

Defence Force Superannuation Scheme

ANNUAL REPORT 2018



**A FORCE FOR
NEW ZEALAND**

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SCHEME **SNAPSHOT**

AS AT 31 MARCH 2018



3,448
members



\$99,188
average member balance



\$342,002,860
invested



192
Prezzy Card winners across
our savings schemes



167
home purchases



MESSAGE FROM THE CHIEF OF DEFENCE FORCE

I am proud to be introducing this year's Annual Report for the Defence Force Superannuation Scheme ("DFSS"). This was a scheme that I am personally very passionate about, particularly as I was involved with it for so many years and prior to the expansion of the New Zealand Defence Force ("NZDF") Savings Schemes' programme.

While this scheme is closed to new entrants, NZDF and I are very much committed to ensuring our members are well looked after.

Scheme's Performance

Despite a somewhat rocky finish, the 12 months to 31 March 2018 provided another strong year for investors, including members of the DFSS. All investment options delivered positive returns.

The markets have experienced an impressive run over the last few years, so it was not surprising to see returns go down and then back up in February and March this year. International events continue to influence sentiment and therefore returns to members of the DFSS.

Markets going up and down can make us nervous, so I'd like to take this opportunity to remind you that "knee jerk" reactions when it comes to investment choice can negatively impact your long-term savings.

Maximising your membership

It is very pleasing to see that the DFSS members are able to use their savings to buy their first (or second chance) home. Congratulations to 167 members who bought a house during the year.

If you are a member of Category B of the DFSS you can also benefit from the Government contributions. Ensure you are contributing at least \$1,042 a year to maximise contributions from the Government. If you're a member of a KiwiSaver scheme, including the New Zealand Defence Force KiwiSaver Scheme you can only get this top-up from the Government once.

It is very important to be in the investment option that is right for your age, circumstances and which takes into account your tolerance for risk. Don't forget to reach out to Milestone Direct who can help you make the right investment decision. Mercer also offer a number of online tools.

The recent campaign "How much do I need for my retirement?" was also a spur for us to review whether our current investment settings will provide sufficient funds for a comfortable retirement. Watch out for more information about this in the future.

When it comes time to leave NZDF you have a few options on what to do about your DFSS savings. Stay and contribute, transfer your savings to the New Zealand Defence Force KiwiSaver Scheme and / or the New Zealand Defence Force FlexiSaver Scheme or withdraw all or some of your money.

If you need help with making a decision on what to do when you leave NZDF, Milestone Direct will be able to assist. Their contact details are available further in this report.

Thank you

I personally want to thank Lieutenant General Tim Keating who is a passionate supporter and strong advocate of the NZDF Savings Schemes. I would also like to thank all the service providers who continue to deliver outstanding results and services to our members.

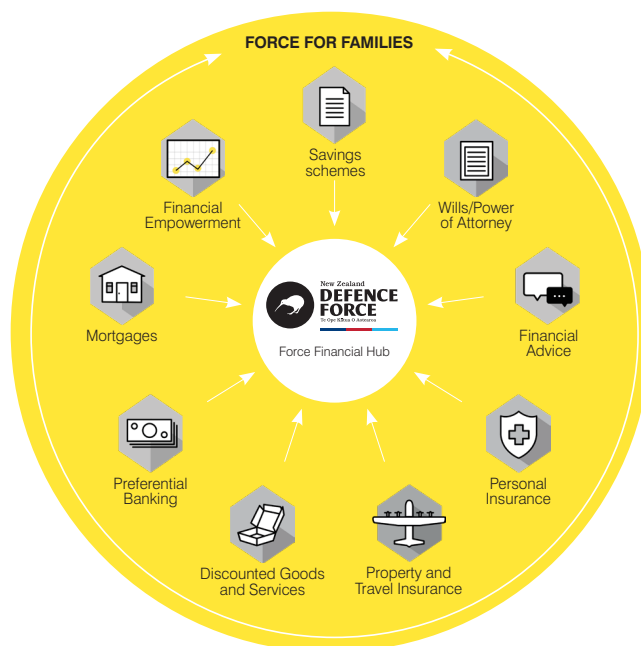
Air Marshal Kevin Short
Chief of Defence Force

NZDF LOOKING AFTER YOUR FINANCIAL WELLBEING

This annual report covers the Defence Force Superannuation Scheme, one of three savings schemes available to members of NZDF. As a member of the Defence Community you can join the New Zealand Defence Force KiwiSaver Scheme and / or the New Zealand Defence Force FlexiSaver Scheme. The Defence Force Superannuation Scheme is closed to new entrants.

All three savings schemes are managed by Mercer, who administers these schemes, manages your investments and looks after the schemes' online portal www.nzdf.superfacts.co.nz where you can check your personal information.

All NZDF Savings Schemes are part of the Force Financial Hub which has been set up so you can easily access all of the Defence Force's financial benefits in one place. As a member of the NZDF you are able to access products, benefits, services and tools through the Force Financial Hub.



The NZDF is committed to supporting your family to become financially secure.

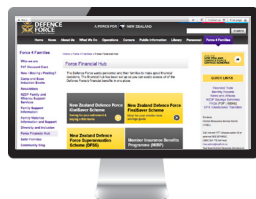
FURTHER INFORMATION

There are lots of useful sources of further information to help you plan for your future and save for retirement. Here is a list of a few places you may want to check out.

► Force Financial Hub

It is a great source of information to help you and your family to get sorted financially.

www.nzdf.mil.nz/families/financial-hub/ or Google the Force Financial Hub.



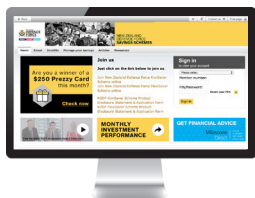
► The Retirement Income Simulator

is provided to plan for your retirement and keep your plan on track. Sign in to your personal account at www.nzdf.superfacts.co.nz to check out this tool.



► The scheme's online portal

contains information to help you make the most of your scheme membership. This information includes useful articles and reports along with all the scheme documents and forms you may need from time to time. You can also use the portal to sign in to your personal account and view information about your savings. To access the portal, go to www.nzdf.superfacts.co.nz.



► Financial Advice from Milestone Direct

As a member of the Defence community you can get general advice about the Defence Force Superannuation Scheme and other NZDF investments, at no cost to you. If you need more detailed advice, an authorised financial adviser can provide you with more personalised advice and recommendations tailored to your individual situation on matters such as financial planning for your retirement. To access the Milestone Direct website go to nzdf.milestonedirect.co.nz.





SECTION ONE

DETAILS OF SCHEME

Name of the Scheme:

Defence Force Superannuation Scheme

Type of scheme: Legacy Superannuation Scheme

Manager: Mercer (N.Z.) Limited

Supervisor: Trustees Executors Limited

Status of the Scheme:

The Scheme is closed to new members.

The Scheme fund updates:

A fund update for each of the seven investment funds for the year ended 31 March 2018 was made publically available on 4 July 2018.

Financial statements and auditor's report:

The latest full financial statements for the scheme that comply with, and have been registered under, the Financial Markets Conduct Act 2013 cover the financial year 1 April 2017 to 31 March 2018 and were authorised for issue by the manager, Mercer (N.Z.) Limited, on 23 July 2018.

The auditor's report on those financial statements was dated 23 July 2018. The auditor's report did not refer to any fundamental uncertainty, nor was it qualified or modified in any respect.

SECTION TWO

INFORMATION ON CONTRIBUTIONS AND SCHEME PARTICIPANTS

All of the membership and other information in this section is shown for the year ended 31 March 2018.

At 1 April 2017, the total amount of members' accumulation relating to 3,685 members was \$342,197,501.

At 31 March 2018, the total amount of members' accumulation relating to 3,448 members was \$342,002,860.

MEMBERSHIP DETAILS	CONTRIBUTING MEMBERS	NON-CONTRIBUTING MEMBERS	TOTAL NUMBER OF MEMBERS
Total membership at 1 April 2017	2,760	925	3,685
Plus			
New members			0
Transfers from other schemes			0
Total new members			0
Less			
Retirement			17
Death			4
Transfers to other schemes			64
Other reasons			152
Total exits			237
Total membership at 31 March 2018	2,526	922	3,448

CONTRIBUTIONS

Contributions are what helps you grow your retirement savings. Contributions to your account can come from you, NZDF and the Government (if applicable).

CONTRIBUTIONS RECEIVED FOR THE YEAR ENDED 31 MARCH 2018

TYPE	NUMBER OF MEMBERS	TOTAL AMOUNT
Member contributions	2,781	\$11,996,118
Member voluntary additional contributions	68	\$431,307
Employer or other sponsor contributions		\$15,747,467
Employer contributions	2,777	\$15,382,479
Member tax credits	753	\$364,988
TOTAL CONTRIBUTIONS		\$28,174,891

SECTION THREE

CHANGES RELATING TO THE SCHEME

Trust Deed

The Scheme's Trust Deed was amended on 26 June 2017 to allow Category A and C members to make a home purchase withdrawal from the Scheme and to correct some omissions from the previous Trust Deed.

The Statement of Investment Policy and Objectives of the scheme

Changes were made to the Statement of Investment Policy and Objectives (SIPO), which included:

- The Responsible Investment Policy section wording was updated to reflect the new Responsible Investment Policy; and
- Cash and Unlisted Investments definitions were added to the glossary.

Related Party Transactions

There were no changes to the nature or scale of the related party transactions. All related party transactions were conducted on normal commercial terms and conditions during the accounting period and were on arm's-length terms.

Changes to the Insurance Premiums

The insurance arrangements for the Defence Force Superannuation Scheme were reviewed to ensure that the premiums and terms remained competitive. This review is done every 3 years. As a result, Sovereign was re-appointed as the insurer as the premiums were the most affordable in the market. In light of this, the premium rate for Military members has reduced from \$1.44 per \$1,000 sum insured to \$1.38 per \$1,000 sum insured. The premium rate for Civilians has increased from \$2.70 per \$1,000 sum insured to \$2.93 per \$1,000 sum insured. The reason for the increase is primarily due to the average age of the plan increasing. The changes to the premiums were effective as at 1 April 2018.

SECTION FOUR

OTHER INFORMATION FOR PARTICULAR TYPES OF MANAGED FUNDS

Explaining Returns

The investment returns for each investment option provided by the Scheme are shown after all investment fees and taxes have been deducted.

There are three sets of investment returns shown for each option for the year covered in this report. This is because different tax rates apply and the one applicable to your returns depends on the tax rate being applied you.

Please go online to www.nzdf.superfacts.co.nz and check that you have the correct tax rate selected for your savings.

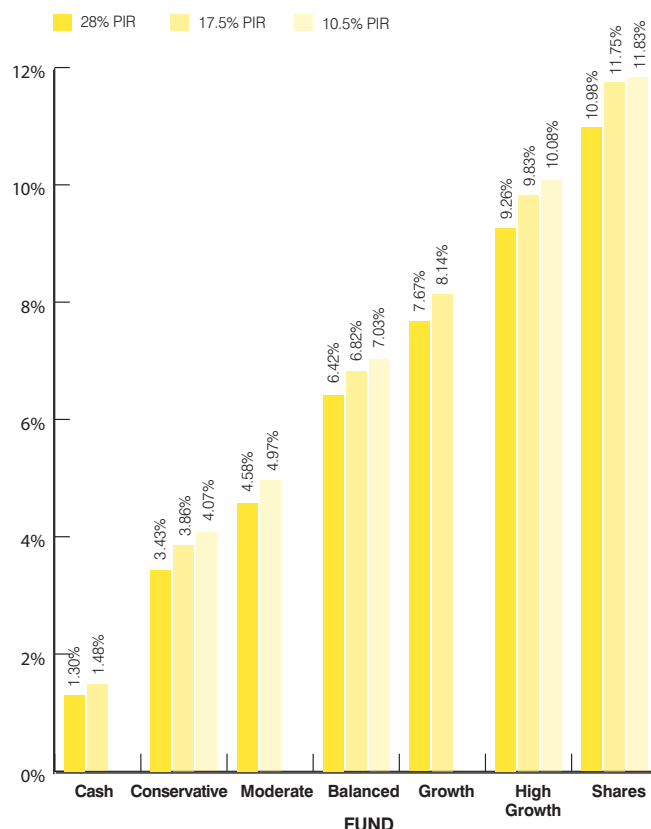
The investment returns are shown after fund fees (excluding fees) and after tax at the Prescribed Investor Rate (PIR) indicated.

It's important to note that the investment returns shown don't tell you how the investment options will perform in the future and that past performance is not a reliable indicator of future performance.

Your individual returns within an investment portfolio will depend on timing of contribution payments and actual fees charged, allowing for any fee rebates. The returns shown are therefore indicative of investment results but may differ from the actual after fees and tax returns achieved by you.

Some options for some PIR's were not operating for the full period or did not have funds invested for the full period.

One year returns as at 31 March 2018 (after tax and fees)



You can find updated performance information by visiting www.nzdf.superfacts.co.nz.

HOW YOUR INVESTMENT EARNINGS ARE WORKED OUT

Contributions made to the Defence Force Superannuation Scheme are used to purchase what are known as 'units' in your chosen investment option(s). The number of units that your money purchases depends on the unit price at the time of purchase. For example, if \$1,000 is contributed and the unit price is \$1.00 at that time, then 1,000 units would be purchased on your behalf.

Unit prices are calculated daily and fluctuate according to the investment performance of each investment option. The value of your investment at any time is simply the number of units you own multiplied by their price at that time.

Your latest member annual statement shows how many units you have, their price and your savings balance. You can also view unit prices by signing into your account at www.nzdf.superfacts.co.nz at any time.

UNIT PRICES

Funds	1 April 2017*			31 March 2018		
	28% PIR	17.5% PIR	10.5% PIR	28% PIR	17.5% PIR	10.5% PIR
Shares	1.1408	1.1566	1.1289	1.2661	1.2925	1.2625
High Growth	1.1293	1.1381	1.2189	1.2340	1.2500	1.3418
Growth	1.1084	1.1155	1.0595	1.1934	1.2063	1.1389
Balanced	1.0991	1.1085	1.1138	1.1696	1.1841	1.1920
Moderate	1.0693	1.0680	1.0246	1.1183	1.1211	1.0698
Conservative	1.0554	1.0635	1.0255	1.0916	1.1045	1.0673
Cash	1.0227	1.0263	1.0091	1.0360	1.0414	0.0000**

*Opening price as at 1 April 2017, is the closing price on 31 March 2017.

**The Cash option did not have any members at 31 March 2018, at 10.5% PIR.

Need help?

Milestone Direct advisers can help you choose the right investment option for your circumstances, plan your retirement, and ensure you are on track to achieve your goals. Please contact Milestone Direct on **0508 MILESTONE (0508 645 378)** or email them at info@milestonedirect.co.nz.

Milestone
Direct

LIFE IS
A JOURNEY.
GET GOOD
DIRECTIONS

WITHDRAWALS

Generally, your savings are locked in until you leave the NZDF. You can then access your savings or keep them in the Scheme. Category B members' funds must remain in the complying section of the Scheme or be transferred to a KiwiSaver scheme.

There are some circumstances where members can withdraw their money earlier. These are:



Purchase of a first home

You may be able to withdraw some of your savings to put towards buying your first home. You may also be able to purchase a home if you owned a property before.



Significant financial hardship

You may be allowed to make a withdrawal from your account if the supervisor is satisfied that you are or are likely to suffer financial hardship.



Serious illness

If you are suffering a serious injury, illness or disability, you may be able to make a withdrawal from your account.

Please note that there are a number of conditions that apply to each of the types of withdrawals discussed above.

FULL WITHDRAWALS FOR THE YEAR ENDED 31 MARCH 2018

TYPE	NUMBER OF MEMBERS
Leaving service / resignation	145
Death	4
Transfer to a KiwiSaver scheme	64
Permanent emigration	17
Retirement	17
Total and Permanent Disablement	0
TOTAL	237

PARTIAL WITHDRAWALS FOR THE YEAR ENDED 31 MARCH 2018

TYPE	NUMBER OF MEMBERS
Partial withdrawals	783
Financial hardship	23
First home withdrawal	167
Partial transfer to a KiwiSaver scheme	12
Matrimonial property	11
Retirement	1
Serious illness	1
TOTAL	1,235

Additional complying superannuation fund disclosures for the Category B section of the Scheme as at 31 March 2018:

- ▶ the market value of the DFSS's assets subject to complying fund rules is \$40,749,364 relating to 1,228 members; and
- ▶ the value of withdrawals subject to complying fund rules totals \$6,205,541.

MANAGER'S ANNUAL STATEMENT

As the manager of the Defence Force Superannuation Scheme, we confirm that for the period ended 31 March 2018:

- ▶ all the benefits required to be paid from the scheme in accordance with the terms of the governing document have been paid;
- ▶ the market value of the scheme property at 31 March 2018 equalled or exceeded the total value of the benefits that would have been payable had all members of the scheme ceased to be members at that date and, where necessary, had provision been made for the continued payment of all benefits being paid to members and other beneficiaries as at the close of the financial year.



Mercer (N.Z.) Limited
31 July 2018

SUPERVISOR'S ANNUAL STATEMENT

As the supervisor of the Defence Force Superannuation Scheme, we confirm that for the period ended 31 March 2018:

- ▶ all contributions required to be made to the scheme were made in accordance with the terms of the governing documents.



Trustees Executors Limited
31 July 2018

SECTION FIVE

CHANGES TO PERSONS INVOLVED IN THE SCHEME

There were no changes to the manager, supervisor, administration manager, investment manager, custodian, securities registrar or auditor of the scheme.

Kristen Jane Kohere-Soutar was appointed a director of the manager on 7 August 2017.

Changes to the key personnel of the manager, were

- Kylie Willment was appointed Chief Investment Officer (CIO) Pacific, with effect from 25 October 2017, replacing Russell Clarke.

There were changes to the directors of the supervisor during the year:

- Andrew Scott-Howman was appointed as a Director on 24 April 2017;
- Franceska Banga was appointed as a Director on 18 July 2017.

Since year end:

- Franceska Banga resigned as a Director on 5 April 2018;
- Matthew Sale was appointed as a Director on 17 May 2018;
- Robert Russell resigned as a Director on 17 May 2018;
- Andrew Scott-Howman resigned as a Director on 15 June 2018;
- Mark Darrow was appointed as a Director on 18 June 2018;
- Sarah Roberts was appointed as a Director on 16 July 2018.

SECTION SIX

HOW TO FIND FURTHER INFORMATION

Information relating to the Defence Force Superannuation Scheme, for the offer register and the scheme register can be found at **www.disclose-register.companiesoffice.govt.nz**.

The scheme register includes the financial statements, the governing document and the statement of investment policy and objectives.

The offer register includes fund updates.

Information relating to the scheme, such as fund updates, the annual report and other useful information is available at **www.nzdf.superfacts.co.nz**.

You can also call the manager on 0800 333 787 to request this information. All the information can be obtained from the manager without charge.

SECTION SEVEN

CONTACT DETAILS AND COMPLAINTS

Contact details for the Manager:

Mercer (N.Z.) Limited
151 Queen Street
PO Box 105591
Auckland 1143
Telephone: 0800 333 787

Supervisor's contact details:

Trustees Executors Limited
Level 7, 51 Shortland Street
PO Box 4197
Auckland 1140
Telephone: 0800 809 962

Inquiries

Privacy Officer's contact details:

Mercer (N.Z.) Limited
Attn: Privacy Officer
151 Queen Street
PO Box 105591
Auckland 1143
Telephone: 0800 333 787

Please direct any complaints about your investment to Mercer at:

Mercer (N.Z.) Limited

151 Queen Street
PO Box 105591
Auckland 1143
Attn: Inquiries and Privacy Officer
Telephone: 0800 333 787
Email: NZ.Privacy@mercero.com

If we are unable to resolve your complaint, you may choose to contact the supervisor at:

Trustees Executors Limited

Level 7, 51 Shortland Street
PO Box 4197
Auckland 1140
Attn: Client Manager
Telephone: 09 308 7100

Mercer is a member of the Insurance and Financial Services Ombudsman Scheme (IFSO) and the supervisor is a member of Financial Services Complaints Limited (FSL), both of which are approved dispute resolution schemes. The IFSO and FSL will not charge a fee to any complainant to investigate or resolve a complaint.

If you make a complaint to us and the complaint cannot be resolved, then you may refer it to the IFSO, subject to certain conditions being met.

You can contact:

IFSO
PO Box 10-845
Wellington 6143
0800 888 202

FSL
PO Box 5967
Wellington 6145
0800 347 257



CONNECT

Help is just a click or a call away, we would love to hear from you.

PHONE

0800 333 787

We are here between 9am and 7pm, Monday to Friday or leave us a message and we'll call you back.

EMAIL

nzdf@mercer.com

POST

Defence Force Superannuation Scheme
PO Box 1849
Wellington, 6140

Mercer (N.Z.) Limited is the manager of the Defence Force Superannuation Scheme and the issuer of this annual report. This annual report has been prepared by the Manager to meet its legislative obligations under the Financial Markets Conduct Regulations 2014. The information contained in this annual report is of a general nature only and does not take into account the personal objectives, financial situation or financial goals of individual members. Accordingly, before making any decisions, you should consider the information in light of your own objectives, financial situation and needs. It is also recommended that you obtain advice from an authorised financial adviser. You should be aware that the value of an investment in the Defence Force Superannuation Scheme may rise and fall from time to time. Neither Mercer, nor Trustees Executors Limited, New Zealand Defence Force, Milestone Direct Limited, MMC nor any member of the worldwide Marsh & McLennan Companies guarantees the investment performance, earnings or return of capital invested in any of the Defence Force Superannuation Scheme investment options. The investment returns shown in this annual report do not take into account the unique characteristics that apply to each member (such as timing of cashflow). As a result, the actual returns applying to a particular member are different from the investment returns shown. You should also remember that past performance should not be relied upon as an indicator of future performance.