

# DAIRY INDUSTRY SUPERANNUATION SCHEME

## CREDITING RATE POLICY DOCUMENT

Adopted by the Trustee on 28 July 2020



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Trustee Director

<b>CONFIDENTIAL INFORMATION</b>	<b>Doc. ID:</b>	<b>DAIR29-CRP</b>
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### ***Document Control***

Changes will be issued as a complete replacement document covered by a release notice. Dispose of all previous versions of this document on receipt of a replacement.

This document will be released for use upon Trustee consent.

### ***Recent Update Log***

<b>Issue No.</b>	<b>Updated By</b>	<b>Date Updated</b>
1.1	Mark Channon	10 September 2015
1.2	Bryan Candy	31 March 2017
1.3	Mark Nelson	3 April 2018
1.4	Peter Cosseboom	11 June 2019
1.5	Peter Cosseboom	28 July 2020

### ***Review Dates***

- The original Crediting Rate Policy for the Scheme was adopted on 10 September 2015.
- This is the fourth modification to the Crediting Rate Policy since the original document was adopted by the Trustee.
- As set out in the Crediting Rate Policy, a review of the policy should be conducted at least annually.

### ***Review Process***

The Trustee is responsible for the review of the Crediting Rate Policy with assistance, as appropriate, from Mercer (NZ) Limited.

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## 1. Introduction

### 1.1. Purpose

The purpose of this document is to set out the policies which the Trustee has adopted for allocating investment earnings to members of the Dairy Industry Superannuation Scheme (the Scheme).

### 1.2. Policy Review

The Trustee is responsible for reviewing this crediting rate policy document and updating it as necessary. Specifically, it is recommended that the policies should be reviewed annually by the Trustee to ensure they remain relevant, current and consistent with all applicable laws governing the Trustee's activities and functions. The Trustee must approve any changes to the policies.

Any policy change approved by the Trustee that requires implementation must have regard to operational process requirements including the issue of authorised instructions to the relevant delegate.

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## 2. Guiding Principles and Obligations

The Trustee's obligations to members form the basis upon which to develop policies in relation to crediting rates.

These obligations reflect the Trustee's general fiduciary duties (e.g. to act fairly and in the best interests of members), statutory obligations and the requirement to adhere to the governing documents of the Scheme. Obligations can also arise from provisions contained in existing contracts with service providers.

The following set out the key issues and obligations considered by the Trustee in forming its policies.

### 2.1. Governing Documents

The Scheme is governed by a Trust Deed dated 29 September 2017.

The Trust Deed contains provisions regarding the timing and determination of crediting rates. To the extent necessary, the governing documents' provisions override any disclosure or policies.

### 2.2. Equity

The key obligation in allocating investment earnings is to ensure that members are treated equitably, both at a particular point in time and over time. This is particularly relevant given that there are different groups of members over time (e.g. new members, exiting members, ongoing members, pensioners) with different characteristics (e.g. different expected timeframes).

A key aspect of equity is to apply a consistent and fair investment earnings allocation methodology. In practice such a methodology needs to balance a number of issues including requirements from regulations or governing documents, cost constraints, the ability to effectively disclose and communicate the methodology as well as situations where members may be able to "select" against the interests of others (e.g. in times of extreme market movements). It is worth noting that another common practical consideration in relation to cost constraints is materiality – i.e. the increasing benefit of accuracy relative to the costs required to achieve it.

## **2.3. Assumptions and Estimates**

The Trustee has adopted procedures that involve using the latest information available within appropriate timeframes and, where necessary, supplemented by assumptions and estimates.

The Trustee's view is that any assumptions and estimates used should seek equity, be based on a reasonable and sound basis and not be biased.

The Trustee notes that adjustments arising from a consistent and appropriate application of policy, including the updating of estimates, are not errors requiring compensation (refer section 3.2).

## **2.4. Documentation**

The Trustee supports the need for documentation of policies and procedures as this promotes efficiency, consistency and a common understanding across all parties involved. Documentation also acts as a key means by which to mitigate risk. Accordingly, the Trustee has prepared this document setting out their crediting rate policy.

The Trustee believes that an appropriate level of information needs to be provided to members regarding the crediting rate policy. This information should be clear, accurate, complete and timely and highlight important issues to allow comparison. To this end, the Trustee sees websites and periodic statements as the main means by which to disclose relevant crediting rate information to existing and prospective members.

The Trustee is committed to reviewing documentation and disclosure relating to investment earnings allocation on an annual basis or more frequently where necessary.

# 3

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## 3. Investments

### 3.1. Scheme investments

The Scheme utilises a number of sector specialist investment managers. As at 28 July 2020, the investments of the Scheme are invested with the following managers:

<b>Asset Class</b>	<b>Manager</b>
Trans-Tasman Shares	Harbour Asset Management Limited Nikko Asset Management New Zealand Limited
Overseas Shares	AMP Capital Investors (NZ) Limited
Global Listed Property	AMP Capital Investors (NZ) Limited
Global Listed Infrastructure	Mercer Investment Trusts New Zealand
Natural Resources	Mercer Investment Trusts New Zealand
New Zealand Fixed Interest	AMP Capital Investors (NZ) Limited Harbour Asset Management Limited
Overseas Fixed Interest	Russell Investments Limited AMP New Zealand Investments Limited
Global Absolute Return (fixed interest)	Mercer Investment Trusts New Zealand
Cash	AMP Capital Investors (NZ) Limited ANZ New Zealand Investments Limited

Each of the investments is a Portfolio Investment Entity (PIE) and the Scheme pays tax at 28%.

### 3.2. Investment options

Members of the Scheme can choose to invest their account balances and contributions in one of seven investment options. The four main investment options are titled Cash, Conservative, Balanced and Growth. The three other options are Cash/Conservative, Conservative/Balanced and Balanced/Growth, and are made up of equal combinations of the respective main options. The benchmark asset allocations for the four main options are as follows:

<b>Asset Class</b>	<b>Cash</b>	<b>Conservative</b>	<b>Balanced</b>	<b>Growth</b>
Trans-Tasman Shares	0	6	13	17
Overseas Shares	0	13	30	41
Global Listed Property	0	2	5	7
Global Listed Infrastructure	0	2	5	6
Natural Resources	0	2	5	6
<b>Total Growth</b>	<b>0</b>	<b>25</b>	<b>58</b>	<b>77</b>
New Zealand Fixed Interest	0	18	7	2
Overseas Fixed Interest	0	18	22	14
Global Absolute Return	0	7	5	3
Cash	100	32	8	4
<b>Total Income</b>	<b>100</b>	<b>75</b>	<b>42</b>	<b>23</b>

Members' account balances are not unitised.

Members are able to choose to change their investment strategy twice in a Scheme year. The first transfer in the year is permitted free of charge and a fund transfer fee is payable for the second transfer. Transfers are effective on the 1<sup>st</sup> of the month following the receipt of the request.

### **3.3. Bank account**

The Scheme also maintains a bank account from which it pays benefits and expenses and receives contributions. The bank account balance is maintained at a suitable level to ensure payments can be made without the need for frequent redemptions from the



Scheme's investments, but without significantly reducing the level of funds available for investment. The bank account earns interest which is taxed at 28% and credited monthly.

# 4

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## 4. Crediting Rates

### Application of crediting rates

The Trustee declares the following crediting rates in respect of the Scheme's investment options/funds:

1. Final crediting rates (based on actual investment performance and year-end financial statements)
2. Monthly crediting rates (based on a combination of actual and assumed investment performance for the month)

In addition to the declared rates, the following interim rates are applied for the period between declared rates:

1. Weekly crediting rates (based on estimated investment performance)
2. Daily crediting rates (where performance is not used)

Crediting rates are applied to all member and employer accounts in the same manner. In addition the Trustee maintains a Reserve Account, plus a Non Allocated Account to meet the costs of the Scheme's remaining pensioners.

### Crediting rate policies

Based on the guiding principles and obligations outlined earlier, the Trustee has adopted a number of policies with respect to the determination of crediting rates. These are outlined below for the four main options. Crediting rates for the three composite options are determined by taking 50% of the calculated rates for corresponding main options.

#### 4.1. Monthly crediting rates

The crediting rates for each month are usually calculated towards the end of the following month, once all the required information is made available, and apply for the month following that for which the most recent final crediting rate has been declared.

It is the Trustee's policy to calculate monthly crediting rates based on the funds' actual return (gross of tax and investment management fees), as advised by the investment consultant, less an assumed allowance for tax and fees.

An allowance for tax is made by making an assumption on the level of taxable return, as estimated by the change in suitable market indices. See section 4.6 for further information.

The exception to this methodology is in respect of the Mercer managed products. The return on the Global Listed Infrastructure and Natural Resources investments are calculated based on an estimate of the products' investment return, net of tax and investment management fees. Investment income and tax is derived from the actual information provided by the fund manager including allowance for any investment management fee rebates.

An expense margin is deducted from the returns as a provision for the Scheme's expenses (investment management fees, group life premiums, and administration expenses). See sections 4.7 and 4.8 for further information.

The crediting rates calculated for March are interim rates which are revised once the year-end financial statements have been prepared (see section 4.3).

<b>Authorised Delegations</b>	The Trustee has delegated its duty to calculate the monthly crediting rates to Mercer (N.Z.) Limited (Mercer).
<b>Control</b>	The Trustee reviews the monthly crediting rates at regular meetings and reviews the process annually.

## 4.2. Interim crediting rates

Until the monthly crediting rates are determined, an interim crediting rate will apply.

### ***Weekly crediting rates***

The weekly crediting rates for each investment fund are generally calculated every Wednesday. These rates reflect the investment earnings of the funds for the period from the effective date of the most recent monthly crediting rate to the date of the latest Monday (i.e. the date of the available unit price). Where a public or office holiday falls on a Monday, Tuesday or Wednesday, the day the returns are calculated for the week will be adjusted accordingly. For example, if one day of Monday, Tuesday and Wednesday is a holiday, the weekly rate will be calculated on Thursday (or the next working day); if two days of Monday, Tuesday and Wednesday are holidays, the weekly rate will be calculated on Friday (or the next working day).

It is the Trustee's policy to calculate weekly crediting rates based on the returns measured by the change in the unit price of options within the Mercer Super Trust (MST) that are considered reflective of the characteristics of the Scheme's Conservative, Balanced and Growth investment options. The MST options used for this purpose are:

<b>Scheme Option</b>	<b>MST Option</b>
Conservative	Mercer Conservative Default
Balanced	Mercer Balanced Default
Growth	2/3 x Mercer Growth Default 1/3 x Mercer High Growth Default

The interim rate for the Cash option uses the Official Cash Rate, less tax at 28%. The same margin is deducted for group life premiums and administration expenses from each of the interim rates as is used for the monthly crediting rates. See section 4.8 for further information.

#### ***Daily crediting rates***

Daily crediting rates apply for the period following that for which the most recent weekly crediting rates have been calculated.

It is the Trustee's policy to use a nil daily rate.

<b>Authorised Delegations</b>	The Trustee has delegated its duty to calculate the interim crediting rates to Mercer.
<b>Control</b>	The Trustee reviews the interim crediting rate procedure at regular meetings and at least annually.

### **4.3. Final crediting rates (based on year-end financial statements)**

Final crediting rates for each investment fund are declared for the financial year to 31 March to distribute earnings (which may be positive or negative) to member accounts as part of the annual review process. This is achieved by adjusting the monthly crediting rate calculated for March.

The Trustee declares the final crediting rates for the year to 31 March based on the audited year-end financial statements of the Scheme and any other information which may be relevant.

The earnings of the Scheme for the year, including the bank account interest and after the deduction of tax and all expenses, is taken from the financial statements. In

addition, the difference between the amounts that the Trustee determines is required to be held in the Non Allocated and Reserve Accounts and the amounts in these accounts rolled forward from the prior year end is calculated, which may be positive or negative.

These amounts are added together and are compared to the amount credited to members' accounts through the application of the monthly crediting rates determined during the year. The March crediting rates are then adjusted retrospectively to allocate the available Scheme's earnings and expenses to members' accounts. Members who exit prior to the declaration of the final crediting rates receive interest at the provisionally calculated March rate.

<b>Authorised Delegations</b>	The Trustee has delegated its duty to calculate the final crediting rates to Mercer, but retains responsibility for approving them before implementation.
<b>Control</b>	The Trustee declares the final crediting rates based on relevant advice from the Scheme's administrator.

#### 4.4. Contingency arrangements

In the event that a monthly crediting rate or interim crediting rates cannot be determined in accordance with the above policies (e.g. investment markets close, systems failure, etc.), the Trustee will accept a provisional crediting rate based on an approved alternative methodology.

<b>Authorised Delegations</b>	None
<b>Control</b>	Mercer to advise the Trustee if circumstances dictate an alternative method for crediting rates and suggest suitable alternatives.

#### 4.5. Extreme market movements

In the event there is significant market volatility, the Trustee retains the right to revise interim crediting rates and the methodology for calculating rates at its discretion.

<b>Authorised Delegations</b>	None
<b>Control</b>	Not applicable

#### 4.6. Provision for tax

The monthly crediting rates make a deduction for the assumed level of tax payable on the investment returns. The information made available by the investment consultant does not include details of the investment return earned that is taxable and therefore the taxable return must be estimated. This estimate is calculated using either the gross return provided, appropriate index returns or the fair dividend rate of 5% p.a. depending on the asset category and the tax deduction applied to the quoted gross returns is then calculated as 28% of the taxable return.

The MST unit prices used for the weekly interim calculations are net of tax (on these proxy investment options). Therefore the method of calculating the crediting rates as outlined in section 4.2 has an implicit provision for tax.

The final crediting rate method outlined in section 4.3 explicitly allows for the actual tax incurred by the Scheme over the year.

#### 4.7. Provision for investment management fees

The monthly crediting rates make a deduction for the investment management fees charged by the investment managers. The level of investment fees (including an allowance for in-fund costs) applicable from 28 July 2020 is as follows:

Asset Class	Manager	Investment Fee
Trans-Tasman Shares	Harbour	0.55%
	Nikko	\$0-\$20M 0.55%
		\$20-\$50M 0.45%
>\$50M 0.40%		
Overseas Shares	AMP	0.55%*
Global Listed Property	AMP	0.65%
Global Listed Infrastructure	Mercer	0.78%
Natural Resources	Mercer	0.85%
New Zealand Fixed Interest	AMP	0.22%

Asset Class	Manager	Investment Fee
	Harbour	0.27% <sup>+</sup>
Overseas Fixed Interest	Russell	0.60%
	AMP	0.49%
Global Absolute Return	Mercer	0.43%
Cash	AMP	0.12%
	ANZ	0.09%

\*weighted average of the fees charged by the global and emerging market portfolios

\*Standard fee of 0.27% is as at 30 April 2019 – actual varies between 0.14% and 0.18% based on total funds under management of Mercer consulting clients in the Harbour NZ Core Fixed Interest Fund

Allowance is made for tax relief at 28% on these fees.

The MST unit prices are net of the actual investment management fees incurred on these proxy investment options. Therefore the method of calculating the crediting rates as outlined in section 4.2 has an implicit provision for investment management fees, albeit those charged by the MST.

The final crediting rate method outlined in section 4.3 explicitly allows for the actual investment management fees incurred by the Scheme over the year.

#### 4.8. Provision for other expenses

Other expenses (including, but not limited to, administration expenses, group life premiums, audit fees, and trustee fees) are allowed for in the calculation of the weekly and monthly crediting rates through an explicit expense margin deducted from the returns calculated. The level of the deduction is set by the Trustee at least annually, after considering advice from the Scheme's administrator. From 1 August 2020, the expense rate has been set at 0.64% p.a., after tax relief at 28%. Those members without group life are rebated 0.50% p.a. separate from the crediting rate process.

Final crediting rates for March are calculated allowing for the actual expenses incurred over the year, deducting them from the income received after allowing for tax relief.

<b>Authorised Delegations</b>	None
<b>Control</b>	The Trustee reviews the expense provision at least annually

#### 4.9. Materiality for compensation

The Trustee will:

- Deem that the impact of the errors at a member level as material if it is at least 30 basis points; and
- Not pay compensation amounts of less than \$20 to any exited member.

The Trustee reserves the right to change this threshold depending on the circumstances of the error involved.

<b>Authorised Delegations</b>	None
<b>Control</b>	Not applicable



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## 5. Error Management

### 5.1. Management of issues and errors identified

Crediting rate issues, including errors, may be identified by a number of sources including, but not limited to, service provider, internal and external audits and member queries or complaints. Once an issue is identified, reporting and escalation occurs via the Trustee's established breach/incident reporting process.

The Trustee has adopted a framework for dealing with crediting rate issues. The first step is to assess whether the issue represents an error or whether it represents the outcome of a consistent application of business rules and policies.

Where an issue identified has been deemed to be an error, the following steps are to be followed to manage the error:

- Limit the impact of the error (e.g. eliminate the impact of the error to future transactions) and manage any arbitrage risks that arise until the error is remediated;
- Identify an appropriate methodology to assess the impact of the error, particularly where there are multiple errors involved, allowing for loss of opportunity;
- Assess the impact and extent of the error including number of members affected, which members are disadvantaged and which have gained and by how much;
- Identify all legal obligations arising from such an error;
- Notify the regulators (as appropriate);
- Evaluate the case for compensation or claw back (see below) and quantify the value for affected members, both current and exited if applicable;
- Interact with service providers regarding their role and responsibility for the error;
- Determine a strategy to communicate with affected members on:
  - Describing the error and how it has impacted members (and former members);
  - The steps required to fix the error;
  - The timing of such steps;
  - If compensation is payable, how and when such payments will be made;
  - Payment of compensation (if required).

Once all of the above issues have been resolved, compensation can then be made to the relevant members as set out below. Furthermore, the Trustee will consider what changes or process improvements should be made to prevent the issue from recurring.

## **5.2. Compensation**

Compensation issues will arise when crediting rate errors occur that are material and adversely impact on the benefits of members. The amount and method of any compensation will depend on the specifics of each particular case but will be determined with regard to many factors including:

- Legal requirements;
- Provisions of governing rules and guidance notes issued by regulators;
- Relevant member disclosure;
- Equity and fair treatment of members;
- Provisions of relevant agreements with service providers;
- The risk management and compliance framework
- Whether compensation can be recovered under insurance arrangements; and
- Whether members impacted are ongoing or have exited.

The Trustee expects that the party responsible for the error correct the error at its own expense and finance any compensation deemed payable to affected members.

## **5.3. Claw back**

Where an error benefits some members, the Trustee or an authorised delegate will assess and decide whether to seek reimbursement of windfall gains in light of likely costs and the implications of doing (or not doing) so.

## **5.4. Materiality for compensation**

While the Trustee's aim with regards to compensation is to return each affected member to the financial position that would have existed if the error had not occurred, the Trustee considers that in some cases there should be a threshold below which it is not practical to consider such compensation given the significant costs involved in investigating and correcting the error. This is particularly the case given that crediting rates are calculated using estimates and assumptions and a small deviation might not take the crediting rate outside the range that is considered fair and reasonable. Section 4.9 sets out the policy on materiality.

## **5.5. Approval and payment of compensation**

Once the case for compensation has been established, each payment will be approved by the Trustee (or its delegate) prior to payment to affected members. Where proposed amounts are material in nature, as determined by the Trustee or its delegate, the calculations may be subject to review and sign-off by an independent appointed third party advisor, depending on the magnitude of each case.

Compensation may take various forms, depending on the nature of the crediting rate error and the loss suffered by affected members. Notwithstanding, compensation payments will take one or more of the following forms:

- Additional dollar amounts added to relevant members' account balances;
- Additional cash benefit payment to exited members;
- An increase to the crediting rate applied to members' account balances.

Any compensation paid may be adjusted for the time value of money.



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