

The background is a dark wood-grain surface. On the right side, there is a collection of office supplies including several colored pencils (orange, green, red, yellow, blue), a ruler, a pair of blue-handled scissors, and several colorful paper clips (green, pink, white). There are also several pieces of colored paper (orange, blue, yellow, green) and a brown folder. The text is arranged in blue and pink banners on the left side.

**EMPLOYEE**

**RETIREMENT**

**PLAN**

**Annual Report**

*For the year ended  
30 June 2015*

**Planning tomorrow's retirement today**

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Prepared for the members of the  
Teachers Retirement Savings Scheme

# OVERVIEW



**\$518.43**

million

Funds under management



**796**

Partial withdrawals



**37,385**

Visits to website



**\$45,748**

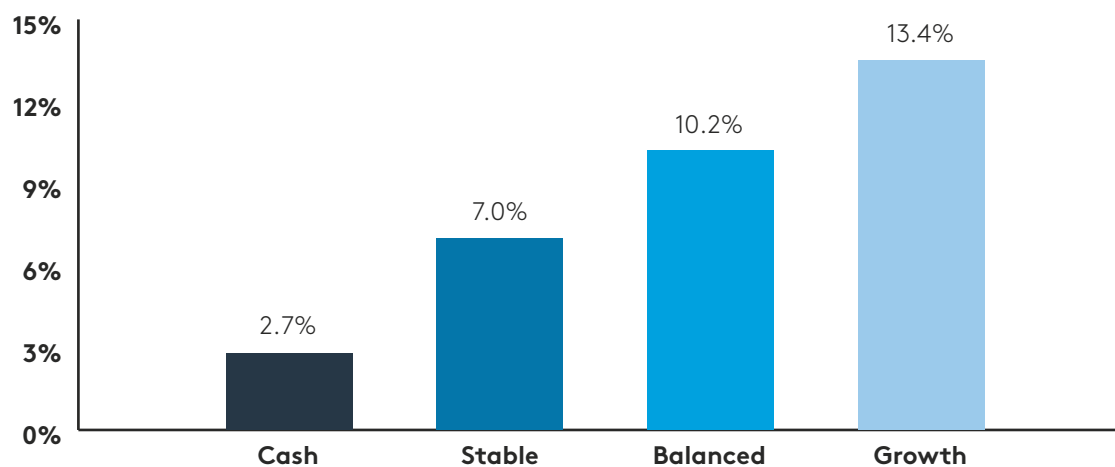
Average account balance



**1,877**

Calls to helpline

After fees & tax return for each investment option  
year to 30 June 2015



# TRUSTEE'S MESSAGE

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Welcome to the annual report for the year ended 30 June 2015.

It proved to be another good year for the Scheme's investments. All investment funds performed in line with or above their long-term performance objectives apart from the Growth fund. Despite posting a pleasing 13.4% return for the year, Growth underperformed its long-term objective by 1.1%, demonstrating the ongoing impact of events such as the global financial crisis. For more information about the Scheme's investment performance, please refer to page 3.

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*Pleasingly, by the end of the year there were signs of an improvement in the Eurozone economy...*

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For much of the Scheme year, Europe's woes and the improving US economy dominated markets. Pleasingly, by the end of the year there were signs of an improvement in the Eurozone economy, which despite Greece's ongoing debt issues, now appears to be in a better place than it has been for some time. The strengthening US economy has increased the likelihood that the US Federal Reserve will start raising interest rates sooner rather than later in a first step towards policy normalisation. As a result, longer-term interest rates have started to rise, which affected returns in the final quarter.

We continue to look at ways to make communications about the Scheme easy to read as well as informative. If you have questions about the Scheme or suggestions for improving Scheme communications (including this report), please contact the Helpline on 0508 4 TEACH (0508 483 224) or email [teachersretire@mercer.com](mailto:teachersretire@mercer.com).

On behalf of the Trustee, Public Trust



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# CUMULATIVE INTEREST RATES

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	Cash	Stable	Balanced	Growth
<b>2014</b>				
July	0.2%	0.8%	1.2%	1.5%
August	0.4%	1.5%	2.2%	2.7%
September	0.7%	2.1%	3.0%	3.8%
October	0.9%	2.4%	3.3%	4.3%
November	1.1%	3.2%	4.6%	5.8%
December	1.4%	3.5%	4.6%	5.6%
<b>2015</b>				
January	1.6%	5.4%	7.5%	9.4%
February	1.8%	5.8%	8.4%	10.7%
March	2.0%	6.1%	8.6%	10.8%
April	2.3%	6.4%	9.1%	11.5%
May	2.5%	7.0%	10.3%	13.5%
June	2.7%	7.0%	10.2%	13.4%

# SCHEME UPDATE

## Revised benchmark (or target) asset mixes

The benchmark asset mixes for the Growth, Balanced and Stable funds have been amended. The changes have slightly altered the mix of growth assets (shares, real assets and alternatives) and defensive assets (fixed interest and cash) in the Balanced and Stable funds. The percentage of growth assets in the Balanced fund has been increased by 5% and the percentage of growth assets in the Stable fund reduced by 5%.

The changes have been made to reduce investment management fees, increase liquidity, provide more diversity and simplify the investment management structure. See page 6 for the new benchmark asset allocations.

## Making regular withdrawals to top up your retirement income

Last year's report mentioned that we were considering adding a new regular withdrawal feature for members at or nearing retirement. To assess interest, a short online survey was held. The response was very positive and in June 2015 we introduced the regular withdrawal facility.

To qualify to make regular withdrawals, you need to be aged between 55 and 65 and have reduced your working hours from full time to 30 hours a week or less. You automatically qualify if you are aged 65 or over.

For further information about the rules and conditions that apply to regular withdrawals, refer to the Regular withdrawals fact sheet available from Documents & forms on [teachersretire.org.nz](http://teachersretire.org.nz) or by calling 0508 4 TEACH (0508 483 224).

## Change to the calculation of interim interest rates

Between review dates, your account balances are updated using an interim interest rate.

Previously, the interim rate was calculated on a daily basis, which meant that if investment markets were volatile, your account balances could vary significantly from day to day. To soften the effects of investment market volatility, the interim interest rate is now applied on a weekly basis and a zero rate used on the balance of days.

## New Zealand Superannuation rates increase

Each year, the Government reviews the rate of New Zealand Superannuation. It is pegged to the national average ordinary-time wage, which is currently \$56,030 a year before tax (\$45,389 a year after tax and ACC levy).

From 1 April 2015 the annual rates before tax are:

Single person, living alone	<b>\$22,417 pa</b>
Single person, sharing	<b>\$20,601 pa</b>
Married couple	<b>\$33,935 pa</b>

For more information on eligibility go to  
[www.workandincome.govt.nz](http://www.workandincome.govt.nz)

## Financial Markets Conduct Act update

We are currently working through the implications of the new Financial Markets Conduct Act for the Scheme. As the Scheme is closed to new members, it is not required to produce a Product Disclosure Statement. However, quite a lot of behind-the-scenes work is required, including reviewing and updating documents such as the Trust Deed, Employer Agreement, Investment Management Agreements, Statement of Investment Policy and Objectives, and forms.

# MARKET COMMENTARY

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## Strong returns from international shares and an improved result from New Zealand fixed interest contributed to another good year for the Scheme's investments.

The three main investment funds all achieved a 1%+ improvement on the previous year's very sound returns, while three increases in the Reserve Bank's official cash rate in the middle of last year saw the Cash fund lift its return by 0.4%.

Globally, the Scheme year was dominated by differing outlooks for economic growth in the major regions – a solid US versus a slowing China and struggling Eurozone and Russia, in particular. However, later in the year, the degree of separation had eased a little, with US expansion slowing slightly, while Europe and Japan showed some positive signs as their quantitative easing programmes (effectively printing money to buy government bonds and keep interest rates artificially low) began to take hold. China continued to ease its monetary policy in a bid to stimulate slowing growth rates.

Locally, by the end of the Scheme year the New Zealand economy had adopted a more sedate and manageable growth path. The Reserve Bank predicts annual economic growth to remain at around 3% for the current calendar year, supported by low interest rates, high net migration and construction activity.

## Recent events

Financial markets have become increasingly volatile since the end of the Scheme year. Volatility spiked in August as share markets slumped to their worst monthly performance since 2012 in reaction to escalating concerns about slowing global growth and the impact of the looming US Federal Reserve interest rate hike. September brought more of the same with markets rising sharply before falling again, reacting to fears that China's slowdown could drag on already sluggish global growth.

## Key points

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**Trans-Tasman shares** had another good 12 months. Again, the New Zealand share market outperformed its Australian counterpart. After three good quarters, the local share market followed global markets down in the final quarter as global interest rates rose. The market was not helped by falling business confidence, largely reflecting the struggling agriculture sector. Across the Tasman, ongoing weakness in the resources sector and concerns about growth in China have continued to affect the Australian share market.

**International shares** continued to make ground through most of the Scheme year, although falling oil prices, concerns about the Eurozone and Ukraine-related sanctions on Russia created market volatility. Share market returns varied widely between the major regions. The Japanese share market posted the strongest return in local currency, while much of Europe struggled for most of the year. An apparent improvement in European share markets came to a halt in June as tensions mounted in Greece and interest rates rose in anticipation of the US Federal Reserve starting to increase interest rates.

**New Zealand fixed interest** posted a much improved return. A year ago, it was expected that the Reserve Bank of New Zealand would begin lifting interest rates. However, although the Official Cash Rate was raised three times last year, in June the Reserve Bank reduced the rate by 0.25% to 3.25%, and a further 0.25% in July and September.

**International fixed interest** provided a sound return as for most of the year interest rates continued to fall. Slowing growth in China, Europe edging towards deflation and plunging oil prices saw markets extend expectations of interest rate hikes in all major markets except the US. Expectations that the US Federal Reserve would soon raise rates put upward pressure on interest rates late in the Scheme year.

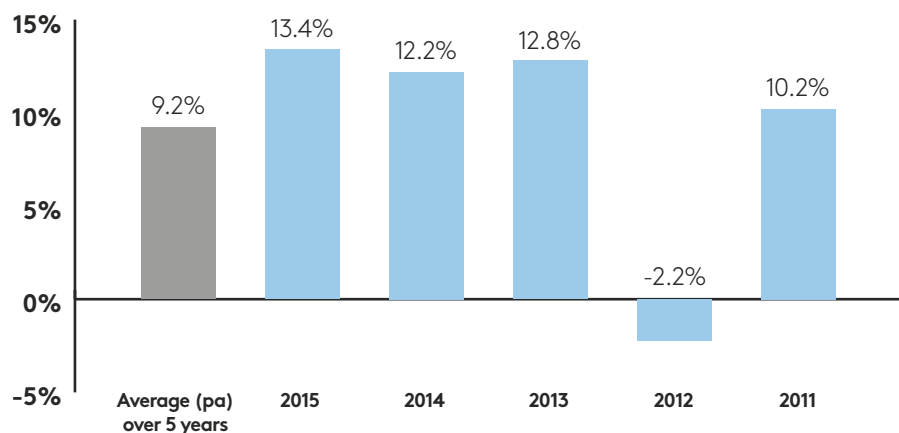
**Cash** posted an improved return as the Reserve Bank lifted its official cash rate three times and, later in the year, global interest rates began to rise.

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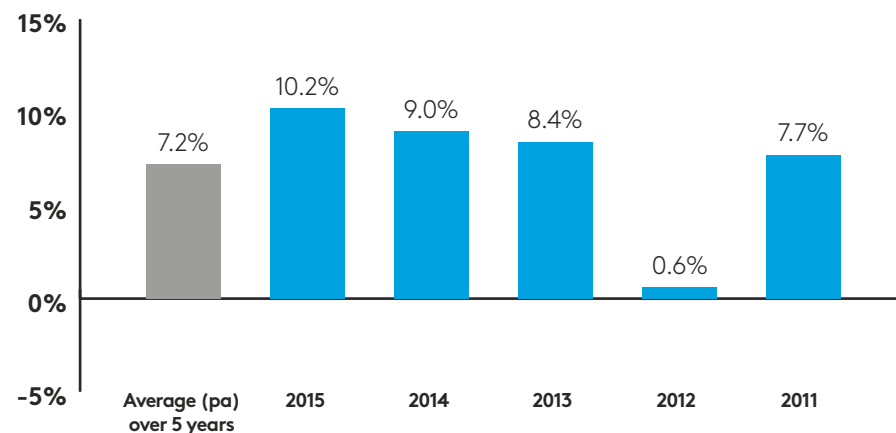
# INVESTMENT RETURNS

The following graphs show the after fees and tax returns for each of the last five years as well as the average annual return over five years for each investment fund.

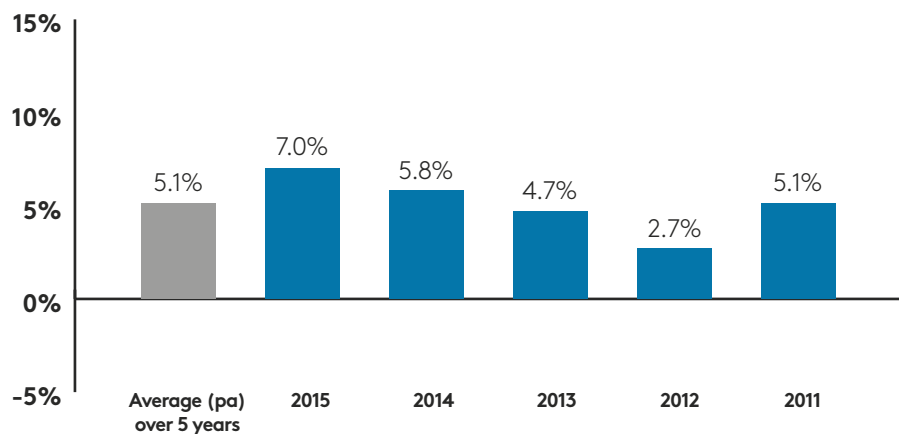
### Growth



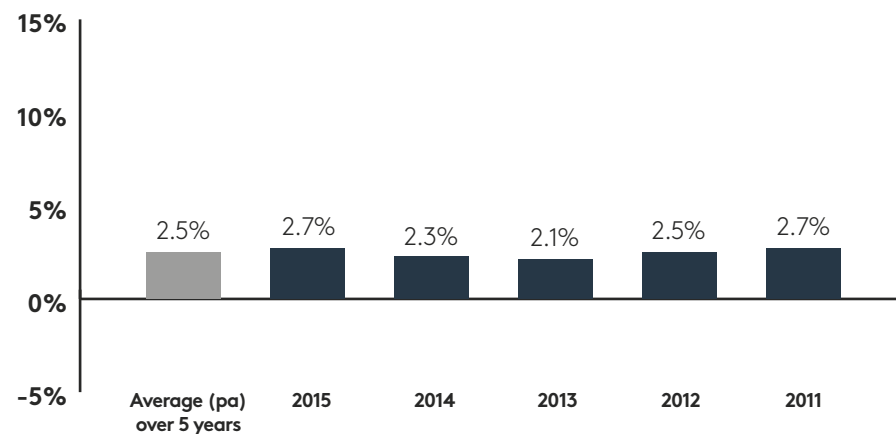
### Balanced



### Stable



### Cash



# YOUR INVESTMENT FUNDS

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The Plan offers you four investment funds – Growth, Balanced, Stable and Cash.

The funds are invested in the Mercer Super Investment Trust (MSIT). Mercer appoints specialist managers, selected for their expertise in a particular asset class, to manage the MSIT's assets.

By combining different investment managers with complementary investment styles in the one portfolio or fund, we aim to provide members with more consistent long-term returns.

## Investment strategy

Each investment fund has a benchmark (or target) asset mix, depending on its expected return and risk.

Please note: The actual mix of investments will vary from the benchmark according to market valuations. For example, if international shares perform well, the international shares portfolio will increase in value, which will affect the actual asset mix.



## Growth Fund

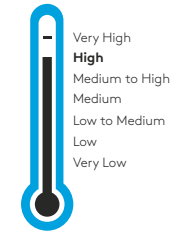
### Risk return profile

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

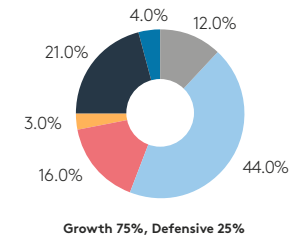
### Objective

To exceed inflation by an average of at least 3.0% p.a. over a minimum 8-year period.

### Risk level



### Benchmark asset mix



## Balanced Fund

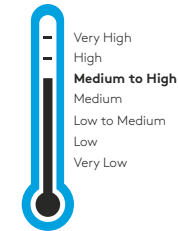
### Risk return profile

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

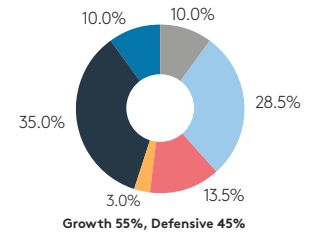
### Objective

To exceed inflation by an average of at least 2.5% p.a. over a minimum 7-year period.

### Risk level



### Benchmark asset mix



## Stable Fund

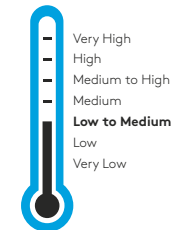
### Risk return profile

Expect lower returns over the long-term than the Growth and Balanced funds, but less risk of losses.

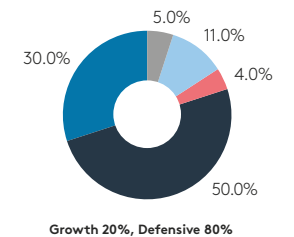
### Objective

To exceed inflation by an average of at least 1.00% p.a. over a minimum 3-year period.

### Risk level



### Benchmark asset mix



## Cash Fund

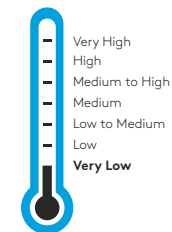
### Risk return profile

Expect the lowest levels of risk and return.

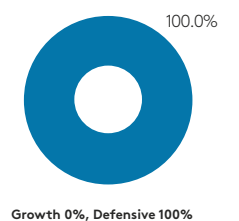
### Objective

To outperform the ANZ 90-day Bank Bill Gross Index over any one year period.

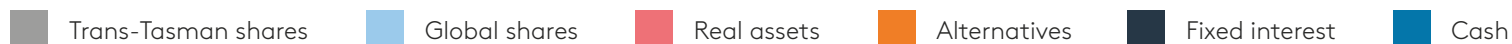
### Risk level



### Benchmark asset mix



### Key





# MANAGEMENT OF THE PLAN

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## The Trustee

The Trustee's Board Members as at 30 June 2015 are:

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

David Tapsell's term as a Board Member will end on 31 October 2015.

There were no changes to the Board during the period 1 July 2014 to 30 June 2015.

The appointment of two new Public Trust Board Members, John Duncan and Simon Craddock, has been confirmed. Their appointment commences 1 November 2015.

## Trust Deed

During the year, there were no amendments to the Employee Retirement Plan Trust Deed or to the Employer Agreement.<sup>1</sup>

## Trustee's certificate<sup>2</sup>

To the Members of the Employee Retirement Plan for the year ended 30 June 2015.

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 Employee Retirement Plan 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 Employee Retirement Plan in accordance with the terms of the Trust Deed have been paid; and
2. The market value of the assets of the Employee Retirement Plan at the close of the financial year exceeded the total value of the benefits that would have been payable had all members of the Employee Retirement Plan 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.



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**Public Trust**

Date: 3 November 2015

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<sup>1</sup> You can view the Trust Deed and the Teachers 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.

<sup>2</sup> 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 Plan, 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). FSCL can be contacted by emailing [info@fscl.org.nz](mailto: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

## 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 Secretary, Derek Vincent of Mercer, at the address shown on page 13.

## Membership profile

Changes to the Scheme membership are shown in the table below:

<b>Opening membership as at 1 July 2014</b>	<b>11,625</b>
<i>less</i>	
Deaths	(12)
Financial hardship or relationship property division (full)	(3)
Ill health	(5)
Retirement	(237)
Redundancy	(1)
Permanent emigration	(12)
Transfers out	(35)
<b>Closing membership as at 30 June 2015</b>	<b>11,320</b>

There were 796 partial benefits paid to members who remained members of the Scheme:

Financial hardship or relationship property division (partial)	36
Partial retirement	35
In-service	699
First home purchase	26
<b>Total partial benefits paid as at 30 June 2015</b>	<b>796</b>

# SUMMARY FINANCIAL STATEMENTS

For the year ended 30 June 2015

	2015 \$	2014 \$	
<b>Statement of Changes in Net Assets for the year ended 30 June</b>			
Net assets attributable to members at the beginning of the financial year	452,975,772	393,208,703	Summarises the Plan's income and expenses during the year.
<b>Investment Activities</b>			
Net Investment Gains	46,672,410	44,703,341	Investment earnings less the investment managers' fees.
Less			
<b>Other Expenses</b>			
Administration Fees	322,236	317,505	Costs of running the Plan.
Actuarial & Consulting Fees	14,950	14,335	
Auditor's Remuneration - Audit Fees	15,875	21,410	
Auditor's Remuneration - Tax Agent Fees	4,600	4,600	
Trustee Fees	141,955	130,875	
Other Expenses	12,495	3,588	
<b>Total Other Expenses</b>	<b>512,111</b>	<b>492,313</b>	Investment income less expenses.
<b>Change in Net Assets before Taxation and Membership Activities</b>	<b>46,160,299</b>	<b>44,211,028</b>	
Income Tax Expense	1,471,504	10,187,168	Investment income less tax and expenses.
<b>Change in Net Assets after Taxation and before Membership Activities</b>	<b>44,688,795</b>	<b>34,023,860</b>	
<b>Membership Activities</b>			
Member Contributions	17,495,830	18,039,619	Contributions paid into the Plan less benefits paid.
Member Voluntary Contributions	6,881,644	5,663,969	
Employer Contributions	17,343,319	17,928,207	
Transfers in from Other Schemes	33	50,278	
Less Benefits Paid	(20,960,114)	(15,938,864)	
<b>Net Membership Activities</b>	<b>20,760,712</b>	<b>25,743,209</b>	Investment income less tax and expenses plus net membership activities.
Net assets attributable to members at the end of the financial year	518,425,279	452,975,772	
<b>Net Increase in Net Assets During Year</b>	<b>65,449,507</b>	<b>59,767,069</b>	

	2015 \$	2014 \$
<b>Statement of Net Assets as at 30 June</b>		
<b>Assets</b>		
Investments at Fair Value Through Profit or Loss	512,180,901	452,392,966
Current Assets	6,347,449	2,167,518
<b>Total Assets</b>	<b>518,528,350</b>	<b>454,560,484</b>
Less		
<b>Liabilities</b>		
Benefits Payable	21,545	206,536
Member Contributions Refundable	470	-
Employer Contributions Refundable	449	-
Trade and Other Payables	80,607	81,888
PIE Tax Payable	-	1,296,288
<b>Total Liabilities</b>	<b>103,071</b>	<b>1,584,712</b>
<b>Net Assets Available for Benefits</b>	<b>518,425,279</b>	<b>452,975,772</b>
<b>Vested Benefits*</b>	<b>517,865,758</b>	<b>452,309,512</b>

Summarises what the Plan owns and what it owes.

Plan assets held with the investment managers.

Liabilities are amounts owed to others.

Total assets less current liabilities.

Benefits payable had all members left the Plan at balance date.

Summarises cash flows during the year.

Contributions less benefit payments & operating expenses.

Total cash flow.

Plus cash held at beginning of year.

### Statement of Cash Flows for the year ended 30 June

Net Cash Flows from Operating Activities	20,256,561	25,431,648
Net Cash Flows from Investing Activities	(19,644,449)	(25,463,555)
Net Increase/(Decrease) in Cash Held	612,112	(31,907)
Cash at Beginning of Financial Year	1,483,381	1,515,288
<b>Cash at End of Financial Year</b>	<b>2,095,493</b>	<b>1,483,381</b>

\* Vested benefits are benefits payable to members or beneficiaries under the conditions of the Trust Deed, on the basis of all members ceasing to be members of the Plan at balance date. As the Plan is fully vested, the difference between the net assets and the vested benefits is \$559,521, which comprises member and employer contributions receivable at year end.

## Notes to the summary financial statements

A summary of the Plan's audited financial statements for the year ended 30 June 2015 which were authorised for issue on 3 November 2015 is shown on pages 9 and 10 of the annual report. The summary financial statements have been extracted from the full audited financial statements which were authorised for issue on 14 October 2015. 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 Plan 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 Plan 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 Plan. A copy of the full financial statements can be obtained, free of charge, from the Plan's administration manager.

The Plan is a profit orientated entity.

The auditor has examined the summary financial statements 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

## on Summary Financial Statements to the members of the Employee Retirement Plan



The accompanying summary financial statements on pages 9 to 11 which comprise the summary statement of net assets as at 30 June 2015, the summary statement of changes in net assets, and the summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Employee Retirement Plan (the "Plan") for the year ended 30 June 2015.

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.

Our audit of the financial statements for the year ended 30 June 2015 was completed on 14 October 2015 and our unmodified opinion was issued on that date. We have not undertaken any additional audit procedures in relation to those financial statements from the date of the completion of our audit and those financial statements and the summary financial statements do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

This report is made solely to the Plan's members, as a body. Our work has been undertaken so that we might state those matters we are required to state to them in a report from the auditor 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 this report, or for the opinions we have formed. In addition, we take no responsibility for, nor do we report on, any part of the annual report not specifically mentioned in our report.

### Trustee's Responsibility for the Summary Financial Statements

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

### 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 are independent of the Plan. Other than in our capacity as auditors we have no relationship with, or interests in, the Plan.

### Opinion

In our opinion, the summary financial statements on pages 9 to 11 derived from the audited financial statements of the Plan for the year ended 30 June 2015 are consistent, in all material respects, with those audited financial statements, in accordance with FRS 43.

### Restriction on Use of our Report

This report has been prepared for inclusion in the annual report. We disclaim any responsibility for reliance on this report or the amounts included in the summary financial statements, for any purpose other than that for which they were prepared.

*PricewaterhouseCoopers*

Chartered Accountants

Wellington

3 November 2015

# DIRECTORY

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## Administration Manager

**Mercer (N.Z.) Limited**

P O Box 1849  
Wellington 6140

**Phone:** 0508 4 TEACH or 0508 483 224

**DDI:** 04 819 2600

**Email:** [teachersretire@mercerc.com](mailto:teachersretire@mercerc.com)

**Website:** [www.teachersretire.org.nz](http://www.teachersretire.org.nz)

## Auditor

PricewaterhouseCoopers

## Investment Manager

**Mercer (N.Z.) Limited**

## Secretary & Complaints Officer

**Derek Vincent**

c/- The Secretary to the Trustee  
Mercer (N.Z.) Limited  
P O Box 2897  
Wellington 6140

**Phone:** 04 819 2600

**Email:** [derek.vincent@mercerc.com](mailto:derek.vincent@mercerc.com)

## Trustee

**Public Trust**

Corporate Trustee Services  
Ground Floor, 40–42 Queens Drive  
PO Box 31543  
Lower Hutt 5040

**Phone:** 0800 371 471

**Email:** [cts.enquiry@publictrust.co.nz](mailto:cts.enquiry@publictrust.co.nz)

