

DAIRY INDUSTRY SUPERANNUATION SCHEME

FINANCIAL STATEMENTS

For the Year Ended 31 March 2020

DAIRY INDUSTRY SUPERANNUATION SCHEME

FINANCIAL STATEMENTS

For the Year Ended 31 March 2020

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Independent Auditor's Report

To the members of Dairy Industry Superannuation Scheme

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Dairy Industry Superannuation Scheme (the 'scheme') on pages 4 to 18:

- i. present fairly in all material respects the scheme's financial position as at 31 March 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of net assets as at 31 March 2020;
- the statements of changes in net assets and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has previously provided tax compliance services to the scheme. These services concluded in early 2020, relating to the 2019 Financial Year. We have no other relationship with, or interests in, the scheme.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$7,600,000 determined with reference to a benchmark of scheme total assets. We chose the benchmark because, in our view, this is a key measure of the scheme as this is the gross amount from which user's benefits will be paid.

 **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

Covid-19

The Covid-19 pandemic has resulted in additional market price volatility impacting on the carrying value of investments. While the key audit matter "Carrying Amount of Investments", detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather. Further information about the impact of the COVID-19 on the scheme can be found in Note 14 Events After Balance Date.

The key audit matter**How the matter was addressed in our audit**

Carrying Amount of Investments

The scheme's investments are considered a key audit matter due to their significance to the financial statements as a whole (the portfolio of investments makes up over 99% of the scheme's total assets).

Our audit procedures included:

- Documenting and understanding the process the scheme has in place to record investment transactions including fair value of the investment portfolio. This included evaluating the control environment in place at the scheme's administration manager and investment fund managers through review of their control reports and related assurance opinions issued by an independent auditor.
- Agreeing investment holdings and investment fair value to external confirmations received from the investment fund managers; and
- Agreeing purchases and sales of investments to bank statements on a sample basis.

 **Other information**

The Trustee, on behalf of the scheme, are responsible for the other information included in the entity's Annual Report. Other information includes the Trustee's report, portfolio performance review and other disclosures relating to management of the scheme and corporate governance. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The final Annual Report is expected to be made available to us after the date of this Independent Auditor's Report and we will report the matters identified, if any, to those charged with governance.



Use of this independent auditor's report

This independent auditor's report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.



Responsibilities of the Trustee for the financial statements

The Trustee, on behalf of the scheme, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Ed Loudon.

For and on behalf of

KPMG
Wellington

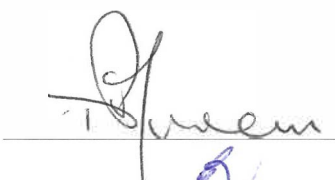
8 July 2020

DAIRY INDUSTRY SUPERANNUATION SCHEME

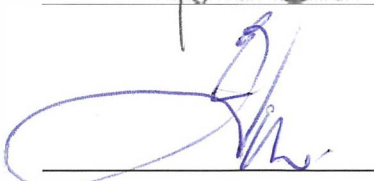
Statement of Net Assets
As at 31 March 2020

	Note	2020 \$	2019 \$
ASSETS			
Cash at Bank		1,308,255	1,437,255
Investments	6	761,101,666	785,070,744
Prepayments		15,333	3,216,915
Sundry Debtors		22,134	9,744
Contributions Receivable		20,302	-
Group Life Proceeds Receivable		1,028,644	-
Current Tax		-	150,963
Deferred Tax	8	51,429	104,250
Total Assets		<u>763,547,763</u>	<u>789,989,871</u>
LIABILITIES			
Contributions Refundable		-	2,752
Benefits Payable		3,806,507	4,351,856
Sundry Creditors		178,217	143,807
Total Liabilities		<u>3,984,724</u>	<u>4,498,415</u>
NET ASSETS AVAILABLE FOR BENEFITS		<u>759,563,039</u>	<u>785,491,456</u>
<i>Represented By:</i>	3 & 4		
Members' Allocated Accounts		757,976,635	783,693,546
Non Allocated Account		1,133,147	1,284,242
Reserve Account		453,257	513,668
LIABILITY FOR PROMISED BENEFITS		<u>759,563,039</u>	<u>785,491,456</u>

For and on behalf of the Trustee, Dairy Industry Superannuation Scheme Trustee Limited, who authorised the issue of these financial statements.

Trustee Director 

Date 8 July 2020

Trustee Director 

Date 8/7/2020

DAIRY INDUSTRY SUPERANNUATION SCHEME

Statement of Changes in Net Assets
For the Year Ended 31 March 2020

	Note	2020 \$	2019 \$
INVESTMENT ACTIVITIES			
Investment Income			
(Losses)/Gains on Investments	7	(30,584,968)	36,864,624
Distribution Income		8,820,262	8,793,517
Interest		34,899	52,573
		<u>(21,729,807)</u>	<u>45,710,714</u>
Investment Expenses			
Investment Management Fees		<u>(3,488,535)</u>	<u>(3,339,031)</u>
Net Investment Income		<u>(25,218,342)</u>	<u>42,371,683</u>
OTHER INCOME			
Group Life Claims		<u>2,889,228</u>	<u>4,198,395</u>
		2,889,228	4,198,395
OTHER EXPENSES			
Administration and Consulting Fees		939,888	915,817
Auditor's Remuneration - Financial Statement Audit		35,440	32,631
Auditor's Remuneration - Taxation Compliance Services, KPMG		4,151	15,963
Group Life Premiums		4,244,433	4,105,522
FMA Levy		53,903	52,409
Other Expenses		225,140	140,646
Trustee Remuneration		<u>189,607</u>	<u>178,500</u>
Total Other Expenses		<u>5,692,562</u>	<u>5,441,488</u>
Change in Net Assets before Taxation and Membership Activities		<u>(28,021,676)</u>	<u>41,128,590</u>
Income Tax (Rebate)/Expense	8	<u>(1,743,733)</u>	<u>3,695,374</u>
Change in Net Assets after Taxation and before Membership Activities (Carried forward)		<u>(26,277,943)</u>	<u>37,433,216</u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Statement of Changes in Net Assets (cont'd)
For the Year Ended 31 March 2020

	Note	2020 \$	2019 \$
Change in Net Assets after Taxation and before Membership Activities (Brought forward)		(26,277,943)	37,433,216
MEMBERSHIP ACTIVITIES			
Contributions			
Member Contributions		35,554,705	34,096,654
Voluntary Member Contributions		1,521,568	1,466,650
Government Contributions		214,169	221,775
Employer Contributions		32,238,150	31,193,740
Transfers in from Other Schemes		235,413	1,980,994
Total Contributions		<u>69,764,006</u>	<u>68,959,813</u>
Benefits Paid			
Retirement		22,759,612	24,989,623
Withdrawals		27,324,335	27,240,376
Retrenchment		1,450,357	729,178
Death, Permanent Incapacity and Ill Health		4,622,494	7,045,306
Transfers Out to Other Schemes		107,289	-
Pensions		213,580	225,230
Personal Scheme Withdrawals		12,936,813	9,546,590
Total Benefits Paid		<u>69,414,480</u>	<u>69,776,303</u>
Net Membership Activities		<u>349,526</u>	<u>(816,490)</u>
Net (Decrease)/Increase in Net Assets During Year		(25,928,417)	36,616,726
Net Assets Available for Benefits at Beginning of Year		785,491,456	748,874,730
Net Assets Available for Benefits at End of Year		<u><u>759,563,039</u></u>	<u><u>785,491,456</u></u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Statement of Cash Flows
For the Year Ended 31 March 2020

	Note	2020 \$	2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash provided from			
Interest		34,899	52,573
Group Life Claims		1,860,584	4,713,879
Member Contributions		37,279,515	35,786,520
Employer Contributions		32,226,025	31,195,051
Transfers in from Other Schemes		461,571	1,980,994
Income Tax Refund		150,962	-
		<u>72,013,556</u>	<u>73,729,017</u>
Cash applied to			
Benefits Paid		70,185,987	68,220,878
Other Expenses		1,415,136	1,376,598
Group Life Premiums		1,041,433	4,059,522
Income Tax Paid		-	150,962
		<u>72,642,556</u>	<u>73,807,960</u>
Net Cash Flows from Operating Activities	9	<u>(629,000)</u>	<u>(78,943)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash provided from			
Sale of Investments		47,656,196	29,805,139
Cash applied to			
Purchase of Investments		47,156,196	30,705,139
Net Cash Flows from Investing Activities		<u>500,000</u>	<u>(900,000)</u>
Net Decrease in Cash Held		(129,000)	(978,943)
Cash at Beginning of Year		<u>1,437,255</u>	<u>2,416,198</u>
Cash at End of Year		<u><u>1,308,255</u></u>	<u><u>1,437,255</u></u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

1. Scheme Description

Dairy Industry Superannuation Scheme (the "Scheme") is a defined benefit workplace savings restricted superannuation scheme registered as a Workplace Savings Scheme under the Financial Markets Conduct Act 2013. It has a defined contribution category of membership, as well as a defined benefit category of membership which is closed to new members. The Scheme covers employees of dairy and allied industry companies. Under the Trust Deed, contributions are made by the Scheme members and by the Companies.

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

Funding Arrangements

Employee members contributed to the Scheme during the year at rates between 2% and 6% of their gross salary (2019: 2% and 6%). The employers contributed at 1.5 x employee member contributions at rates between 3% and 9% (before withholding tax) of employee member gross salary (2019: 3% and 9%). A new category of elective member was introduced during the 2002 year for salaried staff employed on a total remuneration basis. For elective members, the amount contributed by members is specified by them and the employers contribution is by mutual agreement.

The Scheme is registered as a complying fund under the Financial Markets Authority. Employees opting to make locked in contributions to the Scheme under complying superannuation fund rules contributed 3% of their gross salary (2019: 3%). These members may be eligible for Member Tax Credits of up to \$521 under complying fund rules. The employers contributed 3% (2019: 3%) to employee members locked in accounts.

Member employees may choose to make additional voluntary contributions as a percentage of their gross salary.

These funding arrangements are consistent with those of the prior period.

The Trust Deed requires the Trustees to consider the findings of the Actuarial report, and ensure any deficit and future service benefits are appropriately funded.

Retirement Benefits

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

Termination Terms

The Trust Deed sets out the basis on which the Scheme can be terminated.

Changes in the Scheme

The Scheme's Statement of Investment Policy and Objectives (SIPO) was updated on 5 February 2020 to incorporate the introduction of a new asset class and slight amendments to the Scheme's benchmarks.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with the requirements of the Financial Markets Conduct Act (FMCA) 2013 and other relevant legislative requirements as appropriate for For-profit entities.

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

The Scheme comprises four main investment choices, Growth, Balance, Conservative and Cash, with combinations of two adjacent investment choices (Cash/Conservative, Conservative/Balanced and Balanced/Growth) allowed. The financial statements have been prepared at the Scheme level as investment assets are not held in separate funds per investment choice and the liabilities of each individual investment choice are met using unitised investment assets across a variety of investment types.

Measurement Base

The measurement base adopted is that of historical cost modified by the revaluation of investments which are measured at fair values at balance date.

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

2. Basis of Preparation (Cont'd)

Presentation Currency

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Scheme operates.

Classification of Assets and Liabilities

The Scheme's assets and liabilities are disclosed in the Statement of Net Assets in an order that reflects their relative liquidity. The Scheme's assets and liabilities in the Statement of Net Assets are expected to be recovered or settled no more than twelve months after the balance date, except for deferred tax and the financial assets held to meet the liability for promised retirement benefits. The liabilities for promised retirement benefits are mostly expected to be settled more than twelve months after the reporting date.

3. Summary of Significant Accounting Policies

The following are the significant accounting policies which have been applied consistently to all periods presented in these financial statements.

Investment Income

Interest and dividends from managed investments are taken to income on a due and receivable basis.

Net realised and unrealised gains and losses are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Other Income and Expenses

Other income and expenses are accounted for on an accruals basis.

Taxation

Income tax expense in the Statement of Changes in Net Assets comprises of current and deferred tax. The tax currently payable/receivable is based on taxable income for the year. Taxable income and loss differs from the Change in Net Assets before tax and membership activities as reported in the Statement of Changes in Net Assets because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Scheme's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the Statement of Changes in Net Assets.

The Scheme invests in a number of funds which are Portfolio Investment Entities ('PIEs'). For these investments, the Scheme can elect to apply a Prescribed Investor Rate ('PIR') of either 0% or 28% (2019: 0% or 28%).

Gains and losses on investments with a PIR of 0% are taxable directly within the Scheme and those with a PIR of 28% are taxable within the investment.

Gains and losses on investments with an elected PIR of 28% are taxable within the investment. The resultant tax expense/credit has been reflected as tax expense/credit on the face of the Statement of Changes in Net Assets, with Financial Assets shown net of tax on the Statement of Net Assets.

Investments have been shown net of tax payable on the Statement of Net Assets.

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

3. Summary of Significant Accounting Policies (Cont'd)

Financial instruments

Classification

The Scheme classifies its investments as financial assets at fair value through profit or loss. These financial assets are designated by the Scheme at fair value through profit or loss at inception.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Trustees to evaluate the information about these financial assets on a fair value basis together with other related financial information. The Trustees have determined that all financial assets of the Scheme are designated at fair value through profit and loss with the exception of cash, cash equivalents, and receivables which are measured at amortised cost.

Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and are initially recognised at fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cash flows from the investments has expired or the Scheme has transferred substantially all risks and rewards of ownership. All realised gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Changes in Net Assets.

Measurement

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Changes in Net Assets.

Fair Value Estimation

The Fair Value of unitholdings is determined using the exit price as calculated by the fund manager at balance date, adjusted by PIE tax payable or receivable at year end.

Other Receivables

Financial assets or financial liabilities not at fair value through profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue. Subsequently these instruments are measured at amortised cost.

Sundry Creditors

Other payables are not interest-bearing and are stated at their amortised cost.

Goods and Services Tax (GST)

The Scheme is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Statement of Cash Flows

The cash flows of the Scheme do not include those of the investment managers. The following are definitions of the terms used in the Statement of Cash Flows:

Cash - comprises cash balances held with banks in New Zealand and overseas, with maturity dates of 3 months or less.

Operating activities - include all transactions and other events that are not investing activities.

Investing activities - comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

Promised Retirement Benefits

Promised Retirement Benefits are the benefits which the Scheme is presently obliged to transfer in the future to members and participants as a result of membership of the Scheme up to the date at which the actuarial valuation of promised benefits is determined.

Contributions and Benefits

Contributions and benefits are accounted for on an accruals basis. Benefits are recognised in the Statement of Changes in Net Assets when they become payable resulting in a financial liability.

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

3. Summary of Significant Accounting Policies (Cont'd)

Critical Judgement and Accounting Estimates

The Trustees have applied their judgement in selecting the accounting policy to designate financial assets through profit or loss at inception. This policy has a significant impact on the amounts disclosed in the financial statements. It is possible to determine the fair values of all financial assets as quoted market prices that are readily available. Therefore there are no material assumptions or major sources of estimation uncertainty that have a significant risk of making material adjustments to the carrying amounts of assets and liabilities at year end. However, the value in the financial statements is based on the Investment Managers reports, therefore, while the value is based on quoted market prices it is not possible for management to directly observe. This is the basis for the investment to be classified as level 2. For the purposes of the fair value hierarchy of financial assets at fair value through profit or loss, the Trustees have to apply their judgement as to what constitutes "quoted in an active market". For further details please refer to Note 11 (Fair Value).

The Trust Deed requires Actuarial Valuations to be performed every three years to determine whether the Non Allocated account is fully funded and capable of meeting future service benefits. This Actuarial Valuation involves the exercise of judgement by the Actuary, including a number of Actuarial assumptions. For further details refer to Note 4 (Liability for Promised Benefits).

New and amended standards adopted by the Scheme

There are no new standards, amendments to standards or interpretations that are effective for annual periods beginning 1 April 2019 that have a material effect on the financial statements of the Scheme.

4. Liability for Promised Benefits

Changes in promised benefits as at 31 March 2020:

	Members' Allocated Accounts \$	Non Allocated Account \$	Reserve Fund \$	Total 2020 \$
Balance 1 April	783,693,546	1,284,242	513,668	785,491,456
Contributions	69,764,006	-	-	69,764,006
Benefits Paid	(69,865,105)	(213,580)	-	(70,078,685)
Net Income	2,889,228	-	(29,167,171)	(26,277,943)
Interest Allocated	(28,472,492)	(41,935)	28,514,427	-
Deductions for Switches	(32,548)	-	32,548	-
Forfeits	-	-	664,205	664,205
Actuarial Adjustment	-	104,420	(104,420)	-
Balance 31 March	<u>757,976,635</u>	<u>1,133,147</u>	<u>453,257</u>	<u>759,563,039</u>

Changes in promised benefits as at 31 March 2019:

	Members' Allocated Accounts \$	Non Allocated Account \$	Reserve Fund \$	Total 2019 \$
Balance 1 April	746,920,063	1,396,190	558,477	748,874,730
Contributions	68,961,719	-	(1,906)	68,959,813
Benefits Paid	(70,193,852)	(225,230)	-	(70,419,082)
Net Income	4,198,395	-	33,234,821	37,433,216
Interest Allocated	33,846,835	68,840	(33,915,675)	-
Deduction for Switches	(39,614)	-	39,614	-
Forfeits	-	-	642,779	642,779
Actuarial Adjustment	-	44,442	(44,442)	-
Balance 31 March	<u>783,693,546</u>	<u>1,284,242</u>	<u>513,668</u>	<u>785,491,456</u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

4. Liability for Promised Benefits (Cont'd)

Actuarial Valuation - Defined Benefit section

An actuarial valuation of the liabilities of the Scheme as at 31 March 2018 was prepared by Simon Barker and Mark Nelson, both Fellows of the New Zealand Society of Actuaries and employees of Mercer. The report dated 2 October 2018 concluded that the value of the accrued benefits of both the Allocated and Non Allocated (the pensions) sections was fully covered by the Scheme's assets.

An Actuarial Valuation is completed on behalf of the Scheme every three years, the next is due for the year ended 31 March 2021 to be reflected in the Schemes 31 March 2022 financial statements. The amount of the liability was calculated with reference to the NZLT 2012/14 mortality tables which differentiate between the mortality of males and females as deduced by Statistics New Zealand, with an age set back of one year and an interest rate of 5.00% p.a. net of tax and investment expenses.

The report noted that, if the Employers contribute in accordance with the recommendations in the report, and if the future experience of the Scheme is in line with the actuarial assumptions made, it was expected that the value of the total net assets would be at least equal to the value of the vested benefits or the value of the accrued benefits at the next valuation date of 31 March 2021.

The report showed the Scheme was in balance. It was recommended that the Employers make no additional contributions other than those required under the Trust Deed in respect of Allocated members.

The report stated that the value of the Vested Benefits at 31 March 2018 of \$740,403,000 was covered by the assets of the Scheme.

Significant actuarial assumptions used in the calculation of vested benefits were:

Investment Return	5.00% p.a. (previously 5.25%)
Pension Increases	Nil
Mortality Table	NZLT 2012/2014 rated down by 1 year and adjusted for mortality improvements after the effective date of the tables and in the future

The demographic assumptions used are based on the experience of this Scheme and similar schemes in New Zealand and on recognised tables of mortality.

Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for promised benefits (2019: Nil).

5. Vested Benefits

The vested benefits are the value of the benefits payable if all active members resign from service and pensions continue to be paid from the Scheme to the existing pensioners.

2020	2019
\$	\$
<u>749,478,791</u>	<u>774,399,769</u>

For the purposes of valuing pension benefits the following actuarial assumptions were used:

Investment Return	3.75% p.a. (previously 4.75%)
Pension increases	Nil
Mortality Table	NZLT 2012/2014 rated down by 1 year and adjusted for mortality improvements after the effective date of the tables and in the future

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements
For the Year Ended 31 March 2020

6. Investments	2020	2019
	\$	\$
<i>AMP Capital Investors (NZ) Limited</i>		
Short Term Deposits	88,325,390	86,763,620
Fixed Interest - Onshore	28,590,458	27,890,888
Fixed Interest - Offshore	-	39,301,787
Equities - Offshore	194,266,430	210,040,779
Global Property	<u>28,732,365</u>	<u>34,995,294</u>
	339,914,643	398,992,368
<i>Harbour Asset Management Ltd</i>		
Equities - Trans Tasman	45,806,539	49,288,690
Fixed Interest - NZ Core Wholesale	<u>28,155,000</u>	<u>27,399,970</u>
	73,961,539	76,688,660
<i>Mercer Investment Trusts New Zealand (MITNZ)</i>		
Mercer Listed Infrastructure	29,923,128	33,465,613
Mercer Natural Resources	31,916,881	30,119,409
Mercer Absolute Return Bond FD	<u>32,342,358</u>	<u>-</u>
	94,182,367	63,585,022
<i>ANZ New Zealand Investments Limited</i>		
Short Term Deposits	<u>88,613,861</u>	<u>86,855,395</u>
	88,613,861	86,855,395
<i>Nikko Asset Management</i>		
Nikko AM Wholesale Core Equity Fund	<u>46,747,392</u>	<u>52,193,879</u>
	46,747,392	52,193,879
<i>Russell Investments</i>		
Fixed Interest - Offshore	<u>117,681,864</u>	<u>106,755,420</u>
	117,681,864	106,755,420
Total Investments	<u><u>761,101,666</u></u>	<u><u>785,070,744</u></u>

The Scheme invests solely into managed funds which invest into other managed funds. Due to the nature of the investments, it is not possible to determine if a single underlying investment exceeds 5% of the Fund's assets or 5% of any class or type of security.

7. Gains on Investments	2020	2019
	\$	\$
Fixed Interest	1,010,585	3,217,832
Equities	(27,334,586)	26,346,697
Property	(6,575,940)	4,438,674
Deposits & Short Term Securities	<u>2,314,973</u>	<u>2,861,421</u>
Total (Losses)/Gains on Investments	<u><u>(30,584,968)</u></u>	<u><u>36,864,624</u></u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements
For the Year Ended 31 March 2020

8. Income Tax	2020	2019
	\$	\$
Current Tax	(308,000)	173,398
Deferred Tax	52,821	(104,249)
PIE Tax	<u>(1,488,554)</u>	<u>3,626,225</u>
	<u>(1,743,733)</u>	<u>3,695,374</u>
The total charge for the year can be reconciled to the Change in Net Assets as follows:		
Change in Net Assets before Tax and Membership Activities	<u>(28,021,676)</u>	<u>41,128,590</u>
Prima facie Income Tax @ 28%	(7,846,069)	11,516,005
Tax effect of:		
Non Assessable/Deductible Income & Expenditure	7,155,251	(11,869,792)
PIE allocated income - 0%	1,244,615	1,598,487
PIE income tax - 28%	(1,485,310)	3,626,225
Prior Period Adjustment	(3,235)	-
Non assessable group life claims	<u>(808,985)</u>	<u>(1,175,551)</u>
Income Tax Expense	<u>(1,743,733)</u>	<u>3,695,374</u>
Deferred Tax Asset		
Opening balance	104,249	173,398
Transfer from/(to) current tax	<u>(52,821)</u>	<u>(69,149)</u>
Closing Balance	<u>51,428</u>	<u>104,249</u>
Current Tax		
Opening Balance	150,962	-
Current year movement	(52,821)	(69,149)
Tax (refund)/paid	(150,962)	150,962
Transfer to/(from) deferred tax asset	<u>52,821</u>	<u>69,149</u>
Closing Balance	<u>-</u>	<u>150,962</u>

The Scheme invests in a number of funds that are Portfolio Investment Entities ('PIEs'). For these investments, the Scheme can elect to apply a Prescribed Investor Rate ('PIR') of either 0% or 28%. Taxable income attributed by PPIEs where the Scheme applies a PIR of 0% is taxable within the individual PIE. Any tax deducted/credited within the PIE funds is reflected in the valuation of investments at period end, with investment returns shown gross of tax and the related tax expense reflected on the Statement of Changes in Net Assets as 'Income Tax Expense/(Credit)'.

9. Reconciliation of Increase in Net Assets to Net Cash Flows from Operating Activities	2020	2019
	\$	\$
(Decrease)/Increase in Net Assets	(25,928,417)	36,616,726
Non-cash Items		
Losses/(Gains) on Financial Assets at Fair Value Through Profit or Loss	30,584,968	(36,864,624)
Distributions Received	(8,820,262)	(8,793,517)
PIE Tax	(1,796,554)	3,626,225
Movements in Other Working Capital Items		
(Decrease)/Increase in contributions refundable	(2,752)	2,752
Increase/(Decrease) in contributions receivable	(20,302)	-
Decrease/(Increase) in income tax receivable	203,784	(81,815)
(Decrease)/Increase in benefits payable	(545,349)	1,555,424
Decrease in prepayments	3,201,582	44,735
Increase/(Decrease) in sundry creditors	34,410	(39,365)
Increase in group life proceeds receivable	(1,028,644)	-
(Increase)/Decrease in sundry debtors	(12,390)	514,664
Items classified as investing activities		
Investment managers fees	3,500,926	3,339,852
Net Cash Flows from Operating Activities	<u>(629,000)</u>	<u>(78,943)</u>

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

10. Reserve Account

Pursuant to the Trust Deed, the Trustee shall establish a Reserve Account which shall be credited with the following:-

- (a) any amount not paid to a member upon ceasing employment with the Employer;
- (b) any unclaimed benefit;
- (c) any unallocated funds transferred in from another superannuation scheme;
- (d) the Reserve Fund's share of the Scheme's earnings or loss;
- (e) any profit share or other interest allocated by the Scheme's investment manager and not otherwise allocated to members' accounts.

The Trustee may, at its discretion, apply any part or the whole of the Reserve Fund to:-

- (a) increase on an equitable basis the total credits of all members;
- (b) provide benefits other than retirement benefits for all members on an equitable basis;
- (c) pay all or part of the contributions to the Scheme of the Employer for all members on an equitable basis;
- (d) payment of expenses of the administration of the Scheme;
- (e) pay all or part of the insurance premiums payable under the Scheme;
- (f) in such other manner as is permitted from time to time under the Trust Deed.

11. Financial Instruments

The Scheme is involved with a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies.

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

Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the Scheme's accounting policies. The fair value of unitised funds is determined using the price as calculated by the fund manager at balance date, adjusted by PIE tax payable or receivable at year end. Cash, cash equivalents, and receivables are measured at amortised cost.

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements
For the Year Ended 31 March 2020

11. Financial Instruments (Cont'd)

Categories of Financial Instruments

	Fair Value through Profit or Loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Total
31 March 2020	\$	\$	\$	\$
ASSETS				
Cash at Bank	-	1,308,255	-	1,308,255
Investments	761,101,666	-	-	761,101,666
Contributions Receivable	-	20,302	-	20,302
Sundry Debtors	-	22,134	-	22,134
Group Life Proceeds Receivable	-	1,028,644	-	1,028,644
Total Assets	761,101,666	2,379,335	-	763,481,001
LIABILITIES				
Benefits Payable	-	-	3,806,507	3,806,507
Sundry Creditors	-	-	178,217	178,217
Total Liabilities	-	-	3,984,724	3,984,724
31 March 2019				
ASSETS				
Cash at Bank	-	1,437,255	-	1,437,255
Investments	785,070,744	-	-	785,070,744
Total Assets	785,070,744	1,437,255	-	786,507,999
LIABILITIES				
Benefits Payable	-	-	4,351,856	4,351,856
Sundry Creditors	-	-	143,807	143,807
Total Liabilities	-	-	4,495,663	4,495,663

Liquidity Risk

Liquidity risk is the risk that the Scheme will encounter difficulty in raising funds to meet its obligations. Whilst there is no active market, the Scheme can obtain daily net asset values (NAVs) for its investment in the AMP, ANZ, Harbour, Nikko, Russell and Mercer Investment Trust New Zealand (MITNZ). There are no significant financial liabilities. The Scheme is exposed to periodic withdrawals by members. There are no restrictions on the redemption of units with the investment managers and they may be redeemed for cash at any time, subject to the approval of the trustees. Period of settlement range from 2 - 10 business days depending on the size of the redemption.

Credit Risk

Credit risk is the risk that the counterparty to the financial instruments will fail to discharge an obligation and cause the Scheme to incur a loss. Financial instruments which potentially expose the Scheme to credit risk consist of cash, short term deposits, receivables and indirectly, investments in managed funds which invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The significant counterparties of the Scheme is its investment managers, AMP, ANZ, Harbour, Nikko, Russell and MITNZ which the Trustees consider to be financial institutions of high quality.

Market Risk

Market risk is the risk that changes in market prices will impact the fair value of the Scheme's financial instruments. Market risk is comprised of interest rate risk, currency risk and other price risk.

(i) Currency Risk

Currency risk is the risk that the fair value of the Scheme's financial instruments will fluctuate due to changes in foreign exchange rates. The Scheme is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in unitised products which invest in foreign currency denominated investments.

(ii) Interest Rate Risk

Interest rate risk is the risk that the value of interest-bearing financial instruments such as bonds will fluctuate due to changes in the levels of market interest rates. The Scheme is indirectly exposed to interest rate risk in that future interest rate movements will affect cash flows and indirectly net market values and the valuation of investments in unitised products which invest in cash and fixed interest investments. Interest rate risk management activities are undertaken by the investment manager in accordance with the investment mandate set by the Trustees.

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements
For the Year Ended 31 March 2020

11. Financial Instruments (Cont'd)

	2020 \$	2019 \$
Short Term Deposits		
AMP Capital Investors (NZ) Limited	88,325,390	86,763,620
ANZ Investments (NZ) Limited	88,613,861	86,855,395
	176,939,251	173,619,015
Fixed Interest - Onshore		
AMP Capital Investors (NZ) Limited	28,590,458	27,890,888
Harbour Asset Management	28,155,000	27,399,970
Mercer Investment Trust New Zealand	32,342,358	-
	89,087,816	55,290,858
Fixed Interest - Offshore		
Russell Investments Limited	117,681,864	106,755,420
AMP Capital Investors (NZ) Limited	-	39,301,787
	117,681,864	146,057,207

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

(iii) Other Price Risk

Other price risk represents the risk that the value of the Scheme's investment portfolio will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk).

Risk Management

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

Capital Management

Net assets available to pay benefits are considered to be the Scheme's capital for the purposes of capital management. The Scheme does not have to comply with externally imposed capital requirements.

The Scheme's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its members and maximise the Scheme's members value.

Sensitivity Analysis

A ten percent increase/decrease in the unit prices of the schemes investments in unitised products would have a positive/adverse impact on the value of the Scheme's assets of \$76,110,166 (2019: (\$78,507,074)).

Hierarchy of Fair Value Measurements - 31 March 2020

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

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

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

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

DAIRY INDUSTRY SUPERANNUATION SCHEME

Notes to the Financial Statements For the Year Ended 31 March 2020

11. Financial Instruments (Cont'd)

At period end, the Scheme receives confirmation of the fair value of its unit trust investments from the investment managers - ANZ New Zealand Investments, AMP Capital Investors, Harbour Asset Management, Nikko Asset Management, Mercer (N.Z.) Limited and Russell Investments. The unit trusts invest in listed equity and debt instruments and the investment managers calculate the fair value of the Scheme's investment based on the quoted prices of these investments. Management are not generally aware of the specific investments the unit trusts hold on their behalf, therefore, must rely on the investment valuation report. Although the fair value of the investment is based on quoted market prices, it is not possible for management to directly observe those prices, and management has concluded that the level 2 classification is appropriate.

Hierarchy of Fair Value Measurements - 31 March 2020

Description	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investments	-	761,101,666	-	761,101,666

There were no transfers between the levels in the period.

Hierarchy of Fair Value Measurements - 31 March 2019

Description	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Investments	-	785,070,744	-	785,070,744

There were no transfers between the levels in the period.

12. Commitments and Contingent Liabilities

There were no commitments or contingent liabilities outstanding as at 31 March 2020 (2019: Nil).

13. Related Parties

The Corporate Trustee is a related party to the fund. Some directors of the Corporate Trustee are also members of the fund.

The Scheme holds no direct investments in any of the employer companies or any of its related parties. During the period payments were made to the Trustee of the Scheme totalling \$189,607 (2019: \$178,500). The Scheme had company contributions of \$32,238,150 (2019: \$31,193,740). Mercer (N.Z.) Limited as administrator of the Scheme is regarded as a related party in terms of the Financial Markets Conduct Act. Mercer provides the Scheme with a range of services including administration, secretarial services, investment consulting and funds management. The Scheme paid administration fees for the year totalling \$534,950 (2019 : \$510,843), secretarial fees of \$86,764 (2019 : \$82,783), communication fees \$87,563 (2019 : \$64,384) and investment and actuarial consulting fees totalling \$318,174 (2019 : \$322,191).

Andy Williams is a Trustee Director and member of Dairy Industry Superannuation Scheme. During the year he contributed a total of \$9,160.

14. Events After Balance Date

The financial statements have been prepared based upon conditions existing at 31 March 2020 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. The Covid-19 outbreak that became a global pandemic in March 2020, continued to have a widespread impact on financial markets and economic activity beyond the end of the Scheme's year-end.

As at 31 May 2020, the fair value of investments has increased by approximately 6.99%, compared to the fair value as at 31 March 2020.