities, with natural resources having another great year.

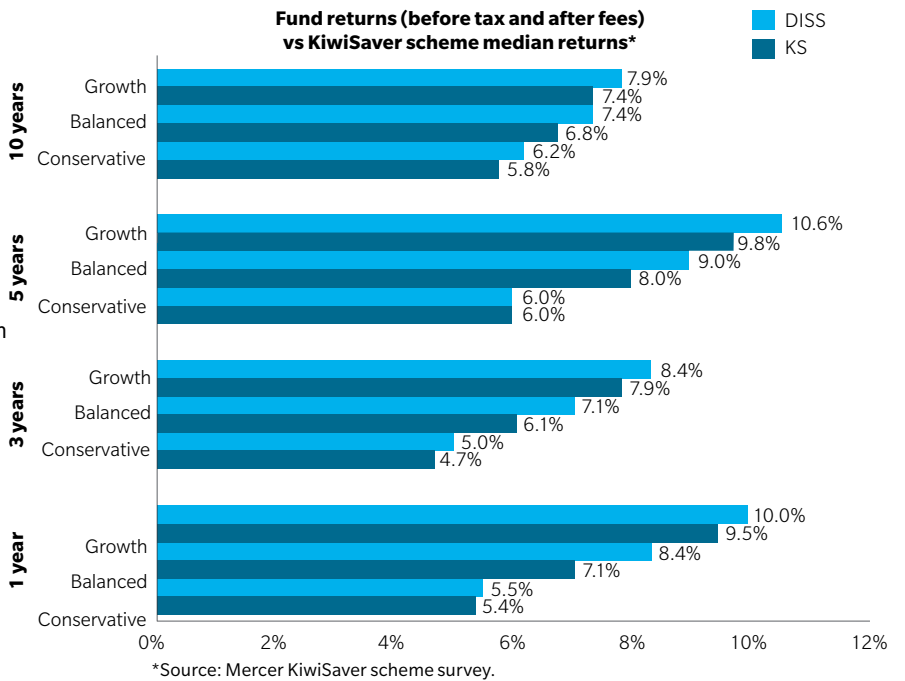
Equities saw red towards the end of the financial year, with property and infrastructure benefiting from the general risk-off investor behaviour.



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. These returns will vary slightly from those that appear elsewhere in the report as they 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 the www.disclose-register.companiesoffice.govt.nz.



Finding documents on Companies Office - Disclose website

Go to: www.disclose-register.companiesoffice.govt.nz

Select:

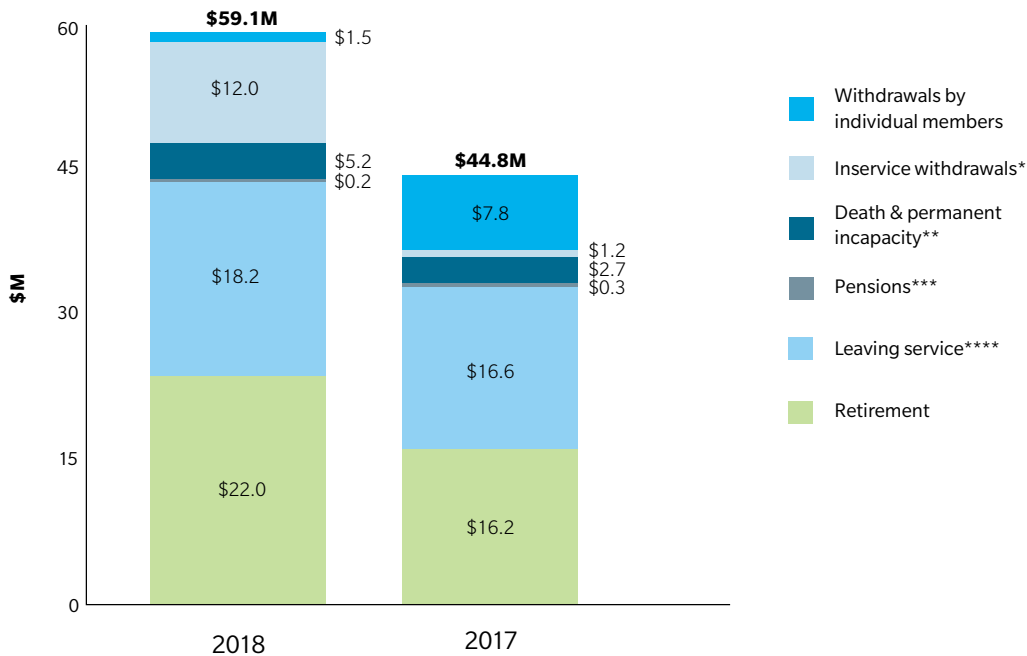
- > 'Search offers' for documents such as the product disclosure statement and fund updates;
- > 'Search schemes' for documents including the annual report, financial statements, trust deed and statement of investment policy and objectives.

Search Dairy Industry Superannuation Scheme

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.

Scheme pays \$59.1M 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 \$59.1M (2017: \$44.8M).



* Significant financial hardship and home withdrawals, partial withdrawals by members aged 65+, property relationship withdrawals, partial transfers to another scheme, complying fund or KiwiSaver scheme.

** 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.

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 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.

There are three main elements to Scheme expenses:

1. Investment related
2. Administration
3. Insurance premiums

Investment related expenses

Total investment fees and expenses paid by the Scheme last year (including those paid to its consultant) amounted to \$4.0M, compared to \$3.6M the year before. Investment fees are related to the amount of money being managed.

The increase compared to last year is primarily due to an increase in total assets (up almost 7% over the year) and a higher proportion of assets invested in the Balanced and Growth options, the costs for which are higher than Cash and Conservative.

A key measure is the cost for each dollar invested. The current investment related costs (including consulting fees) for the various investment options are summarised in the table opposite. On this basis the costs of the investment options are comparable to the previous year:

INVESTMENT FUND	COST PER \$100 INVESTED	
	2017/2018	2016/2017
Cash	12 cents	13 cents
Conservative	38 cents	38 cents
Balanced	61 cents	60 cents
Growth	65 cents	67 cents

Administration and operating expenses

Operating expenses for the Scheme span a wide range of services including, for example, administering member records, communications, directors' fees and legal advice.

EXPENSE TYPE	2017/2018 (\$000's)	2016/2017 (\$000's)
Administration and secretarial services	562	494
Member communications	100	128
Legal, tax and actuarial consulting	167	174
Audit	57	41
Trustee directors' fees and related costs	215	224
Financial Markets Authority levy	55	69
Other expenses	4	3
Total operating cost (before tax) excluding investment costs	1,158	1,133
Total operating costs as % of funds managed	0.16%	0.17%
Total operating cost per member	\$150 (\$108 after tax)	\$154 (\$111 after tax)

Insurance

The Scheme pays insurance premiums for members' death and permanent incapacity cover. Premiums paid for the year to 31 March 2018 totalled \$3.6 million covering 6,439 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 2018.

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 29 September 2017 and the Scheme is open for applications.

A fund update dated 31 March 2017 for each of the investment options was made publically available on 30 June 2017.

The Scheme's latest financial statements are for the year ended 31 March 2018. They were authorised for issue on 13 June 2018, and were lodged (with the auditor's report on those financial statements) with the Registrar of Financial Service Providers on 18 June 2018.

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

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 2018.

Membership details

	CONTRIBUTING EMPLOYEE MEMBERS	MEMBERS NOT CONTRIBUTING				TOTAL NON- CONTRIBUTORY MEMBERS	TOTAL
		EMPLOYEE MEMBERS	INDIVIDUAL MEMBERS	PRESERVED MEMBERS	PENSIONERS		
At 1 April 2017	6,794	398	118	127	47	690	7,484
Contributory status change	(57)	57	0	0	0	57	0
Transfer to Individual members section	(28)	0	28	0	0	28	0
Total status change	(85)	57	28	0	0	85	0
New members	709	0	0	0	0	0	709
Transfers in from other schemes	0	0	0	0	0	0	0
Total new members	709	0	0	0	0	0	709
Ceased members							
Retirements	(146)	0	0	0	0	0	(146)
Deaths	(12)	0	(1)	0	(3)	(4)	(16)
Transfers to other schemes	(1)	0	0	0	0	0	(1)
Total other ceased members made up of:	(297)	0	(8)	(9)	0	(17)	(314)
› Retrenchment/ redundancy	(12)	0	0	0	0	0	(12)
› Permanent incapacity	(1)	0	0	0	0	0	(1)
› Leaving service/ resignation	(284)	0	(8)	(9)	0	(17)	(301)
Total ceased members	(456)	0	(9)	(9)	(3)	(21)	(477)
At 31 March 2018	6,962	455	137	118	44	754	7,716

4. Other information for particular types of managed funds

Withdrawals

During the year to 31 March 2018, the following withdrawals were made from the Scheme.

LEAVING SERVICE		IN-SERVICE	
Retirements	146	Significant financial hardship	37
Leaving service/resignation	301	First home Withdrawal	73
Retrenchment/redundancy	12	Partial transfer to another complying superannuation fund/KiwiSaver scheme	3
Deaths	13	Property (Relationships) Act	11
Transfers to other schemes	1	Partial withdrawal by members aged 65+	115
Medical Disengagement/Serious Illness	1	Regular partial withdrawal	4
Total members who made leaving service withdrawals	474	Total members who made in-service withdrawals	243

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. The actuarial valuation report is scheduled to be finalised in September 2018.

Declared interest rates for the year to 31 March 2018

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	
2017	APRIL	0.09%	0.40%	0.71%	0.98%	1.26%	1.41%	1.56%	
	MAY	0.10%	0.24%	0.38%	0.40%	0.43%	0.43%	0.43%	
	JUNE	0.09%	0.02%	-0.05%	-0.04%	-0.03%	-0.02%	-0.02%	
	JULY	0.16%	0.28%	0.40%	0.53%	0.67%	0.73%	0.80%	
	AUGUST	0.09%	0.44%	0.79%	1.16%	1.52%	1.70%	1.89%	
	SEPTEMBER	0.09%	0.19%	0.28%	0.42%	0.55%	0.65%	0.75%	
	OCTOBER	0.09%	0.57%	1.05%	1.61%	2.16%	2.51%	2.86%	
	NOVEMBER	0.09%	0.28%	0.48%	0.64%	0.80%	0.91%	1.01%	
	DECEMBER	0.09%	0.16%	0.23%	0.30%	0.38%	0.42%	0.47%	
	2018	JANUARY	0.16%	0.24%	0.32%	0.52%	0.71%	0.86%	1.00%
		FEBRUARY	0.03%	-0.25%	-0.53%	-0.90%	-1.27%	-1.47%	-1.68%
		MARCH	0.09%	-0.04%	-0.18%	-0.47%	-0.75%	-0.95%	-1.14%

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 0.71%.

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 2018 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 2018.

On behalf of the Trustee:



T. McGuinness

13 June 2018

Locked-In complying fund section

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

At 31 March 2018, the market value of the assets subject to the complying fund rules totalled \$17,961,865 relating to 868 members. The value of withdrawals subject to complying fund rules made during the year totalled \$1,414,193.



Michelle Andrews, Fonterra Operations, Te Rapa

5. Changes to persons involved in the Scheme

Trustee directors

The current directors of the Trustee are:



Mark Apiata-Wade



Bruce Kerr
(Licensed Independent
Trustee)



Andrea Lawton



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

Andrea Lawton was appointed as a trustee director on 1 August 2017.

Who else is involved?

The only change to the Scheme's service providers during the year was the appointment of Nikko Asset Management New Zealand Limited as an additional underlying fund manager.

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	<ul style="list-style-type: none"> › AMP Capital Investors (NZ) Limited › ANZ New Zealand Investments Limited › Harbour Asset Management Limited › Mercer (N.Z.) Limited › Nikko Asset Management New Zealand 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.disclose-register.companiesoffice.govt.nz (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.



Mark Healip, DWU Union Delegate - Fonterra Brands, Takanini

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 Secretary

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

PO Box 2897, Wellington 6140

You can also contact the Securities Registrar (Mercer (N.Z.) Limited) at the same address and telephone number.



FM

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Fonterra

Dairy for life

Michelle Coffey, Fonterra Operations Darfield

The majority of the Scheme members are male,
with an average age between

50 and 54 years

has a total account balance of

\$97,000

and has been in the Scheme for

9 years

It pays to be in for the long haul –

1,874 members

(or 24.4% of the Scheme's total membership)
have account balances of more than

\$150,000

built up over an average of

17 years'

Scheme membership

Membership doesn't have to end at 65 years –

371 members

are aged 65+. Their average account balance is

\$173,000

and they've been Scheme members for an average of

14 years