

EMPLOYEE RETIREMENT PLAN

Financial Statements

For the Year Ended 30 June 2020

EMPLOYEE RETIREMENT PLAN

Financial Statements For the Year Ended 30 June 2020

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Independent auditor's report

To the members of Employee Retirement Plan

We have audited the financial statements which comprise:

- the statement of net assets as at 30 June 2020;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Employee Retirement Plan (the Plan), present fairly, in all material respects, the financial position of the Plan as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Plan.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p data-bbox="277 353 774 450"><i>Valuation and existence of investments at fair value through profit or loss (FVPL) amounting to \$698 million</i></p> <p data-bbox="277 465 774 622">Refer to note 5 in the financial statements for disclosures of investments at FVPL. This was an area of focus for our audit as it represents the majority of the net assets of the Plan.</p> <p data-bbox="277 638 774 896">The Plan invests into unlisted investment funds which are categorised as level 2 within the fair value hierarchy. The fair value is based on the redemption price established by the Investment Fund Administrator. In assessing the fair value, the Trustee uses information provided by the investment manager.</p> <p data-bbox="277 911 774 978">The Plan has no investments where there are no observable inputs.</p> <p data-bbox="277 994 774 1184">The Trustee assessed the impact of COVID-19 on the Plan's financial statements including investments at FVPL and included additional disclosures around the impact of COVID-19 in Note 2 to the financial statements.</p> <p data-bbox="277 1200 774 1267">All investments at FVPL are held by the Custodian on behalf of the Plan.</p> | <p data-bbox="805 398 1476 589">We assessed the processes employed by the Administrator for recording and valuing the investments at FVPL including the relevant controls operated by third party service organisations. The third party service organisations include the investment manager. Our assessment of the business processes included:</p> <ul data-bbox="805 604 1476 884" style="list-style-type: none"> • Obtaining an understanding of the business processes over classification, recognition and measurement of investments at FVPL; and • Obtaining the controls report over asset management services provided by the investment manager. We evaluated the evidence provided by the controls reports over the design and operating effectiveness of the key controls. <p data-bbox="805 900 1476 1057">For all investments in unlisted investment funds, we agreed the redemption price at 30 June 2020 to the confirmation provided by the investment manager. We evaluated that the redemption price represents fair value by:</p> <ul data-bbox="805 1072 1476 1464" style="list-style-type: none"> • Comparing the redemption price at 30 June 2020 to recent transactions to support the fair value of the investments at FVPL; • Comparing the Net Asset Value per unit calculated based on the latest audited financial statements of the underlying unlisted investment funds to the published unit price on that date to provide evidence on reliability of unit pricing; and • Assessing whether the fair value of underlying assets and liabilities of the unlisted investment funds are primarily determined through observable market data. <p data-bbox="805 1480 1476 1648">We have considered the impact of COVID-19 on the valuation of investments. This included assessing whether the valuation methodologies and the disclosures in the financial statements were appropriate.</p> <p data-bbox="805 1664 1476 1783">For existence, we agreed the investments at FVPL held by the Plan at 30 June 2020 to confirmations obtained directly from the Custodian and the Investment Manager.</p> <p data-bbox="805 1798 1476 1850">From the procedures performed, we have no matters to report.</p> |

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: \$6,940,000, which represents approximately 1% of net assets available for benefits.

We chose net assets as the benchmark because, in our view, the objective of the Plan is to provide members with a total return on net assets taking account of both capital and income returns.

Because of the significance of the investments to the financial statements, we have determined there is one key audit matter: valuation and existence of investments at fair value through profit or loss.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Plan, the accounting processes and controls, and the industry in which the Plan operates.

Public Trust (the Trustee / Custodian) is responsible for the governance and control activities of the Plan. The Trustee has outsourced investment accounting, investment management and registry services to Mercer (N.Z) Limited (the Administrator / the Investment Manager). BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch (the Investment Fund Administrator) is the administrator of the unlisted investment funds in which the Plan invests.

In establishing our overall audit approach, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the control environment in place at the Trustee and the Administrator.

Information other than the financial statements and auditor's report

The Trustee is responsible for the annual report.

Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Trustee for the financial statements

The Trustee is responsible, on behalf of the Plan, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intend to liquidate the Plan or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:



Chartered Accountants
25 September 2020

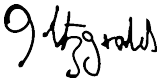
Wellington

EMPLOYEE RETIREMENT PLAN

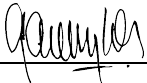
**Statement of Net Assets
As at 30 June 2020**

| | Note | 2020 \$ | 2019 \$ |
|--|------|-------------|-------------|
| ASSETS | | | |
| Cash and Cash Equivalents | | 2,085,031 | 747,533 |
| Investments | 5 | 698,001,414 | 682,623,773 |
| Contributions Receivable - Member | | - | 670,748 |
| Contributions Receivable - Employer | | - | 490,222 |
| Trade and Other Receivables | | 25,000 | - |
| Deferred Tax | | 171,468 | 37,984 |
| Total Assets | | 700,282,913 | 684,570,260 |
| Less LIABILITIES | | | |
| Benefits Payable | | 245,443 | 491,694 |
| Trade and Other Payables | | 105,155 | 105,101 |
| Income Tax Payable | | 5,842,534 | 1,394,033 |
| Total Liabilities | | 6,193,132 | 1,990,828 |
| NET ASSETS AVAILABLE FOR BENEFITS | | 694,089,781 | 682,579,432 |
| LIABILITY FOR PROMISED BENEFITS | | | |
| <i>Represented By:</i> | 3 | | |
| Members' Accounts | | 362,846,338 | 359,373,446 |
| Employer Accounts | | 331,243,433 | 323,205,986 |
| Operating Reserve Account | | 10 | - |
| | | 694,089,781 | 682,579,432 |

For and on behalf of the Trustee, Public Trust, who authorised the issue of these financial statements.

Board Member 
Ian Fitzgerald, Public Trust, Chair

Date 25 September 2020

Board Member 
Graham Naylor, Public Trust
Audit & Finance Committee

Date 25 September 2020

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Statement of Changes in Net Assets For the Year Ended 30 June 2020

| | Note | 2020 \$ | 2019 \$ |
|---|------|--------------------|--------------------|
| INVESTMENT ACTIVITIES | | | |
| Investment Income | | | |
| Gains on Investments | 6 | 19,717,293 | 43,672,238 |
| Interest Received | | 15,204 | 26,575 |
| | | <u>19,732,497</u> | <u>43,698,813</u> |
| Investment Expenses | | | |
| Investment Management Fees | | <u>(3,915,325)</u> | <u>(3,758,415)</u> |
| Net Investment Gains | | 15,817,172 | 39,940,398 |
| OTHER INCOME | | | |
| | | 75,652 | 25,000 |
| OTHER EXPENSES | | | |
| Administration Fees | | 290,826 | 383,118 |
| Actuarial & Consulting Fees | | - | 6,000 |
| Auditor's Remuneration - Audit Fees | | 25,875 | 24,725 |
| Tax Agent Fees | | 9,219 | 10,350 |
| Trustees Fees | | 184,732 | 177,539 |
| Other Expenses | | 56,934 | 57,570 |
| Total Other Expenses | | <u>567,586</u> | <u>659,302</u> |
| Change in Net Assets before Taxation and Membership Activities | | <u>15,325,238</u> | <u>39,306,096</u> |
| Income Tax Expense | 7 | <u>3,999,243</u> | <u>7,296,441</u> |
| Change in Net Assets after Taxation and before Membership Activities | | 11,325,995 | 32,009,655 |
| MEMBERSHIP ACTIVITIES | | | |
| Contributions | | | |
| Member Contributions | | 15,233,801 | 15,316,788 |
| Member Voluntary Contributions | | 5,457,494 | 5,231,671 |
| Employer Contributions | | <u>15,048,192</u> | <u>15,149,800</u> |
| Total Contributions | | 35,739,487 | 35,698,259 |
| Benefits Paid | | | |
| Retirement | | 15,516,354 | 18,391,853 |
| Retrenchment | | 324,701 | 208,678 |
| Death & Disablement | | 944,844 | 839,333 |
| Hardship | | 231,460 | 571,982 |
| Withdrawals | | 17,074,354 | 14,616,615 |
| Transfers to other Schemes | | <u>1,463,420</u> | <u>1,044,627</u> |
| Total Benefits Paid | | 35,555,133 | 35,673,088 |
| Net Membership Activities | | <u>184,354</u> | <u>25,171</u> |
| Net Increase in Net Assets During Year | | 11,510,349 | 32,034,826 |
| Net Assets Available for Benefits at Beginning of Year | | <u>682,579,432</u> | <u>650,544,606</u> |
| Net Assets Available for Benefits at End of Year | | <u>694,089,781</u> | <u>682,579,432</u> |

This statement is to be read in conjunction with the notes on pages 8 to 15

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**Statement of Cash Flows
For the Year Ended 30 June 2020**

| | Note | 2020 \$ | 2019 \$ |
|---|------|-------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash provided from</i> | | | |
| Member Contributions | | 15,729,803 | 15,301,332 |
| Member Voluntary Contributions | | 5,632,241 | 5,217,305 |
| Employer Contributions | | 15,538,414 | 15,134,871 |
| Other Income | | 50,652 | 25,000 |
| Interest Received | | 15,204 | 26,575 |
| Tax Refund | | - | 2,103 |
| | | <u>36,966,314</u> | <u>35,707,186</u> |
| <i>Cash applied to</i> | | | |
| Benefits Paid | | 35,801,383 | 35,539,741 |
| Other Expenses | | 567,533 | 686,125 |
| | | <u>36,368,916</u> | <u>36,225,866</u> |
| Net Cash Flows from Operating Activities | 8 | <u>597,398</u> | <u>(518,680)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash provided from</i> | | | |
| Sale of Investments | | 3,825,087 | 3,835,000 |
| <i>Cash applied to</i> | | | |
| Purchase of Investments | | 3,084,987 | 3,374,932 |
| Net Cash Flows from Investing Activities | | <u>740,100</u> | <u>460,068</u> |
| Net Increase/(Decrease) in Cash Held | | 1,337,498 | (58,612) |
| Cash and Cash Equivalents at the Beginning of the Year | | 747,533 | 806,145 |
| Cash and Cash Equivalents at the End of the Year | | <u><u>2,085,031</u></u> | <u><u>747,533</u></u> |

This statement is to be read in conjunction with the notes on pages 8 to 15

EMPLOYEE RETIREMENT PLAN

Notes to the Financial Statements For the Year Ended 30 June 2020

1. Plan Description

The Employee Retirement Plan ("ERP" or "the Plan") is a defined contribution superannuation plan registered in New Zealand as a restricted workplace saving scheme under the Financial Markets Conduct Act 2013. The ERP Trust Deed was established with a commencement date of 1 September 2002 and since then, it has been amended twice on 31 August 2005 and 30 November 2016 respectively. Employers become a participant of the ERP by entering into an employer agreement with the Trustee of the Plan. ERP is a multi-employer master trust. The assets of the ERP are invested with the Mercer Investment Trusts New Zealand. As at balance date, the sole employer is the Ministry of Education.

During the year the Trustee of the Plan was Public Trust. In 2016 Public Trust was granted a corporate independent trustee licence to allow it to act as the sole independent trustee of the Plan under the Financial Markets Conduct Act 2013 ("FMCA").

Registered Office of the Plan: Mercer (N.Z.) Limited, PO Box 1849, Wellington 6140

Details of membership as at 30 June 2020 were:

| | Active Members |
|--------------------------------|-----------------------|
| 1 July 2019 | 9,988 |
| New Members | - |
| Retirement | 138 |
| Withdrawals | 106 |
| Redundancy | 4 |
| Permanent Emigration | 3 |
| Death and Permanent Incapacity | 23 |
| Financial Hardship | - |
| Transfers to Other Schemes | 26 |
| 30 June 2020 | 9,688 |

Funding Arrangements

Members and employers pay contributions to the ERP in accordance with the Trust Deed and the relevant Employer Agreement.

With effect from 1 July 2005 all members receive a matching contribution from their Employer up to a maximum of 3% of gross base salary.

Retirement Benefits

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

Termination Terms

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

Changes in the Plan

There were no changes to the Plan or Trust Deed during the 2020 financial year.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

These financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Measurement Base

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

Functional and Presentation Currency

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

Classification of Assets and Liabilities

The Employee Retirement Plan operates as a superannuation plan. As such, the assets and liabilities are disclosed in the Statement of Net Assets in an order that reflects their relative liquidity.

EMPLOYEE RETIREMENT PLAN

Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

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

Capital Risk Management

The Plan's primary purpose is to ensure that its net assets are sufficient to meet all present and future obligations as defined by the liability for promised benefits.

The Plan achieves this through obtaining contributions from members and employers and investing these into financial assets.

Accounting Policies

The following are the significant accounting policies which have been adopted in the preparation of the financial statements:

Investment Income

Interest is taken to income on an effective interest basis.

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

Interest income on cash and cash equivalents is recognised on a time proportionate basis using the effective interest method.

Expenses

All expenses are accounted for on an accruals basis.

Taxation

The tax expense represents the sum of the tax currently payable and movements in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Changes in Net Assets because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Plan's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by balance date.

The Plan invests in a number of Portfolio Investment Entities (PIEs). Investments are recorded gross of PIE tax receivable or payable. PIE tax expense is included in income tax expense in the Statement of Changes in Net Assets.

The Plan has elected to take advantage of section DV(2) of the Income Tax Act 2007 and has transferred deductible expenditure incurred by the Plan to the investment manager.

Financial Instruments

The Plan has various financial instruments comprising financial assets and liabilities with on-balance sheet risk.

Financial assets and financial liabilities are recognised on the Plan's Statement of Net Assets when the Plan becomes a party to the contractual provisions of the instrument. The Plan shall offset financial assets and financial liabilities if the Plan has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Financial assets at fair value through profit or loss

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

Investments are classified at fair value through profit or loss. As the Plan's business is investing in financial assets with a view to profiting from their total return in the form of interest, distributions or increases in fair value, investments in pooled superannuation schemes are at fair value through profit or loss on initial recognition.

Financial assets at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the bid price of the exchange on which the investment is quoted.

Investments in units of pooled superannuation schemes are valued at the closing price released by the relevant investment manager.

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Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

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

Trade and Other Receivables

Trade and other receivables do not carry any interest and are short-term in nature and are recognised initially at fair value and subsequently at amortised cost using the effective interest method as reduced by appropriate allowances for impairment losses.

The carrying value of a financial asset is reduced by an impairment loss, with the exception of trade receivables where the Plan applies the NZ IFRS 9 approach to measure the expected credit losses which uses a lifetime expected loss allowance.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Changes in Net Assets to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Trade and Other Payables

Trade and other payables are not interest-bearing and are recognised initially at fair value and subsequently at amortised cost.

Goods and Services Tax (GST)

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

Statement of Cash Flows

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

Cash and cash equivalents - comprises cash balances held with banks in New Zealand and overseas.

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

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

Promised Retirement Benefits

The Liability for Promised Retirement Benefits is the Plan's present obligation to pay benefits to members and beneficiaries. It has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the liabilities as at balance date. Promised benefits include amounts allocated to members' accounts and reserves.

Contributions and Benefits

Contributions and benefits are accounted for on an accruals basis.

New and amended standards adopted by the Plan

Effective from 1 July 2019, NZ IFRS 16 (Leases) was adopted and replaced NZ IAS 17 (Leases). As the Plan does not lease assets, the application of NZ IFRS 16 did not have an impact on the Plan's financial position or the presentation and disclosure in the financial statements.

There are no other standards, amendments to standards or interpretations that have been issued but are not yet effective that are expected to materially impact on the Plan's financial statements.

Critical Accounting Estimates and Assumptions

On 11 March 2020, the World Health Organisation ("WHO") declared a global pandemic as a result of the outbreak and spread of COVID-19. Subsequent to this, on 25 March 2020, the New Zealand Government increased its Alert Level to 4 (full lockdown of non-essential services) for an initial 4 week period. The Trustee continues to closely monitor the impacts of the COVID-19 Pandemic on the Plan as the situation continues to unfold. The Trustee has assessed the impact of COVID-19 on the valuation of financial instruments at 30 June 2020 and has ascertained that an adjustment was not required on the basis that markets were functioning and market prices for the financial assets at fair value through profit or loss represented fair value. The Trustee has monitored the liquidity requirements of the Plan and concluded that there is sufficient liquidity to meet liabilities when due under current conditions. The adoption of the going concern assumption remains appropriate.

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Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

3. Liability for Promised Benefits

Changes in Promised Benefits as at 30 June 2020:

| | Member Account | Employer Account | Operating Reserve Account | Total 2020 |
|--------------------------------|-------------------|---------------------|---------------------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Balance 1 July 2019 | 359,373,446 | 323,205,986 | - | 682,579,432 |
| Contributions | 20,691,295 | 15,048,192 | - | 35,739,487 |
| Benefits Paid | (23,252,283) | (12,303,229) | 379 | 35,555,133 |
| Change in Net Assets after Tax | - | - | 11,325,995 | 11,325,995 |
| Interest Allocated | 6,033,880 | 5,292,484 | (11,326,364) | - |
| Balance 30 June 2020 | 362,846,338 | 331,243,433 | 10 | 694,089,781 |

Changes in Promised Benefits as at 30 June 2019:

| | Member Account | Employer Account | Operating Reserve Account | Total 2019 |
|--------------------------------|-------------------|---------------------|---------------------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Balance 1 July 2018 | 344,799,406 | 305,745,200 | - | 650,544,606 |
| Contributions | 20,548,459 | 15,149,800 | - | 35,698,259 |
| Benefits Paid | (22,919,931) | (12,753,765) | 608 | (35,673,088) |
| Change in Net Assets after Tax | - | - | 32,009,655 | 32,009,655 |
| Interest Allocated | 16,945,512 | 15,064,751 | (32,010,263) | - |
| Balance 30 June 2019 | 359,373,446 | 323,205,986 | - | 682,579,432 |

Guaranteed Benefits

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

Reserve Account

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

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

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

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

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Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

4. Vested Benefits

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.

| | 2020 \$ | 2019 \$ |
|--|--------------------|--------------------|
| | <u>694,089,781</u> | <u>682,579,432</u> |

5. Investments

Mercer Investment Trust New Zealand

| | 2020 \$ | 2019 \$ |
|-------------------------|--------------------|--------------------|
| - ERP Balanced Fund | 348,794,351 | 351,168,887 |
| - ERP Cash Fund | 55,218,587 | 41,687,181 |
| - ERP Growth Fund | 174,584,025 | 176,782,051 |
| - ERP Conservative Fund | 119,404,451 | 112,985,654 |
| | <u>698,001,414</u> | <u>682,623,773</u> |

6. Gains on Investments

Mercer Investment Trust New Zealand

| | 2020 \$ | 2019 \$ |
|-----------------------------------|-------------------|-------------------|
| - ERP Balanced Fund | 10,559,900 | 23,614,074 |
| - ERP Cash Fund | 646,922 | 978,125 |
| - ERP Growth Fund | 3,555,466 | 12,282,878 |
| - ERP Conservative Fund | 4,955,005 | 6,797,161 |
| Total Gains on Investments | <u>19,717,293</u> | <u>43,672,238</u> |

7. Income Tax

| | 2020 \$ | 2019 \$ |
|--------------|------------------|------------------|
| Current Tax | 4,132,727 | 7,295,706 |
| Deferred Tax | (133,484) | 735 |
| | <u>3,999,243</u> | <u>7,296,441</u> |

The total charge for the year can be reconciled to the Change in Net Assets as follows:

| | | |
|---|-------------------|-------------------|
| Change in Net Assets before Tax and Membership Activities | <u>15,325,238</u> | <u>39,306,096</u> |
| Income Tax @ 28% | 4,291,067 | 11,005,707 |
| Tax effect of: | | |
| Non Assessable Investment (Gains) and Losses | (5,520,842) | (12,228,227) |
| Non Deductible Investment Manager Fees | 1,096,291 | 1,052,356 |
| PIE Tax | 4,132,727 | 7,466,605 |
| Income Tax Expense | <u>3,999,243</u> | <u>7,296,441</u> |
| Deferred Tax | | |
| Balance Brought Forward | 37,984 | 38,719 |
| Current Year Charge | 133,484 | (735) |
| Deferred Tax Asset | <u>171,468</u> | <u>37,984</u> |

The Plan invests in Mercer Investment Trust New Zealand (MITNZ) funds, which are Portfolio Investment Entities (PIEs). A prescribed investor rate (PIR) of 28% has been applied in respect of these investments for the whole of the 30 June 2020 year.

Gains and losses on PIE investments held with a 28% PIR are taxable within the PIE fund, with any tax deducted / credits reflected in the valuation of investments at year end. However, to improve transparency in the financial statements, all PIE tax expense / credits are shown in the Statement of Changes in Net Assets as 'Income Tax Expense / (Credit), with 'Gains / (Losses) on Investments' presented gross of any tax deducted.

PIE Tax expense recognised includes the reversal of the benefit of \$1,410,742 for the period 1 April to 30 June 2019, and a benefit of \$346,749 for the year ended 31 March 2020 and an expense of \$5,876,218 for the period 1 April to 30 June 2020.

As at 30 June 2020, the Plan had expenses to carry forward to transfer to its PIE investments of \$612,384 (2019: \$135,654), which are recognised in the deferred tax balance.

EMPLOYEE RETIREMENT PLAN

Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

8. Reconciliation of Net Cash Flows from Operating Activities to Increase in Net Assets

| | 2020 \$ | 2019 \$ |
|--|--------------|--------------|
| Increase in Net Assets | 11,510,349 | 32,034,826 |
| Non-Cash Items | | |
| Gains on Fair Value Through Profit or Loss Assets | (19,717,293) | (43,672,238) |
| PIE Tax Paid | (315,773) | 4,863,914 |
| Investment Management Fees | 3,915,325 | 3,758,415 |
| Movements in Other Working Capital Items | | |
| Decrease / (Increase) in PIE Tax Receivable | - | 1,040,598 |
| Increase / (Decrease) in PIE Tax Payable | 4,448,501 | 1,394,033 |
| (Decrease) / Increase in Benefits Payable | (246,251) | 133,348 |
| Decrease / (Increase) in Member Contributions Receivable | 670,748 | (29,822) |
| Decrease / (Increase) in Employer Contributions Receivable | 490,222 | (14,930) |
| (Increase) / Decrease in Deferred Tax | (133,484) | - |
| (Decrease) / Increase in Trade and Other Payables | 54 | (26,824) |
| Increase in Sundry Debtors | (25,000) | - |
| Net Cash Flows from Operating Activities | 597,398 | (518,680) |

9. Financial Instruments

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

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

Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the Plan's accounting policies.

Categories of Financial Instruments - 30 June 2020

| | Financial Assets at Fair Value through Profit or Loss \$ | Financial Assets at Amortised Cost \$ | Financial Liabilities at Amortised Cost \$ |
|--|--|---|---|
| Assets | | | |
| <i>Mercer Investment Trust New Zealand</i> | | | |
| - ERP Balanced Fund | 348,794,351 | - | - |
| - ERP Cash Fund | 55,218,587 | - | - |
| - ERP Growth Fund | 174,584,025 | - | - |
| - ERP Conservative Fund | 119,404,451 | - | - |
| Cash and Cash Equivalents | - | 2,085,031 | - |
| Trade and Other Receivables | - | 25,000 | - |
| | 698,001,414 | 2,110,031 | - |
| Liabilities | | | |
| Trade and Other Payables | - | - | 105,155 |
| Benefits Payable | - | - | 245,443 |
| | - | - | 350,598 |
| Liability for promised benefits | | | |
| Members' Accounts | - | - | 362,846,338 |
| Employer Accounts | - | - | 331,243,433 |
| Operating Reserve Account | - | - | 10 |
| | - | - | 694,089,781 |

EMPLOYEE RETIREMENT PLAN

Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

9. Financial Instruments (Cont'd)

Categories of Financial Instruments - 30 June 2019

| | Financial Assets at Fair Value through Profit or Loss \$ | Financial Assets at Amortised Cost \$ | Financial Liabilities at Amortised Cost \$ |
|--|--|---|---|
| Assets | | | |
| <i>Mercer Super Investment Trust</i> | | | |
| - ERP Balanced Fund | 351,168,887 | - | - |
| - ERP Cash Fund | 41,687,181 | - | - |
| - ERP Growth Fund | 176,782,051 | - | - |
| - ERP Stable Fund | 112,985,654 | - | - |
| Cash and Cash Equivalents | - | 747,533 | - |
| Member Contributions Receivable | - | 670,748 | - |
| Employer Contributions Receivable | - | 490,222 | - |
| | <u>682,623,773</u> | <u>1,908,503</u> | <u>-</u> |
| Liabilities | | | |
| Trade and Other Payables | - | - | 105,101 |
| Benefits Payable | - | - | 491,694 |
| | <u>-</u> | <u>-</u> | <u>596,795</u> |
| Liability for promised benefits | | | |
| Members' Accounts | - | - | 359,373,446 |
| Employer Accounts | - | - | 323,205,986 |
| | <u>-</u> | <u>-</u> | <u>682,579,432</u> |

Prepayments, current and deferred tax and contributions received in advance are excluded from the balances in the tables above, as this analysis is required only for financial instruments.

Hierarchy of Fair Value Measurements - 30 June 2020

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Description | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|--------------|---------------|--------------------|---------------|--------------------|
| Investments | - | 698,001,414 | - | 698,001,414 |
| Total | <u>-</u> | <u>698,001,414</u> | <u>-</u> | <u>698,001,414</u> |

Hierarchy of Fair Value Measurements - 30 June 2019

| Description | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|--------------|---------------|--------------------|---------------|--------------------|
| Investments | - | 682,623,773 | - | 682,623,773 |
| Total | <u>-</u> | <u>682,623,773</u> | <u>-</u> | <u>682,623,773</u> |

The financial assets above have been classified as level 2 as they are investments in a unitised superannuation scheme (Mercer Investment Trusts New Zealand) with fair values derived from quoted prices in non-active markets.

There were no transfers between levels in the period.

EMPLOYEE RETIREMENT PLAN

Notes to the Financial Statements (Cont'd) For the Year Ended 30 June 2020

9. Financial Instruments (Cont'd)

Financial Risk Management

The Plan may be exposed to credit risk, liquidity risk and market risk (including price risk) arising from the financial instruments it holds.

Credit Risk

Financial instruments which potentially expose the Plan to credit risk consist of cash and receivables and, indirectly, investments in unitised products which invest in cash and fixed interest investments.

The maximum exposure to credit risk is the carrying value of these financial instruments. The significant counterparty and concentration of credit risk for the Plan is its investment into Mercer Investment Trusts New Zealand, which the Trustee considers to be a financial institution of high quality. The investments are held in trust by the trustee of the Mercer Investment Trusts New Zealand for the benefit of the Plan. The manager for Mercer Investment Trusts New Zealand maintains diversified investment portfolios in accordance with the Statement of Investment Policy and Objectives adopted by the Trustee.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Plan manages liquidity in accordance with its investment mandate by investing in readily realisable investments to meet cash flow requirements.

There are no restrictions on the redemption of units and they may be redeemed for cash at any time, subject to the approval of the Trustees.

Financial liabilities of the Plan are trade and other payables and benefits payable and are payable within one month.

Market Risk

The Plan is exposed indirectly to foreign exchange risk, interest rate risk and other price risks through its investments in Mercer Investment Trusts New Zealand. These investments are unitised and the underlying securities comprise domestic and international equity instruments.

Due to the unitised nature of the investments it is not practical to determine the sensitivity of the unit price to changes in foreign exchange rates, interest rates or other market factors. These investments are managed by Mercer (Mercer N.Z. Limited) and the Plan has no influence over how these risks are controlled or mitigated but considers the portfolio to be of such a diverse nature as to reduce significant exposure to the impact of market movements.

Currency Risk

The Plan is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in unitised products which invest in foreign currency denominated investments. During the year the Plan did not directly hold investments denominated in a foreign currency.

Risk management activities are undertaken by the Plan's investment manager to operate within the Statement of Investment Policy and Objectives provided by the Trustee.

Interest Rate Risk

The Plan is indirectly exposed to interest rate risk in that future interest rate movements will affect cash flows and indirectly, the valuation of investments in unitised products which invest in cash and fixed interest investments.

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

Price Risk

A five cent movement in the unit prices of the Plan's investments in Mercer Investment Trust New Zealand would have an impact on the value of the Plan's assets and income of +/- \$24,377,214 (2019: +/- \$4,898,469 based on one cent decrease in unit price).

Due to the current financial market conditions with the impact of COVID-19, the measurement used for price sensitivity for the 2020 reporting period increased from one cent to five cent to provide a more realistic reflection of the current market volatility.

10. Commitments and Contingent Liabilities

There were no commitments or contingent liabilities outstanding as at 30 June 2020 (2019: Nil).

11. Related Parties

ERP holds no investments in the Employer or any of its related parties. During the year ERP received \$15,048,192 (2019: \$15,149,800) of Employer contributions. Trustee fees of \$184,732 (2019: \$177,539) were paid to Public Trust.

12. Events After Balance Date

There have been no material events after balance date that require adjustment to or disclosure in the financial statements (2019: Nil).