

EMPLOYEE RETIREMENT PLAN

ANNUAL REPORT

For the year ended 30 June 2016

Planning tomorrow's retirement today

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Prepared for the members of the
Teachers Retirement Savings Scheme

OVERVIEW



\$548.81

million

Funds under management



872

Partial withdrawals



40,566

Visits to website



\$49,937

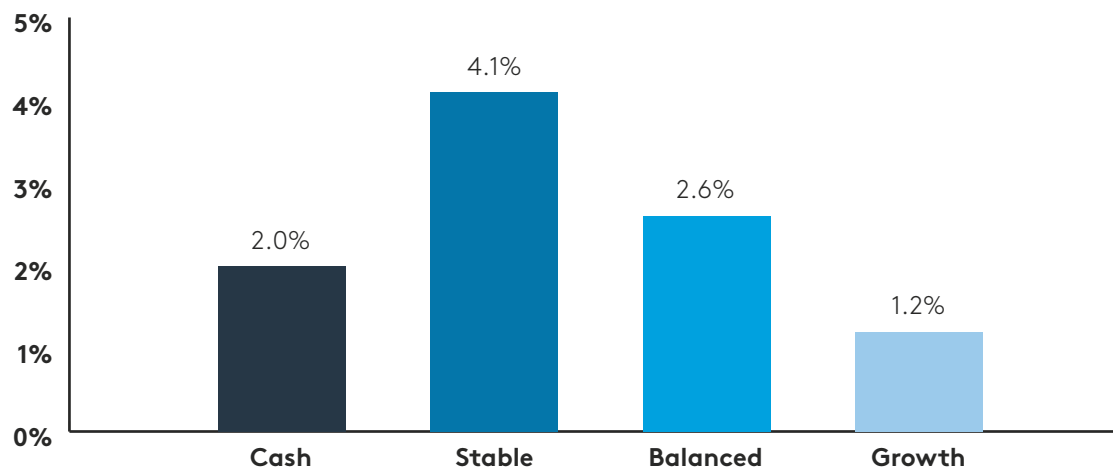
Average account balance



4,187

Calls to helpline

After fees & tax return for each investment option
year to 30 June 2016



TRUSTEE'S MESSAGE

Welcome to the annual report for the year ended 30 June 2016.

Volatility well and truly returned to share markets during the 2015/2016 Plan year. The table to the right shows how this affected returns, particularly those of the Growth and Balanced investment funds.

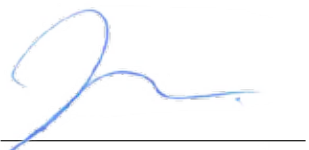
Overall, the global economic environment has been mixed, with America and Europe seeing mild growth and China gradually slowing. There have also been ongoing differences in the monetary policies of the major central banks, with the US Federal Reserve (the Fed) announcing its first rate hike in nearly 10 years in December, while the European Central Bank (ECB) and the Bank of Japan kept interest rates artificially low by continuing to print money to buy securities such as government bonds (referred to as 'quantitative easing').

Despite global events, the New Zealand economy continued to put in a solid growth performance.

While weaker commodity prices have impacted on the dairy sector, oil prices have remained low, and the strength of the New Zealand dollar has been offset by growth in tourism, immigration and housing.

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@mercerc.com.

On behalf of the Trustee, Public Trust



Date: 14 October 2016

CUMULATIVE INTEREST RATES

	Cash	Stable	Balanced	Growth
2015				
July	0.2%	1.0%	1.2%	1.3%
August	0.4%	0.5%	-0.4%	-1.0%
September	0.6%	0.0%	-2.1%	-3.6%
October	0.7%	1.2%	0.5%	-0.1%
November	0.9%	1.6%	1.1%	0.8%
December	1.1%	1.2%	-0.1%	-1.0%
2016				
January	1.3%	1.1%	-1.5%	-3.2%
February	1.4%	1.8%	-0.6%	-2.3%
March	1.6%	2.9%	1.8%	0.7%
April	1.7%	3.3%	2.3%	1.4%
May	1.9%	4.1%	3.6%	3.0%
June	2.0%	4.1%	2.6%	1.2%

SCHEME UPDATE

Notice to members from Public Trust as the Trustee of the Employee Retirement Plan

Last year's annual report referred to legislative changes that require all registered superannuation schemes to transfer to the Financial Markets Conduct Act (FMC) Act before 1 December 2016.

We are pleased to let you know that by the due date of 1 December 2016, the Plan will be transitioning to the FMC Act regime and from that date, the requirements of that Act apply. Plan documentation such as the Trust Deed and Statement of Investment Policy and Objectives (SIPO) are currently being reviewed to ensure that they comply with the new legislation.

You will be able to view or download copies of the Trust Deed, SIPO, and registration documents from www.business.govt.nz/disclose and Documents & forms on www.teachersretire.org.nz. Alternatively, call the Plan helpline 0508 4 TEACH (0508 483 224) or email teachersretire@mercero.com to request a copy. A useful source of information about the FMC Act is the www.fma.govt.nz/assets/a-guide-to-the-financial-markets-conduct-act-reforms-November-2013.pdf

A formal notice about the transition will be sent to all members post transition.

The Trustee is the issuer of the Plan and can be contacted at:

Derek Vincent
Secretary
Employee Retirement Plan
Mercer (N.Z.) Limited
PO Box 2897
Wellington 6140

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 \$58,189 a year before tax.

From 1 April 2016 the annual rates before tax are:

Single person, living alone	\$23,058 pa
Single person, sharing	\$21,192 pa
Married couple	\$34,917 pa

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

Making regular withdrawals to top up your retirement income

Since June 2015 members aged between 55 and 65, who have reduced their working hours from full time to 30 hours a week or less, and all members aged 65 or over have been able to make regular withdrawals from their accounts. More information about making partial withdrawals is available from Documents & forms on www.teachersretire.org.nz.

Financial Markets Conduct Act (FMC Act) update

Superannuation schemes which are accepting members must issue a Product Disclosure Statement (PDS) in place of their Investment Statement and, where required, their Prospectus. As the Plan is not open to new members, it is not required to issue a PDS. However, the Plan will be required to issue a fund update on an annual basis.

Under the new regime, the timeframes have been shortened to three and four months respectively for production of the member benefit statements and financial statements. There are also some changes to the information that must be included in the annual report.

MARKET COMMENTARY

As mentioned earlier in this report, investment markets, and share markets in particular, were very volatile during the 2015/2016 Plan year. Until mid-third quarter this was driven by falling commodity prices (and oil prices in particular), slowing growth in China and speculation as to when, and by how much, US interest rates would rise.

Markets began to settle from mid-February onwards as the US dollar softened and oil prices began to rise, suggesting the global economy was not headed for a recession.

This improvement continued almost to the end of the Plan year, when the outcome of the British referendum on membership of the European Union threw markets into confusion. While the 'Leave' result took markets by surprise, they had all but recovered their Brexit losses by the end of the Plan year. However, the longer-term implications of Brexit for the UK and Eurozone economies in particular are still unclear.

Key points

Trans-Tasman shares The Plan's Trans-Tasman shares portfolio had another very good year. New Zealand shares continued to be the standout performer with the S&P/NZX 50 index returning 21.9% for the Plan year. Across the Tasman the news was not as good, as Australia's reliance on the commodities sector hit corporate profits and government revenue, which then flowed through to household spending.

International shares Despite interest rates remaining at record lows, global shares had a difficult year. Most global share markets struggled until mid-February before bouncing back to recover some of their losses. Within the Plan's international shares portfolio, emerging markets had a mixed year, with some economies benefiting from falling commodity prices, while others came under pressure with their currencies and future growth prospects. European share markets also had a difficult year, mainly due to concerns over the Greek debt negotiations, US interest rate rises, Chinese currency depreciation, collapsing oil prices, and latterly, the aftermath of the Brexit referendum.

Real assets The year's return from the Plan's real assets portfolio was second only to the Trans-Tasman shares portfolio. Within the portfolio, unlisted infrastructure posted the strongest returns, with a number of key assets revalued upwards.

Property and listed infrastructure also benefited as further falls in interest rates saw investors move away from fixed interest securities ('bonds') to alternative income producing assets.

New Zealand fixed interest Falling longer-term bond yields benefited returns from this portfolio, as did our relatively healthy economy and the higher income available from New Zealand bonds.

International fixed interest With many governments continuing to cut interest rates, sovereign (government) bonds in particular performed well over the year. This sector also benefited from a flight to safety away from shares and into bonds, as well as the actions and rhetoric of the European Central Bank and the Fed.

Cash The return from the Plan's cash portfolio was down from the previous year as the Reserve Bank cut the Official Cash Rate (OCR) four times to try and stimulate inflation and run the economy at a faster rate.

Lower interest rates are expected to boost spending, employment and investment with the stronger demand lifting the inflation rate back into the Reserve Bank's 1% - 3% target band.

Market outlook

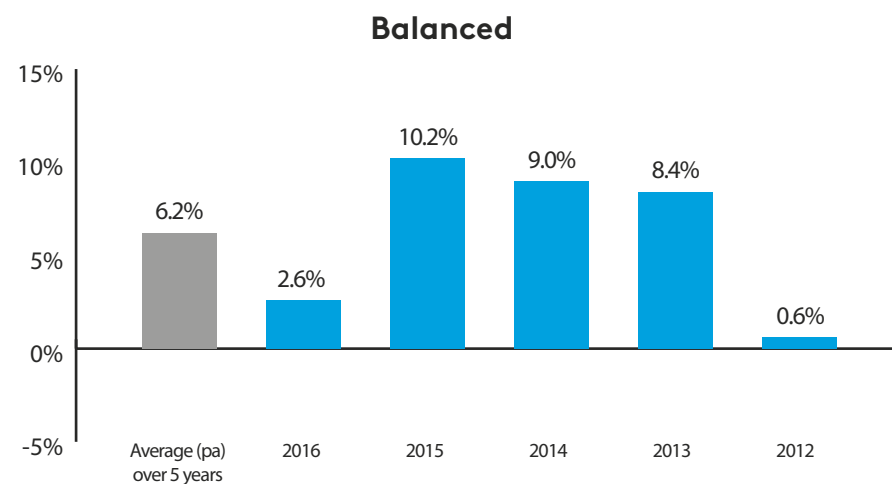
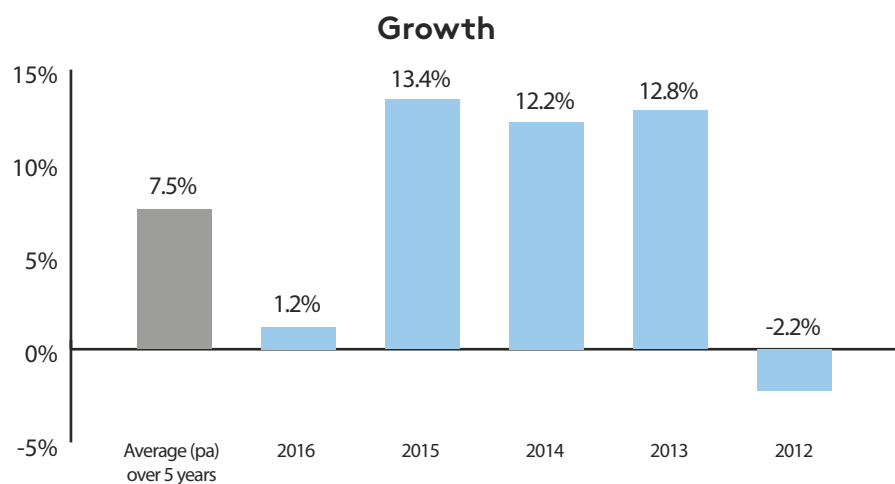
Global economic growth seems likely to continue to be slow and uncertain. Britain's surprise vote to leave the European Union in late June is expected to weigh on consumer confidence and investor sentiment. Announcing that it had notched down its global growth estimate for both 2016 and 2017 following Brexit, the International Monetary Fund (IMF) warned that a host of threats – including geopolitical turmoil, rising protectionism and terrorist attacks – could threaten growth. Meanwhile, central banks appear to be running out of options to stimulate their economies, reflected in part by interest rates plumbing new depths around the world. Many emerging markets are still struggling to cope with China's deceleration and the long-term slump in trade and commodity prices.

The IMF also trimmed its forecast for U.S. growth this year by 0.2% to 2.2% on the back of a weaker-than expected first quarter as a strong dollar and lower energy investment sector hit the economy.

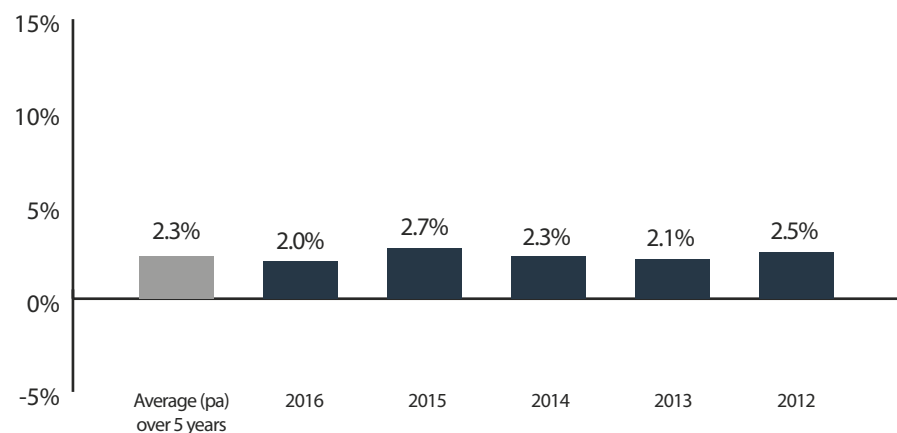
Brexit added to Japan's exchange-rate headaches as capital fleeing London sought refuge in the yen, one of the world's safe-haven currencies. Instead of a planned upward revision for the world's third-largest economy, a stronger yen forced the IMF to cut the country's growth prospects for this year by 0.2% to a measly rate of 0.3% this year. Tokyo's decision to delay a consumption tax increase means the country will avoid a recession. But the economy is only expected to expand by 0.1% next year.

INVESTMENT RETURNS

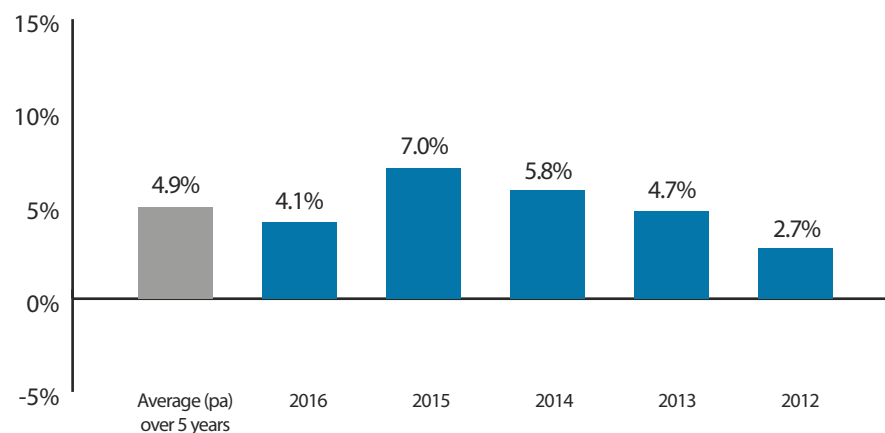
The following graphs show the after fees and tax returns for each of the last five years as well as the average annual return over five years for each investment fund.



Cash



Stable



YOUR INVESTMENT FUNDS

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

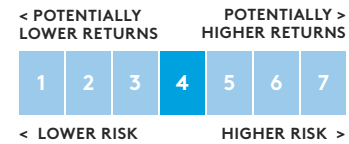
Risk return profile

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

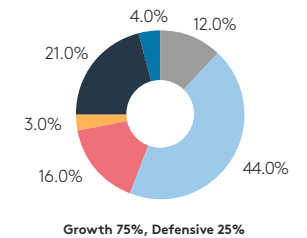
Objective

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

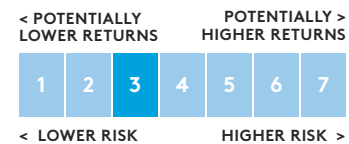
Risk return profile

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

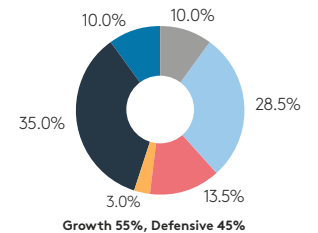
Objective

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

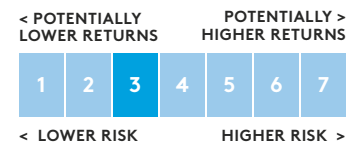
Risk return profile

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

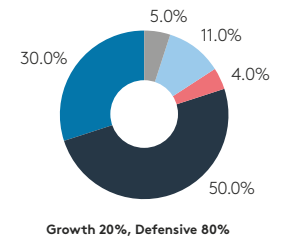
Objective

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

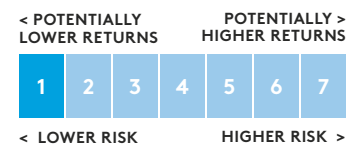
Risk return profile

Expect the lowest levels of risk and return.

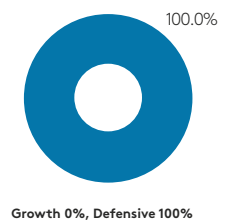
Objective

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

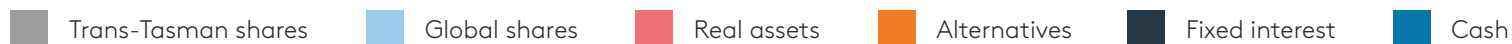
Risk level



Benchmark asset mix



Key



MANAGEMENT OF THE PLAN

The Trustee

The Trustee's Board Members are:

- Sarah Roberts (Chair)
- Fiona Oliver (Deputy Chair)
- Simon Craddock
- John Duncan
- Dilkhush (Dinu) Harry
- Huei Min (Lyn) Lim
- Diana Puketapu

David Tapsell and Susan McCormack completed their terms as Public Trust Board Members on 31 October 2015 and 30 April 2016 respectively.

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 2016.

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: 14 October 2016

¹ 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.

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 Plan'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). 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

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 in the Directory.

Membership profile

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

Opening membership as at 1 July 2015	11,320
<i>less</i>	
Deaths	(13)
Financial hardship or relationship property division (full)	(1)
Ill health	(3)
Retirement	(266)
Redundancy	(4)
Permanent emigration	(12)
Transfers out	(31)
Closing membership as at 30 June 2016	10,990

There were 872 partial benefits paid to members who remained members of the Plan:

Financial hardship or relationship property division (partial)	40
Partial retirement	224
In-service	584
First home purchase	24
Total partial benefits paid as at 30 June 2016	872

SUMMARY FINANCIAL STATEMENTS

For the year ended 30 June 2016

	2016 \$	2015 \$
Statement of Changes in Net Assets for the year ended 30 June		
Net assets attributable to members at the beginning of the financial year	518,425,279	452,975,772
Investment Activities		
Net Investment Gains	22,411,876	46,672,410
Less		
Other Expenses		
Administration Fees	325,454	322,236
Actuarial & Consulting Fees	9,436	14,950
Auditor's Remuneration - Audit Fees	17,480	15,875
Tax Agent Fees	5,703	4,600
Trustee Fees	152,031	141,955
Other Expenses	9,049	12,495
Total Other Expenses	519,153	512,111
Change in Net Assets before Taxation and Membership Activities	21,892,723	46,160,299
Income Tax Expense	9,230,189	1,471,504
Change in Net Assets after Taxation and before Membership Activities	12,662,534	44,688,795
Membership Activities		
Member Contributions	17,426,625	17,495,830
Member Voluntary Contributions	7,446,112	6,881,644
Employer Contributions	17,309,120	17,343,319
Transfers in from Other Schemes	-	33
Less Benefits Paid	(24,460,136)	(20,960,114)
Net Membership Activities	17,721,721	20,760,712
Net assets attributable to members at the end of the financial year	548,809,534	518,425,279
Net Increase in Net Assets During Year	30,384,255	65,449,507

Summarises the Plan's income and expenses during the year.

Investment earnings less the investment managers' fees

Costs of running the Scheme.

Investment income less expenses.

Investment income less tax and expenses.

Contributions paid into the Scheme less benefits paid.

Investment income less tax and expenses plus net membership activities.

	2016 \$	2015 \$
Statement of Net Assets as at 30 June		
Assets		
Investments at Fair Value Through Profit or Loss	549,644,691	512,180,901
Current Assets	3,032,200	6,347,449
Total Assets	552,676,891	518,528,350
Less		
Liabilities		
Benefits Payable	31,779	21,545
Member Contributions Refundable	201	470
Employer Contributions Refundable	174	449
Trade and Other Payables	85,624	80,607
Income Tax Payable	3,749,579	-
Total Liabilities	3,867,357	103,071
Net Assets Available for Benefits	548,809,534	518,425,279
Vested Benefits*	547,849,291	517,865,758

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	16,864,237	20,256,561
Net Cash Flows from Investing Activities	(16,918,588)	(19,644,449)
Net Increase/(Decrease) in Cash Held	(54,351)	612,112
Cash at Beginning of Financial Year	2,095,493	1,483,381
Cash at End of Financial Year	2,041,142	2,095,493

* 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 Fund at balance date. As the Plan is fully vested, the difference between the net assets and the vested benefits is \$960,243, 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 2016 which were authorised for issue by the Plan's Trustee on 29 September 2016 is shown on pages 9 and 10. The summary financial statements have been extracted from the full audited financial statements dated 30 June 2016 which were authorised for issue on 29 September 2016 and an unmodified audit opinion issued. 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 the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The Plan has made an explicit and unreserved statement of compliance with International Financial Reporting Standards (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 do not include all the disclosures provided in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full financial statements 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 audited full financial statements and issued an unmodified opinion.

REPORT OF THE INDEPENDENT AUDITORS' ON THE 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 2016, 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 2016.

The summary financial statements do not contain all the disclosures required for full financial statements under New Zealand Equivalents to International Financial Reporting Standards. 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 2016 was completed on 29 September 2016 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 on behalf of the Plan for the preparation 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 Employee Retirement Plan for the year ended 30 June 2016 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

14 October 2016

DIRECTORY

Administration Manager

Mercer (N.Z.) Limited

P O Box 1849

Wellington 6140

Freephone: 0508 4 TEACH or 0508 483 224

Direct dial: 04 819 2600

Email: teachersretire@mercerc.com

Website: 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

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Email: cts.enquiry@publictrust.co.nz

