

NZAS RETIREMENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NZAS RETIREMENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

INDEX

Independent Auditor's Report	Pages 1 to 3
Statement of Net Assets	Page 4
Statement of Changes in Net Assets	Page 5
Statement of Cash Flows	Page 6
Notes to the Financial Statements	Pages 7 to 18



Independent Auditor's Report

To the members of NZAS Retirement Fund

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of NZAS Retirement Fund (the 'fund') on pages 4 to 18:

- i. present fairly in all material respects the fund's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of net assets as at 30 June 2019;
- the statements of changes in net assets and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). 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 fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$5,400,000 determined with reference to a benchmark of fund net assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.



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 in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Carrying Amount of Investments

The fund's investments are considered a key audit matter due to their significance to the financial statements as a whole (the portfolio of investments makes up 99% of the fund's total assets).

Our audit procedures included:

- Documenting and understanding the process the fund has in place to record investment transactions, including fair value of the investment portfolio. This included evaluating the control environment in place at the fund's administration manager and investment fund managers through review of their control reports and related assurance opinions issued by an independent auditor;
- Agreeing investment holdings and investment fair value to external confirmations received from the investment fund managers; and
- Agreeing purchases and sales of investments to bank statements.



Use of this independent auditor's report

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



Responsibilities of the Trustee for the financial statements

The Trustee, on behalf of the fund, is responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime);
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



x Auditor's responsibilities for the audit of the financial statements

Our objective is:

- 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 independent 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 will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-4/>

This description forms part of our independent auditor's report.

A stylized, handwritten signature of the letters 'KPMG' in a dark blue or black ink.

KPMG
Wellington

9 September 2019

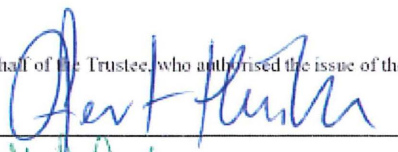
NZAS RETIREMENT FUND

**Statement of Net Assets
As at 30 June 2019**

	Note	2019 \$	2018 \$
ASSETS			
Cash at Bank		1,499,472	651,153
Investments	6	170,120,394	162,694,216
Sundry Debtors		231	2,148
Prepayments		22,069	16,555
Member Contributions Receivable		-	426
Employer Contributions Receivable		291,016	93,821
Total Assets		<u>171,933,182</u>	<u>163,458,319</u>
LIABILITIES			
Benefits Payable		1,683,124	1,891,253
Sundry Creditors		11,427	25,197
Income Tax Payable		988,300	-
Deferred Tax	8	296,059	300,178
Total Liabilities		<u>2,978,910</u>	<u>2,216,628</u>
NET ASSETS AVAILABLE TO PAY BENEFITS		<u>168,954,272</u>	<u>161,241,691</u>
<i>Represented By:</i>			
Member Accounts	4	33,477,029	31,788,405
Company Accounts		84,366,353	80,862,479
Transfer Accounts		15,133,281	15,266,744
Retirement Accounts		18,947,433	17,265,540
Locked In Accounts		12,279,352	11,176,715
Insurance Account		3,092,913	3,248,040
Reserve Account		1,657,911	1,633,769
LIABILITY FOR PROMISED BENEFITS		<u>168,954,272</u>	<u>161,241,691</u>

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

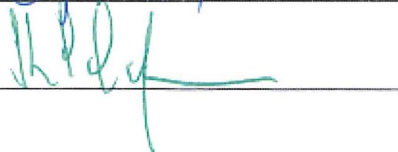
Director



Date

9/9/19

Director



Date

9/9/19

NZAS RETIREMENT FUND

Statement of Changes in Net Assets
For the Year Ended 30 June 2019

	Note	2019 \$	2018 \$
INVESTMENT ACTIVITIES			
Investment Income			
Gains on Investments	7	10,827,104	13,250,375
Distribution Income		1,097,798	1,051,434
Interest		28,145	23,991
Fee Rebates		154,100	138,399
Other income		-	3,389
		<u>12,107,146</u>	<u>14,467,588</u>
Investment Expenses			
Investment Management Fees		<u>(974,087)</u>	<u>(953,388)</u>
Net Investment Income		<u>11,133,059</u>	<u>13,514,200</u>
OTHER INCOME			
Employer Reimbursements	15	<u>784,646</u>	<u>92,887</u>
		784,646	92,887
OTHER EXPENSES			
Investment Consulting Fees		(128,625)	(124,958)
Catastrophe Insurance Premiums		(72,690)	(61,666)
Other Expenses		<u>(658)</u>	<u>-</u>
Total Other Expenses		<u>(201,973)</u>	<u>(186,624)</u>
Change in Net Assets before Taxation and Membership Activities		<u>11,715,731</u>	<u>13,420,463</u>
Income Tax Expense	8	(1,663,138)	(181,967)
Change in Net Assets after Taxation and before Membership Activities		<u>10,052,594</u>	<u>13,238,496</u>
MEMBERSHIP ACTIVITIES			
Contributions			
Member Contributions		2,968,120	2,612,965
Member Tax Credits		104,321	92,639
Employer Contributions		<u>4,587,837</u>	<u>4,184,461</u>
Total Contributions		<u>7,660,277</u>	<u>6,890,065</u>
Benefits Paid			
Withdrawals		(9,990,634)	(8,569,239)
Transfers out to Other Schemes		<u>(9,655)</u>	<u>-</u>
Total Benefits Paid		<u>(10,000,289)</u>	<u>(8,569,239)</u>
Net Membership Activities		<u>(2,340,012)</u>	<u>(1,679,174)</u>
Net Increase in Net Assets During Year		<u>7,712,581</u>	<u>11,559,322</u>
Net Assets Available for Benefits at Beginning of Year		<u>161,241,691</u>	<u>149,682,369</u>
Net Assets Available for Benefits at End of Year		<u><u>168,954,272</u></u>	<u><u>161,241,691</u></u>

NZAS RETIREMENT FUND

Statement of Cash Flows
For the Year Ended 30 June 2019

	Note	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash provided from			
Member Contributions		2,968,120	2,612,965
Member Tax Credits		104,746	92,214
Employer Contributions		4,588,771	4,183,528
Interest Received		27,923	21,964
Employer Reimbursements Received	15	586,517	-
Other Income		-	4,429
Income Tax Refunds		-	92,340
		<u>8,276,077</u>	<u>7,007,440</u>
Cash applied to			
Benefits Paid		10,201,084	7,133,500
Transfers to Other Funds		7,334	-
Catastrophe Insurance		78,204	58,665
Other Expenses		141,136	129,692
		<u>10,427,758</u>	<u>7,321,857</u>
Net Cash Flows used in Operating Activities	9	<u>(2,151,681)</u>	<u>(314,417)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash provided from			
Sale of Investments		18,500,000	24,373,148
Cash applied to			
Purchase of Investments		15,500,000	24,400,000
Net Cash Flows from Investing Activities		<u>3,000,000</u>	<u>(26,852)</u>
Net (Decrease)/Increase in Cash Held		848,319	(341,269)
Cash at Beginning of Year		<u>651,153</u>	<u>992,422</u>
Cash at End of Year		<u>1,499,472</u>	<u>651,153</u>

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

1. Scheme Description

The NZAS Retirement Fund (formerly Rio Tinto New Zealand Retirement Fund) (the "Fund") is a restricted workplace employer related superannuation scheme registered under the Financial Markets Conduct Act 2013 ("FMC Act") covering employees of Pacific Aluminium (New Zealand) Limited and New Zealand Aluminium Smelters Limited ("Employers"). Under the Trust Deed contributions are made by Fund members and by the companies.

The Trustee of the Fund is NZAS Retirement Fund Trustee Limited.

Registered Office: Mercer (N.Z.) Limited, Level 2, 20 Customhouse Quay, P O Box 2897, Wellington, 6011

Funding Arrangements

Members who joined the Fund before 1 April 2008 or after 31 March 2012 must contribute 4% of base salary¹ and may elect to contribute a minimum of 3% of base salary¹ (gross salary² up until 1 May 2012), to a locked-in account.

Members who have joined between 1 April 2008 and 31 March 2012 have been required to contribute 4% of base salary from which a portion of 2% of gross salary must be credited to a locked-in account, (unless they elect to suspend lock-in contributions).

Members are required to contribute to the Fund at a minimum rate of 4% of their base salary, unless a member and his or her employer have entered into a "salary sacrifice" arrangement whereby the member's future salary and/or bonus income is reduced in return for the employer agreeing to contribute matching additional amounts to the Fund. In that case, the member may contribute at a lower or nil rate as long as the employer's additional after-tax contributions, plus the member's continuing contributions (if any), together total not less than 4% of the member's base salary. Base salary is calculated for this purpose as if no salary sacrifice has occurred.

Whether or not a member is required or has agreed to contribute to a locked-in account or enters into a salary sacrifice arrangement, each participating company must make standard company contributions in respect of each subsidised member equal to 10% of the member's base salary plus 5% of any lump sum bonus (unless the member has attained New Zealand Superannuation age (currently 65) and elected to cease contributions in which case the employer is required to contribute 4% of the member's base salary.)

Salary and bonus income is deemed to include, for this purpose, any amounts sacrificed. Where lock-in applies, a portion of those company contributions equal to 2% of the member's base salary (gross salary up until 1 May 2012) must be credited to a locked-in account. These standard company contributions are sourced from direct contributions to the Fund in amounts which before deducting contributions tax are at least equal to 4% of each member's base salary, with the Reserve Account being used to fund the remaining contributions to the extent that funds allow.

¹ Base salary is a member's before tax salary excluding bonuses and allowances. It is calculated, where relevant, as if no salary sacrifice has occurred.

² Gross salary is a member's before tax salary including bonuses and allowances. If a member's gross salary is reduced by salary sacrifice, the reduced figure is the member's gross salary.

Retirement Benefits

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

Termination Terms

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

Changes in the Fund

There were no changes made to the Trust Deed or Investment Managers engaged by the Fund during the year.

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

2. Basis of Preparation

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

Statement of Compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP") and the requirements of the FMC Act and other relevant legislative requirements as appropriate for For-profit entities.

The Fund is a Tier 1 entity and, as such, the financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), other applicable Financial Reporting Standards and authoritative notices as appropriate for For-profit entities. These financial statements also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Fund comprises four main investment choices, Growth, Balanced, Conservative and Cash. The financial statements have been prepared at the Fund level as investment assets are not held in separate funds per investment choice and the liabilities of each individual investment choice are met using unithised investment assets across a variety of investment types.

Measurement Base

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

Functional and Presentation Currency

These financial statements are presented in New Zealand dollars, being the currency of the primary economic environment in which the Fund operates.

Classification of Assets and Liabilities

The assets and liabilities are disclosed in the Statement of Net Assets in an order that reflects their relative liquidity. All assets and liabilities can be recovered or settled within 12 months of the reporting date.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Investment Income

Interest and dividends from managed investments are taken to income on a due and receivable basis.

Net realised and unrealised gains and losses from the revaluation of investments and from the sale of investments during the year are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Other Income and Expenses

Other income and expenses are accounted for on an accruals basis.

Taxation

Income tax expense in the Statement of Changes in Net Assets comprises of current and deferred tax. The tax currently payable/receivable is based on taxable income and loss for the year. Taxable income and loss differs from the Change in Net Assets before tax and membership activities 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 Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised.

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

3. Accounting Policies (Cont'd)

Taxation (cont'd)

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the Statement of Changes in Net Assets.

The Fund invests in a number of funds which are Portfolio Investment Entities ('PIEs'). For these investments, the Fund can elect to apply a Prescribed Investor Rate ('PIR') of either 0% or 28% (2018: 0% or 28%).

Gains and losses on investments with a PIR of 0% are taxable directly within the Fund and those with a PIR of 28% are taxable within the investment.

All tax expenses/credits relating to PIE tax have been shown in the Statement of Changes in Net Assets included in Income Tax Expense/Credit with "Gains/losses on Financial Assets Through Profit and Loss" presented gross of tax deducted/credited.

Investments have been shown net of tax payable on the Statement of Net Assets.

Financial instruments

- Classification

The Fund classifies its investments as financial assets at fair value through profit or loss. These financial assets are designated by the Fund at fair value through profit or loss at inception.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Trustee to evaluate the information about these financial assets on a fair value basis together with other related financial information. The Trustee has determined that all financial assets of the Fund are designated at fair value through profit and loss with the exception of cash, cash equivalents, and receivables which are measured at amortised cost.

- Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and are initially recognised at fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership. All realised gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Changes in Net Assets.

- Measurement

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Changes in Net Assets.

Fair Value Estimation

The Fair Value of unitised funds is determined using the exit price as calculated by the fund manager at balance date.

Other Receivables

Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. These amounts are initially recognised at fair value, and subsequently measured at amortised cost.

Other Payables

Other payables are not interest bearing and are stated at their amortised cost.

Goods and Services Tax (GST)

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

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

3. Accounting Policies (Cont'd)

Statement of Cash Flows

The following are definitions of the terms used in the Statement of Cash Flows:

Cash - comprises cash balances held with banks in New Zealand and overseas, with maturity at three months or less.

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

Promised Retirement Benefits are the benefits which the Fund is presently obliged to transfer in the future to members and participants as a result of membership of the Fund up to the date at which the actuarial valuation of promised benefits is determined.

Contributions and Benefits

Contributions and benefits are accounted for on an accruals basis.

Benefits are recognised in Statement of Changes in Net Assets when they become payable resulting in a financial liability.

Critical Judgement and Accounting Estimates

The Trustee has applied their judgement in selecting the accounting policy to designate financial assets through profit or loss at inception. Therefore there are no material assumptions or major sources of estimation uncertainty that have a significant risk of making material adjustments to the carrying amounts of assets and liabilities at year end. However as with all investments their value is subject to variation due to market fluctuations. For the purposes of the fair value hierarchy of financial assets at fair value through profit or loss, the Trustee have to apply their judgement as to what constitutes quoted in an active market. For further details please refer to Note 12 (Fair Value).

Standards and Interpretations on issue not yet adopted

At the date of this report the following standard that may impact on the Plan had been issued but not yet adopted.

NZ IFRS 9, 'Financial Instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets.

There is no recognition or measurement changes as a result of adopting NZ IFRS 9. The impact of adopting NZ IFRS 9 on the classification of the Fund's financial assets is that the Fund now classifies cash at bank and sundry receivables as financial assets at amortised cost (previously these were classified as loans and receivables).

This standard is effective for annual reporting periods beginning on or after 1 April 2018. The adoption of this standard has resulted in amended disclosures as detailed above but has not impacted the Fund's reported result or financial position.

NZ IFRS 15 (amendment) 'Revenue from Contracts with Customers', was issued July 2014 effective for periods from 1 April 2018. This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and related interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Fund's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard the adoption of this standard does not have a significant impact on the Fund's financial position and financial performance, or the presentation and disclosures in the Financial Statements.

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

NZAS RETIREMENT FUND

**Notes to the Financial Statements
For the Year Ended 30 June 2019**

4. Liability for Promised Benefits

Changes in promised benefits as at 30 June 2019:

	Member Accounts \$	Company Accounts \$	Transfer Accounts \$	Retirement Accounts \$	Locked In Accounts \$	Insurance Account \$	Reserve Account \$	Total \$
Balance 30 June 2018	31,788,405	80,862,479	15,266,744	17,265,540	11,176,715	3,248,040	1,633,769	161,241,691
Contributions received	2,152,665	4,297,975	-	-	1,209,636	-	-	7,660,277
Benefits transferred to retirement accounts	(472,802)	(1,329,759)	(490,264)	2,429,889	(137,065)	-	-	(0)
Benefits paid	(790,636)	(1,812,011)	86,416	(878,450)	(490,992)	(702,600)	(790,737)	(5,379,011)
Partial withdrawals	(1,074,884)	(2,004,262)	(551,513)	(824,617)	(166,002)	-	-	(4,621,278)
Net revenue	-	-	-	-	-	(72,690)	11,788,421	11,715,730
Income tax expense	-	-	-	-	-	-	(1,663,138)	(1,663,138)
Insurance and administration deductions	3,399	(424,478)	-	430	(5,526)	426,174	-	-
Interest credited	1,870,883	4,776,409	821,897	954,641	692,585	193,990	(9,310,404)	-
Balance 30 June 2019	33,477,029	84,366,353	15,133,281	18,947,433	12,279,352	3,092,913	1,657,911	168,954,272

Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for promised benefits. (2018: Nil).

NZAS RETIREMENT FUND

Notes to the Financial Statements
For the Year Ended 30 June 2019

4. Liability for Promised Benefits (Cont'd)

Changes in promised benefits as at 30 June 2018:

	Member Accounts \$	Company Accounts \$	Transfer Accounts \$	Retirement Accounts \$	Locked In Accounts \$	Insurance Account \$	Reserve Account \$	Total \$
Balance 30 June 2017	29,766,362	75,200,781	15,582,610	14,845,178	9,776,324	3,022,169	1,488,945	149,682,369
Contributions received	1,940,577	3,992,021	-	-	960,837	-	(3,370)	6,890,065
Benefits transferred to retirement accounts	(654,418)	(1,113,473)	(651,794)	2,451,220	(31,564)	-	29	-
Benefits paid	(1,433,075)	(2,962,867)	(668,462)	(406,773)	(392,428)	(371,602)	(97,889)	(6,333,096)
Partial withdrawals	(450,782)	(646,819)	(215,399)	(863,610)	(59,533)	-	-	(2,236,143)
Net revenue	-	-	-	-	-	(61,666)	13,482,129	13,420,463
Income tax expense	-	-	-	-	-	-	(181,967)	(181,967)
Insurance and administration deductions	8	(404,763)	-	-	-	404,755	-	-
Interest credited	2,619,733	6,797,599	1,219,789	1,239,525	923,079	254,384	(13,054,108)	-
Balance 30 June 2018	31,788,405	80,862,479	15,266,744	17,265,540	11,176,715	3,248,040	1,633,769	161,241,691

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

5. 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 Fund at balance date.

2019	2018
\$	\$
164,203,446	156,359,883

6. Investments

2019	2018
\$	\$

Investments by Sector

Short Term Deposits	24,097,418	25,435,862
New Zealand Fixed Interest	14,682,391	13,652,680
Overseas Fixed Interest	21,372,308	20,391,850
Trans Tasman Equities	20,196,480	19,808,608
Overseas Equities	64,322,154	60,666,163
Real Assets*	24,898,299	23,066,870
Forward Foreign Exchange Contracts	551,344	(327,817)
	<u>170,120,394</u>	<u>162,694,216</u>

* Real Assets are investments in property, infrastructure and natural resources.

Investments by Manager

AMP Capital Investors (New Zealand) Limited	44,374,081	44,412,155
Mercer (NZ) Limited	40,676,336	38,135,107
ANZ (NZ) Limited	64,873,498	60,338,346
Nikko Asset Management (NZ) Limited	10,157,811	9,927,109
Harbour Asset Management Limited	10,038,669	9,881,499
	<u>170,120,394</u>	<u>162,694,216</u>

Investments that amounted to more than 5% of the net assets are as follows:

AMP Capital NZ Cash Fund	24,097,418	25,435,862
AMP Capital NZ Fixed Interest Fund	14,682,391	13,652,680
Mercer Global Fixed Interest	15,778,037	15,068,237
Mercer Real Assets	24,898,299	23,066,870
ANZ Wholesale International Share Fund	64,873,498	60,666,133
Nikko AM Wholesale Core Equity Fund	10,157,811	9,927,109
Harbour Australasian Equity Fund	10,038,669	9,881,499

NZAS RETIREMENT FUND

Notes to the Financial Statements
For the Year Ended 30 June 2019

7. Gains/(Losses) on Investments	2019	2018
	\$	\$
Short Term Deposits	190,658	141,112
New Zealand Fixed Interest	729,726	218,869
Overseas Fixed Interest	1,272,713	461,129
Trans Tasman Equities	1,194,431	3,731,673
Overseas Equities	5,200,349	10,222,474
Real Assets	2,571,417	1,526,153
Forward Foreign Exchange Contracts	(332,190)	(3,051,035)
Total Gains on Investments	10,827,104	13,250,375

8. Income Tax	2019	2018
	\$	\$
Current Tax	1,667,257	(117,221)
Deferred Tax	(4,119)	300,178
Prior Period Adjustment	-	(991)
	1,663,138	181,967

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	11,715,731	13,420,463
Prima Facie Income Tax @ 28%	3,280,405	3,757,730
Tax Effect Of:		
Non Assessable Income & Expenditure	(3,295,428)	(4,732,992)
Non Deductible Group Life Premiums	20,353	17,266
FDR/PIE Income	1,877,509	1,166,962
Non Assessable Employer Reimbursement	(219,701)	(26,008)
Prior Period Adjustment	-	(991)
Income Tax Expense	1,663,138	181,967
Current Tax		
Opening Balance	-	89,448
Current Year Movement	(988,300)	(89,448)
Prior Period Adjustment	-	-
Closing Balance	(988,300)	-
Deferred Tax		
Opening Balance	(300,178)	-
Current Year Movement	4,119	(300,178)
Prior Period Adjustment	-	-
Closing Balance	(296,059)	(300,178)

NZAS RETIREMENT FUND

**Notes to the Financial Statements
For the Year Ended 30 June 2019**

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

	2019	2018
	\$	\$
Increase in Net Assets	7,712,581	11,559,322
Non-cash Items		
Gains on Investments	(10,827,104)	(13,250,375)
Distributions Received	(1,097,798)	(1,051,434)
Fee Rebates	(154,100)	(138,399)
Interest	(221)	(127)
PIE Tax	678,957	(117,220)
Investment Managers Fees	974,087	953,388
Movements in Other Working Capital Items		
Decrease in Income Tax Receivable	-	89,448
Increase in Income Tax Payable	988,300	-
(Decrease)/Increase in Deferred Tax Payable	(4,119)	300,178
(Increase)/Decrease in Prepayments	(5,514)	3,001
Decrease in Sundry Debtors	1,917	831
Increase in Contributions	(196,769)	(94,247)
(Decrease)/Increase in Benefits Payable	(208,129)	1,435,739
Decrease in Sundry Creditors	(13,770)	(4,522)
Net Cash Flows used in Operating Activities	<u><u>(2,151,681)</u></u>	<u><u>(314,417)</u></u>

10. Use of Reserves

Trust Deed Provisions

The Reserve Account may be used by the Trustee, where applicable at the direction or with the consent of New Zealand Aluminium Smelters Limited ("The Company"), for the following:

- Payment of company contributions
- Providing benefits equitable to all members
- Increasing members accounts equitably to all members
- Payment of all or any investment-related expenses of the Fund
- Transfer of monies to the Insurance Account

11. Use of the Insurance Account

Trust Deed Provisions

The Trustee maintains an Insurance Account to which the following can be credited or applied:

- All amounts paid to the Trustee by an Insurer in respect of the Insured Benefits under the Fund
- Earnings at the Allocated Rate of Earnings and transfer from the Reserve Account
- All insurance charges debited from the Member's Company Accounts
- Paying Insured Benefits in respect of Members
- Paying insurance premiums to an Insurer
- Transfer of monies to and from the Reserve Account

At three year intervals and at such other times as requested by New Zealand Aluminium Smelters Limited ("The Company") or the Trustee, the Actuary shall investigate and report on the financial position of the Insurance Account. After obtaining such advice, the Trustee may do any or all of the following:

- Arrange an Insurance Policy to cover all or any part of the Insured Benefits for members to meet the Trustee's obligation
- Transfer any amount between the Insurance and Reserve Accounts

Note 4 details the movement in the Insurance Account for the year.

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

12. Financial Instruments

The Fund 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 revenues 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 reallocations undertaken as required.

Categories of Financial Instruments

	Held for trading	Designated at fair value through profit or loss	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total
30 June 2019					
ASSETS					
Short Term Deposits and Cash	-	24,097,418	1,499,472	-	25,596,891
Forward Foreign Exchange Contracts	551,344	-	-	-	551,344
Investments	-	145,471,632	-	-	145,471,632
Sundry Debtors	-	-	231	-	231
Prepayments	-	-	22,069	-	22,069
Contributions receivable	-	-	-	291,016	291,016
Total Financial Assets	551,344	169,569,050	1,521,772	291,016	171,933,182
LIABILITIES					
Benefits Payable	-	-	-	1,683,124	1,683,124
Sundry Creditors	-	-	-	11,427	11,427
Total Financial Liabilities	-	-	-	1,694,551	1,694,551
30 June 2018					
ASSETS					
Short Term Deposits and Cash	-	25,435,862	651,153	-	26,087,015
Forward Foreign Exchange Contracts	(327,817)	-	-	-	(327,817)
Investments	-	137,586,171	-	-	137,586,171
Sundry Debtors	-	-	2,148	-	2,148
Prepayments	-	-	16,555	-	16,555
Contributions receivable	-	-	-	94,247	94,247
Total Financial Assets	(327,817)	163,022,033	669,856	94,247	163,458,319
LIABILITIES					
Benefits Payable	-	-	-	1,891,253	1,891,253
Sundry Creditors	-	-	-	25,197	25,197
Total Financial Liabilities	-	-	-	1,916,450	1,916,450

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

12. Financial Instruments (Cont'd)

Hierarchy of Fair Value Measurements

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'quoted in an active market' requires significant judgement by the Fund. The Fund considers investments to be classified as level 2 investments. There were no transfers between the levels in the period (2018: Same).

Liquidity Risk

Liquidity risk is the risk the Fund will encounter difficulty in raising funds to meet its obligations. There is an inherent liquidity risk involved with investments in real assets. These assets are generally held for longer durations before realisation and may have limited withdrawal facilities. However, to control liquidity risk, the Fund invests predominantly in financial instruments, which are readily redeemable. In addition, the Fund invests within established limits to ensure there is no concentration of risk. There are no significant financial liabilities.

Credit Risk

Credit Risk is the risk a counterparty to a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

Financial instruments which potentially expose the Fund to credit risk consist of cash, fixed interest securities and receivables and, indirectly, investments in unitised products. The maximum exposure to credit risk is the carrying value of these financial instruments.

The significant counterparties of the Fund are its investment managers, AMP Capital Investors (New Zealand) Limited ("AMP"); ANZ (NZ) Limited ("ANZ"); Harbour Asset Management Limited ("Harbour"); Nikko Asset Management (NZ) Limited, Mercer (N.Z.) Limited ("Mercer") and their nominee companies, which the Trustee consider to be financial institutions of high quality.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Fund is directly exposed to foreign exchange risk and indirectly exposed to interest rate risk. The Fund is directly exposed to other price risk through its investment in unitised products. The underlying securities comprise cash, domestic and international equity instruments, New Zealand commercial property and domestic and international fixed interest securities.

Due to the unitised nature of some of the Fund's 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 the fund managers and the Fund has no influence over how these risks are controlled or mitigated but considers the portfolio to be such a diverse nature as to reduce significant exposure to the impact of market movements. The mix of cash, fixed interest and equity investments, local and international, in the portfolio is a strategy the Trustee employ to minimise the effect on the Fund of volatility in any particular investment sectors.

Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

(i) Currency Risk

Currency Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk in that future currency movements will affect the valuation of foreign currency denominated investments. These movements will also indirectly affect the valuation of investments in unitised products, which invest in foreign currency denominated investments. Risk management activities are undertaken by the investment managers to operate within the guidelines provided by the Trustee.

NZAS RETIREMENT FUND

Notes to the Financial Statements For the Year Ended 30 June 2019

12. Financial Instruments (Cont'd)

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is directly exposed to interest rate risk through cash at bank. The Fund is indirectly exposed to interest rate risk in that future interest rate movements will affect cash flows and, the valuation of investments in unithold products which invest in cash and fixed interest investments.

	2019	2018
	\$	\$
Short Term Deposits	24,097,418	25,435,862
Fixed Interest - Onshore	14,682,391	13,652,680
Fixed Interest - Offshore	21,372,308	20,391,850

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

(iii) Other Price Risk

Other price risk is the risk that the fair value of the Fund's investments will increase/decrease due to a change in the unit prices of the Fund's unithold products. The Fund is indirectly exposed to other price risks through its investment in the unithold products. This investment is unithold and the underlying securities comprise cash, domestic and international equity instruments, New Zealand commercial property and international fixed interest securities.

Capital Management

Net assets available to pay benefits are considered to be the Fund's capital for the purposes of capital management. The Fund does not have to comply with externally imposed capital requirements.

The Fund's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns to its members and maximise the Fund's members value.

13. Commitments and Contingent Liabilities

There were no commitments or contingent liabilities outstanding as at 30 June 2019. (2018: Nil).

14. Sensitivity Analysis

A ten percent decrease in the unit prices of the Funds investments in unithold products would have an adverse impact on the value of the Fund's assets of \$17,012,039 (2018: \$16,269,422). Conversely a ten percent increase in the unit prices of the Funds investment in unithold products would have a positive impact on the value of the Fund's assets of \$17,012,039 (2018: \$16,269,422).

15. Related Parties

The Fund holds no direct investments in any of the employer companies or any of its related parties. During the period payments were made to the Trustee of the Fund totalling \$43,700 (2018: \$33,498). The Fund had employer contributions of \$4,587,837 (2018: \$4,184,461). During the period the employer made \$784,646 reimbursement (2018: \$92,887) to the Fund for death and disablement claims paid to members.

Mercer (N.Z.) Limited as administrator of the Fund is regarded as a related party in terms of the Financial Markets Conduct Act. Mercer provides the Fund with a range of services including administration, secretarial services, investment consulting and funds management. The management fee paid to Mercer for the Fund's investment in MITNZ was \$338,704 (2018: \$336,610). The Fund's Trustee has certified pursuant to sections 173 and 174 of the FMCA that all fees paid to Mercer in respect of these services have been set on arms length commercial terms.

16. Events After Balance Date

Rio Tinto are undertaking a review of the Fund with help from external advisers. The review covers the Fund's structure and operations, and potential alternative retirement savings platforms.

There were no other material events after balance date that require adjustment to or disclosure in the financial statements. (2018: Nil).