



Planning your retirement future today

EMPLOYEE RETIREMENT PLAN

For the year ended 30 June 2014

Annual Report

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KEY HIGHLIGHTS – THE NUMBERS

2.26% return (after fees & tax) for the Cash Fund
5.84% return (after fees & tax) for the Stable Fund
9.03% return (after fees & tax) for the Balanced Fund
12.23% return (after fees & tax) for the Growth Fund
11,625 members
\$452,975,772 net assets available to pay benefits

TRUSTEE'S MESSAGE

Welcome to the 2013/14 Annual Report for the Employee Retirement Plan ("ERP" or the "Plan"). The ERP includes the Teachers Retirement Savings Scheme ("Scheme").

The Scheme year was good for members, with the investment options performing above or in line with expectations.

“The Scheme year was good for members, with the investment options performing above or in line with expectations.”

The investment performance of the Scheme was achieved on the back of improving global economic conditions and investor sentiment.

In light of the recent strong returns in share markets, it may be tempting to switch to a more aggressive investment option. However, there are some major risks in chasing past market returns. Because sharemarkets perform very strongly one year, that does not mean they will do the same the next. It is recommended you speak to an Authorised Financial Adviser or go to www.sorted.org.nz for further information on your investment strategy.

We hope you find the new format of this annual report to be engaging and easy to understand. If you have any queries or comments, please feel free to call our Helpline on 0508 4 TEACH (0508 483 224).

ON BEHALF OF THE TRUSTEE, PUBLIC TRUST



SCHEME UPDATE

Your options at retirement

YOU HAVE TWO OPTIONS AT RETIREMENT. YOU CAN:

- Leave your savings in the Scheme, or
- Withdraw all or part of your savings

Leaving your Scheme savings untouched could mean your investments will grow. If you are thinking about leaving your savings in the Scheme, you need to ask yourself the following – how will I fund my income needs? And will New Zealand Superannuation be enough?

We are currently considering providing a regular withdrawal facility to Scheme members once they retire. An online poll is being developed to gather your feedback on this proposal.

NEW ZEALAND SUPERANNUATION RATES INCREASE

The Government increased the level of payments to be made to recipients of New Zealand Superannuation effective from 1 April 2014.

RATES (BEFORE TAX) ARE:

Single person (living alone)	\$21,932 p.a.
Single person (sharing)	\$20,154 p.a.
Married couple	\$33,200 p.a.

For more information on eligibility go to
www.workandincome.govt.nz

FINANCIAL MARKETS CONDUCT ACT

The Financial Markets Conduct Act 2013 came into effect this year and represents a significant change for financial service providers. From 1 December 2014, superannuation providers will have a two-year transition period during which they can continue to comply with the existing securities laws. They must comply with the new disclosure, governance and licensing requirements by the end of the transition period, which is 1 December 2016.

RESETTING YOUR PIN

To reset your personal identification number (PIN) go to www.teachersretire.org.nz, click on *reset your PIN* in the sign in box and follow the directions.

You will be asked to enter your member number and date of birth. You might want to locate a previous Benefit Statement or another Scheme document which has your member number on it. Alternatively, you can request a new PIN by calling the Scheme helpline on 0508 483 224.

MARKET COMMENTARY

The 2013/2014 year was an good one for members as the world economy continued to recover from the global financial crisis of late 2008 and 2009.

The US Federal Reserve (the Fed) played a key role in markets during the year, with ultra-low interest rates combining with its asset purchasing programme to provide a huge boost earlier in the period. Fortunately, fears the world's markets would fall into disarray when the Fed began scaling back its programme in December did not eventuate.

SOME KEY POINTS:

- **Global shares** have continued to provide impressive returns for members and proved relatively resilient in light of the uncertainty caused by events such as the Ukrainian crisis and extreme winter weather conditions in the US. For the second year running, share markets in the developed world outperformed those in developing or emerging markets. The latter had a mixed year as a result of slower growth in economies like China, and the Fed winding back its asset purchasing programme, which raised concerns on how this may impact capital flows from the US.
- **Trans-Tasman shares** had a very good year, despite performance slowing in the June quarter. The New Zealand share market was driven by the strong performance of the local economy, which continued to gain momentum on the back of rising house prices, stronger migration and increased business and consumer confidence. In Australia, share market returns were also strong despite concerns about several factors including the impact of slower growth in China and lower confidence levels. In direct contrast to New Zealand, interest rates were cut in Australia in August and have been kept on hold since then.
- Returns from **global listed property** were strong over the year. During the second half of the year the sector benefited from a fall in interest rates, which caused investors to turn their attention to income-orientated assets.
- **The international fixed interest** sector had a good year as most central banks chose to either lower interest rates or continue to hold rates constant, leading to future interest rate rise expectations being pulled back.
- **New Zealand fixed interest and cash** performed well during the year. The sector was impacted by the Reserve Bank of New Zealand increasing the Official Cash Rate by 0.25% in March, April and June 2014.

“The New Zealand share market was driven by the strong performance of the local economy, which continued to gain momentum on the back of rising house prices, stronger migration and increased business and consumer confidence.”



YOUR INVESTMENT OPTIONS

The ERP offers members four Investment Funds: the Cash Fund, Stable Fund, Balanced Fund and Growth Fund.

These Funds, in turn, are invested with the Mercer Super Investment Trust (MSIT). The ERP Investment Funds are invested in the MSIT's investment sector funds according to each Investment Fund's strategy. Mercer appoints specialist investment managers, selected for their expertise in their specific investment sector, to manage the MSIT's assets.

Mercer's approach to managing investments

Mercer's manager-of-managers investment style is designed for people who want diversification, active management and global investment expertise.

Mercer does not invest directly in shares, property or bonds. In our multi-manager we invest in different investment managers across a range of asset classes or markets.

Investment strategy

Each Investment Fund has a different mix of investment sectors or 'asset allocation', producing the different levels of expected return and risk. This is shown on the following page.

Please note: the actual mix of investments will vary from the benchmark as Mercer changes each fund's asset allocation according to market valuations.

Statement of investment policy and objectives

Copies of the statement of investment policy and objectives for the Employee Retirement Plan can be obtained free of charge from the Employee Retirement Plan's Secretary, Derek Vincent of Mercer, at the address shown in the Directory.

MAKING AN INVESTMENT CHOICE

Determining what Investment Fund (or combination of Funds) is suitable for you will depend on your time-frame until retirement and how much risk you are willing to take. If you are unsure about what option is best for you, we suggest you try using Sorted's investment planner on **www.sorted.org.nz**

GROWTH FUND

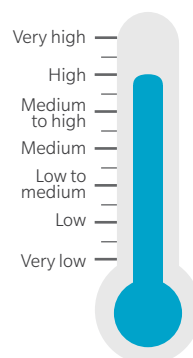
Risk return profile

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

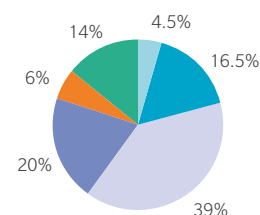
Objective

To exceed inflation by an average of at least 3.75% p.a. over the long-term.

RISK LEVEL



BENCHMARK ASSET MIX



Growth 75%, defensive 25%

BALANCED FUND

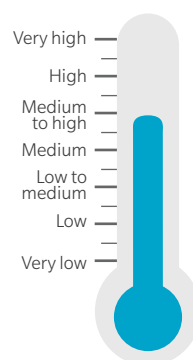
Risk return profile

Expect reasonable returns (but lower than the Growth Fund), and reduced losses in bad years.

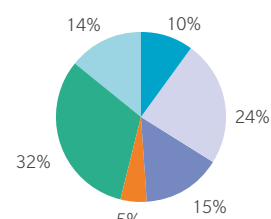
Objective

To exceed inflation by an average of at least 2.75% p.a. over the long term.

RISK LEVEL



BENCHMARK ASSET MIX



Growth 50%, defensive 50%

STABLE FUND

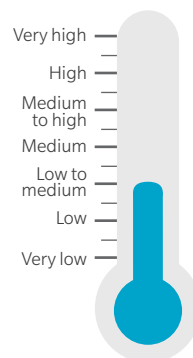
Risk return profile

Lower returns over the long term, but less risk of losses.

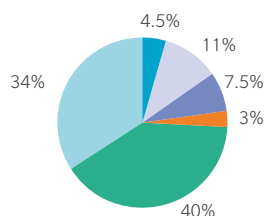
Objective

To exceed inflation by an average of at least 2.00% p.a. over the long term.

RISK LEVEL



BENCHMARK ASSET MIX



Growth 25%, defensive 75%

CASH FUND

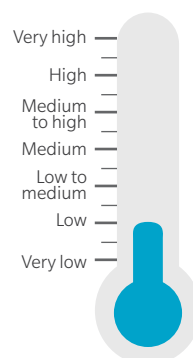
Risk return profile

Expect lower levels of risk and return.

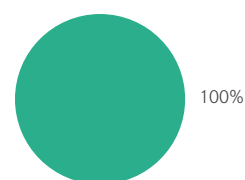
Objective

To outperform the ANZ 90-day Bank Bill Gross Index by 0.20% p.a. over any rolling three-year period.

RISK LEVEL



BENCHMARK ASSET MIX

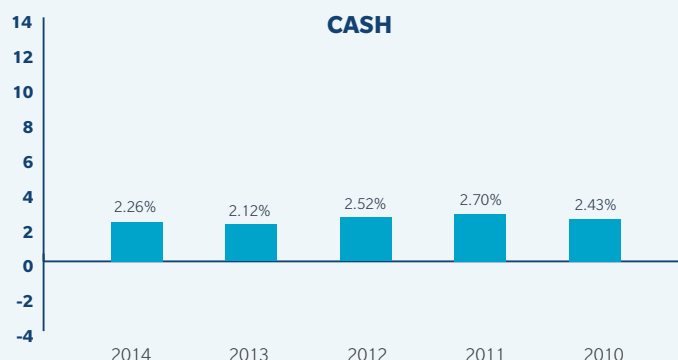
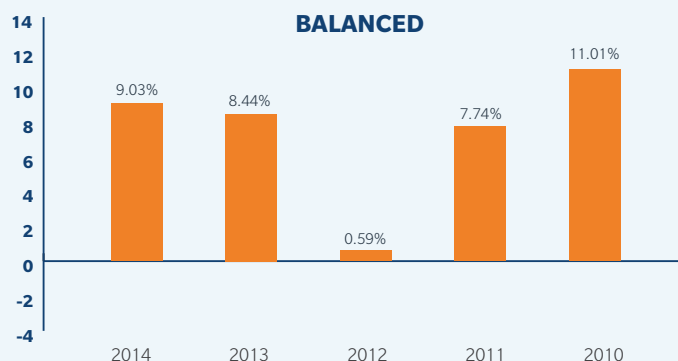


Growth 0%, defensive 100%

INVESTMENT RETURNS

Investment returns over time

The charts below show the yearly returns over time as at the end of the June year for each Investment Fund (after tax and fees).

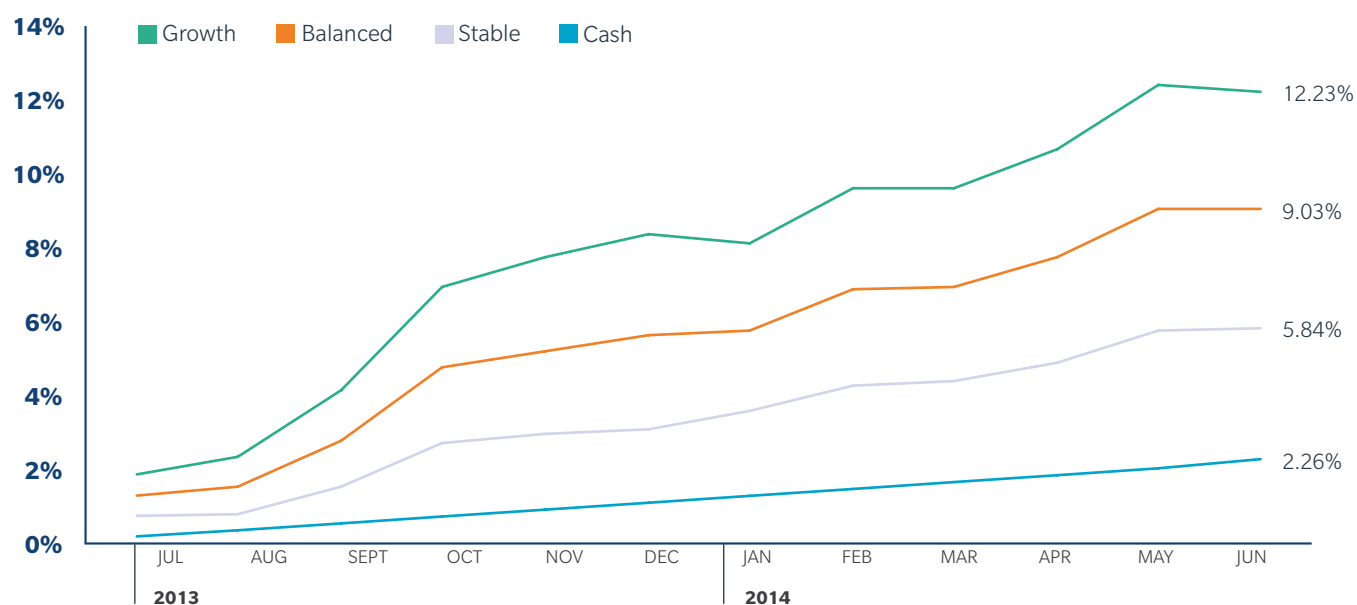


RETURNS REFLECT PAST PERFORMANCE AND DO NOT INDICATE FUTURE PERFORMANCE

- Returns will vary over time and are dependent on market conditions and the performance of the individual asset allocations in each Fund; and
- For up to date information on the Scheme's investment performance including the most recent interest rates, and growth through the year, check out the Scheme's website on **www.teachersretire.org.nz**.

ACTUAL INVESTMENT RETURNS

The actual net investment earnings credited to your accounts are based on monthly declared returns, your allocations across the four Funds and the balances in your accounts each month. The table below shows the cumulative returns for each Fund for the year to 30 June 2014:



These net returns take into account the investment returns achieved by the Mercer Super Investment Trust's specialist investment managers, plus any interest on contributions held in the ERP's bank account (before being invested), less tax and fees. Tax has been deducted at 28%. Fees include all operating expenses, such as audit and bank fees and the Mercer Super Investment Trust investment management fees.

MANAGEMENT OF THE SCHEME

The Trustee

IN NOVEMBER 2014 WHEN THIS REPORT WAS PREPARED THE TRUSTEE BOARD MEMBERS WERE:

- Sarah Mary Roberts (Chair)
- Fiona Ann Oliver (Deputy Chair)
- Dilkhush (Dinu) Harry
- Susan Mary Anna McCormack
- Diana Marie Puketapu
- David Winiata Tapsell
- Huei Min (Lyn) Lim

CHANGES TO THE BOARD SINCE THE LAST ANNUAL REPORT:

- Diana Marie Puketapu and David Winiata Tapsell were appointed as board members on 1 November 2013.
- Fiona Ann Oliver was appointed as deputy chair of the board on 1 November 2013.
- Rodger Finlay completed his term as a board member on 30 June 2014.
- Michelle Elisa van Gaalen and Huei Min (Lyn) Lim were appointed as board members on 23 July 2014.
- Michelle Elisa Van Gaalen resigned on 31 August 2014.

Trust Deed

During the year, there were no amendments to the Employee Retirement Plan Trust Deed or to the employer agreement.¹

Trustee's Certificate²

TO THE MEMBERS OF THE EMPLOYEE RETIREMENT PLAN FOR THE YEAR ENDED 30 JUNE 2014.

As required by the Second Schedule of the Superannuation Schemes Act 1989, Public Trust as Trustee confirms that all contributions required to be made to the ERP during the financial year in accordance with the terms of the Trust Deed have been made.

Further, Public Trust as Trustee certifies that:

1. All the benefits required to be paid from the ERP in accordance with the terms of the Trust Deed have been paid; and
2. The market value of the assets of the ERP at the close of the financial year equalled the total value of the benefits that would have been payable had all members of the ERP 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 the close of the financial year.

Public Trust Date: 10 October 2014

¹ You can view the Trust Deed and the Teacher's Scheme employer agreement at the Wellington office of Mercer (N.Z.) Limited (Level 8, 113-119 The Terrace, Wellington). Copies are also available for purchase.

² For the purposes of this certificate, 'Trust Deed' means the trust deed of the Employee Retirement Plan as amended from time to time, as well as the relevant employer agreements (other than those parts comprising the Investment Instructions), as amended from time to time.

Complaints

The Trustee has a disputes handling procedure that is available to any member who has a complaint about the Scheme's operation. If you have a concern or a complaint about the Scheme, you should get in touch with the Trustee via the Secretary to the Trustee (see page 13 for contact details). The Trustee undertakes to investigate your concerns promptly and fairly. You may make a complaint by telephone, email or in writing. If you are unhappy with the Trustee's response to your complaint, you may refer the matter to Financial Services Complaints Limited (FSCL).

The FSCL can be contacted by emailing info@fscl.org.nz or calling on 0800 347 257. Alternatively, you may write to FSCL at: Financial Services Complaints Limited, PO Box 5967, Wellington, 6145.

MEMBERSHIP PROFILE

Membership details are shown in the table below:

Opening membership as at 1 July 2013	11,904
Less	
Deaths	(8)
Financial hardship or relationship property division (full)	(3)
Retirements	(222)
Ill health	(2)
Redundancy	(5)
Permanent emigration	(14)
Transfers out	(25)
Closing membership as at 30 June 2014	11,625

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

Copies of the statement of investment policy and objectives for the ERP can be obtained free of charge from the ERP Secretary, Derek Vincent of Mercer, at the address shown in the Directory.

There were 797 partial benefits paid to members who remained members of the Scheme:

Financial hardship or relationship property division (partial)	52
Partial retirement	40
In-service	687
First home purchase	18
Total partial benefits paid as at 30 June 2014	797

SUMMARY FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

Statement of Changes in Net Assets for the year ended 30 June		2014 (\$)	2013 (\$)
Net assets attributable to members at the beginning of the financial year		393,208,703	337,604,240
Investment Activities			
Net Investment Gains		44,703,341	33,900,862
Less			
Other Expenses			
Administration Fees		317,505	299,395
Actuarial & Consulting Fees		14,335	–
Auditor's Remuneration - Audit Fees		21,410	16,675
Auditor's Remuneration - Tax Agent Fees		4,600	6,038
Trustee Fees		130,875	117,203
Other Expenses		3,588	4,406
Total Other Expenses		492,313	443,717
Change in Net Assets before Taxation and Membership Activities		44,211,028	33,457,145
Income Tax Expense		10,187,168	6,097,900
Change in Net Assets after Taxation and before Membership Activities		34,023,860	27,359,245
Membership Activities			
Member Contributions		18,039,619	18,892,998
Member Voluntary Contributions		5,663,969	5,735,210
Employer Contributions		17,928,207	18,783,854
Transfers in from Other Schemes		50,278	–
Less Benefits Paid		(15,938,864)	(15,166,844)
Net Membership Activities		25,743,209	28,245,218
Net assets attributable to members at the end of the financial year		452,975,772	393,208,703
Net Increase in Net Assets During Year		59,767,069	55,604,463
Statement of Net Assets as at 30 June			
Assets	Investments at Fair Value Through Profit or Loss	452,392,966	392,920,755
	Current Assets	2,167,518	2,138,141
	Total Assets	454,560,484	395,058,896
Less			
Liabilities	Benefits Payable	206,536	13,515
	Member Contributions Refundable	–	259
	Employer Contributions Refundable	–	251
	Trade and Other Payables	81,888	73,342
	PIE Tax Payable	1,296,288	1,762,826
	Total Liabilities	1,584,712	1,850,193
Net Assets Available for Benefits		452,975,772	393,208,703
Vested Benefits*		452,309,512	392,640,596
Statement of Cash Flows for the year ended 30 June			
Net Cash Flows from Operating Activities		25,431,648	27,478,090
Net Cash Flows from Investing Activities		(25,463,555)	(26,429,056)
Net (Decrease)/Increase in Cash Held		(31,907)	1,049,034
Cash at Beginning of Financial Year		1,515,288	466,254

NOTES TO SUMMARY FINANCIAL STATEMENTS

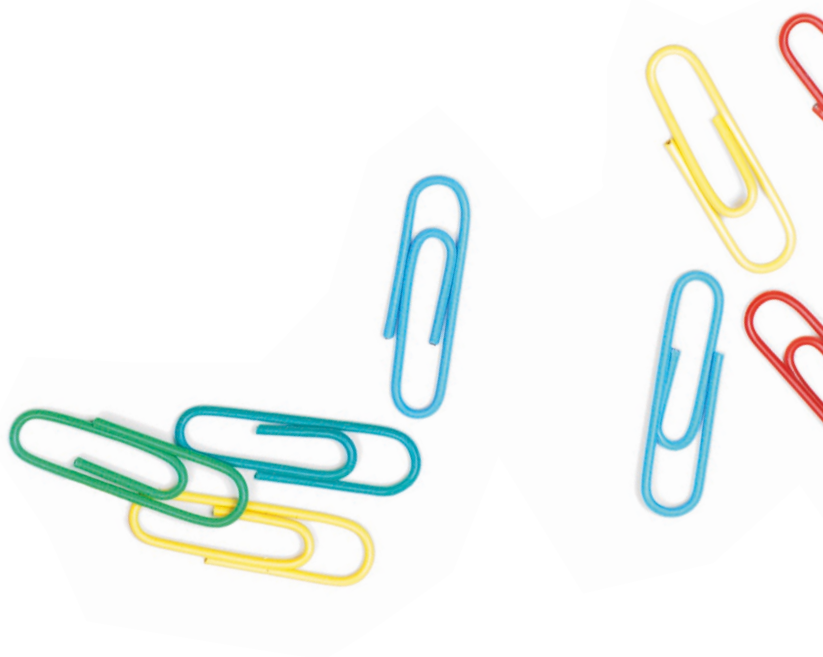
A summary of the Scheme's audited financial statements for the year ended 30 June 2014, which were authorised for issue on 25 September 2014 is shown on page 10 of the annual report. The summary financial statements have been extracted from the full audited financial statements dated 30 June 2014, which were authorised for issue on 25 September 2014. The summary financial statements have been prepared in accordance with FRS-43 Summary Financial Statements.

The full financial statements have been prepared in accordance with generally accepted accounting practice and they comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The Scheme has made an explicit and unreserved statement of compliance with NZ IFRS in Note 2 of its full financial statements.

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

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

The auditor has examined the summary financial statement for consistency with the full financial statements and their opinion is included on page 12. The full financial statements have been audited and an unmodified opinion issued.



INDEPENDENT AUDITORS' REPORT



Independent Auditors' Report on Summary Financial Statements to the members of the Employee Retirement Plan

We have audited the accompanying summary financial statements of the Employee Retirement Plan ('the Plan') on pages 10 and 11, which comprise the summary statement of net assets as at 30 June 2014, the summary statement of changes in net assets and summary statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information, which are extracted from the audited financial statements of the Plan for the year ended 30 June 2014.

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

TRUSTEE'S RESPONSIBILITY FOR THE SUMMARY FINANCIAL STATEMENTS

The Trustee is responsible for the preparation of the summary financial statements in accordance with FRS-43: Summary Financial Statements.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) 810: Engagements to Report on Summary Financial Statements. We have no relationship with or interests in the Plan other than in our capacities as auditors and tax advisors. These services have not impaired our independence as auditors of the Plan.

OPINION ON THE FINANCIAL STATEMENTS

Our audit of the financial statements for the year ended 30 June 2014 was completed on 25 September 2014 and our unmodified opinion was issued on that date. We have not undertaken any additional audit procedures from the date of the completion of our audit.

OPINION ON THE SUMMARY FINANCIAL STATEMENTS

In our opinion, the summary financial statements have been correctly extracted from the audited financial statements of the Plan for the year ended 30 June 2014 and are consistent, in all material respects, with those financial statements, in accordance with FRS-43.

RESTRICTION ON DISTRIBUTION OR USE

This report is made solely to the members of the Plan, as a body. Our audit work has been undertaken so that we might state to the members those matters which we are required to state to them in an auditors' 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 Plan's members, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in black ink, reading 'Rineckthorne Coggon'.

Chartered Accountants Wellington

20 October 2014

DIRECTORY

Administration Manager

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Website: www.teachersretire.org.nz

Auditor

PricewaterhouseCoopers

Investment manager

Mercer (N.Z.) Limited

Secretary, Complaints and Privacy Officer

Derek Vincent
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