



# Aircrew Scheme

## FINANCIAL STATEMENTS

For the year ended 31 March 2016

# Deloitte.

This audit report, dated 23 June 2016, relates to the financial statements of the Aircrew Scheme for the year ended 31 March 2016 included on this website. The Board is responsible for the maintenance and integrity of this website. We have not been engaged to report on the integrity of this website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on this website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 23 June 2016 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.



NATIONAL  
PROVIDENT





# Aircrew Scheme

On behalf of the Board of Trustees of the National Provident Fund, set out below is a report on the performance and activities of your Scheme for the year ended 31 March 2016. Further information on National Provident Fund's activities, and commentary on investment markets, is set out in the Review.

## YOUR SCHEME

### CROWN GUARANTEE

The Aircrew Scheme is a defined benefit scheme. The benefits payable by the Scheme are guaranteed by the Crown.

### INVESTMENT PERFORMANCE

The asset class returns (before tax and operating expenses) and comparative performance of the benchmark indices are shown in the table below.

	Return	Index
Fixed interest	2.6%	5.4%
New Zealand shares	18.2%	17.3%
Overseas shares	5.1%	(0.5)%

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2016 was 2.2%.

See the comparison over the page for the key statistics of your Scheme over the last 10 years. For an overview of the financial performance of the Scheme, refer to the tables on the following pages.

### EMPLOYER CONTRIBUTION RATE

Each year the Board's Actuary carries out a review of the Scheme to determine an employer contribution rate sufficient to meet the accrued and future liabilities of the Scheme.

In the actuarial examination, completed as at 31 March 2015, the Actuary recommended the employer contribution rate be reduced from 250% to 100% of contributors' contributions from 1 April 2016. The recommendation was accepted and endorsed by the Board.

## ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2016

### SUMMARY FINANCIAL STATEMENTS

The summary financial statements included in this Annual Report have been extracted from the full financial statements for the year ended 31 March 2016.

The summary financial statements cannot be expected to provide as complete an understanding as the full financial statements.

Members are welcome to contact the Scheme administrator, Datacom (see details on back page), for a free copy of the Scheme's full financial statements.





# Aircrew Scheme

## SOLVENCY POSITION

The Actuary has advised the solvency position (funding level) of the Scheme, as at 31 March, was:

	2016 (\$000)	2015 (\$000)
Net assets	115,880	121,966
Past service liabilities	(111,052)	(108,143)
Funding level	104.3%	112.8%

## WHO INVESTS YOUR MONEY

### Fixed interest

Ashmore Investment Management Limited (*emerging markets*)  
Brandywine Global Investment Management, LLC (*appointed 9 April 2015*)  
Pacific Investment Management Company LLC (PIMCO)  
Wellington Management Company, LLP

### New Zealand shares

ANZ Investments Limited  
Harbour Asset Management Limited

### Overseas shares

AQR Capital Management, LLC (*global tactical asset allocation mandate terminated 30 June 2016 and replaced with investment in AQR's Style Premia Fund effective 1 July 2016*)

Arrowstreet Capital, Limited Partnership

Lazard Asset Management, LLC

Marathon Asset Management, LLP

Russell Investment Management Limited (*terminated 4 August 2015*)

### Foreign exchange hedging

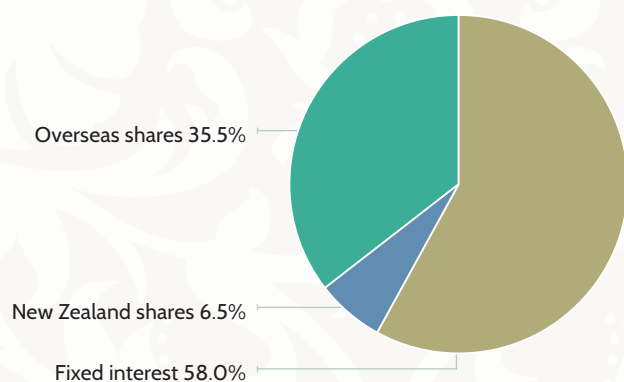
ANZ Bank New Zealand Limited

Bank of New Zealand Limited

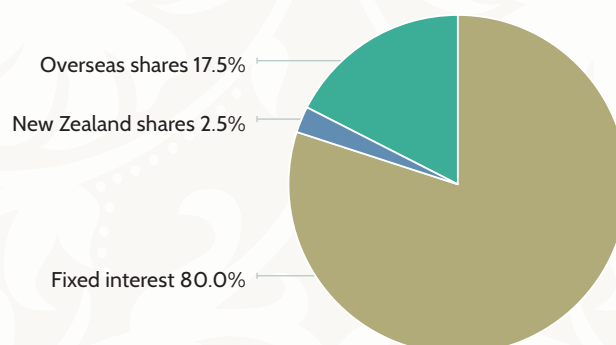
## HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. The asset allocation was changed with effect from 1 October 2015. The pie charts below show the Scheme's asset allocation strategy with effect from 1 October 2015 and the previous asset allocation strategy.

As at 1 October 2013

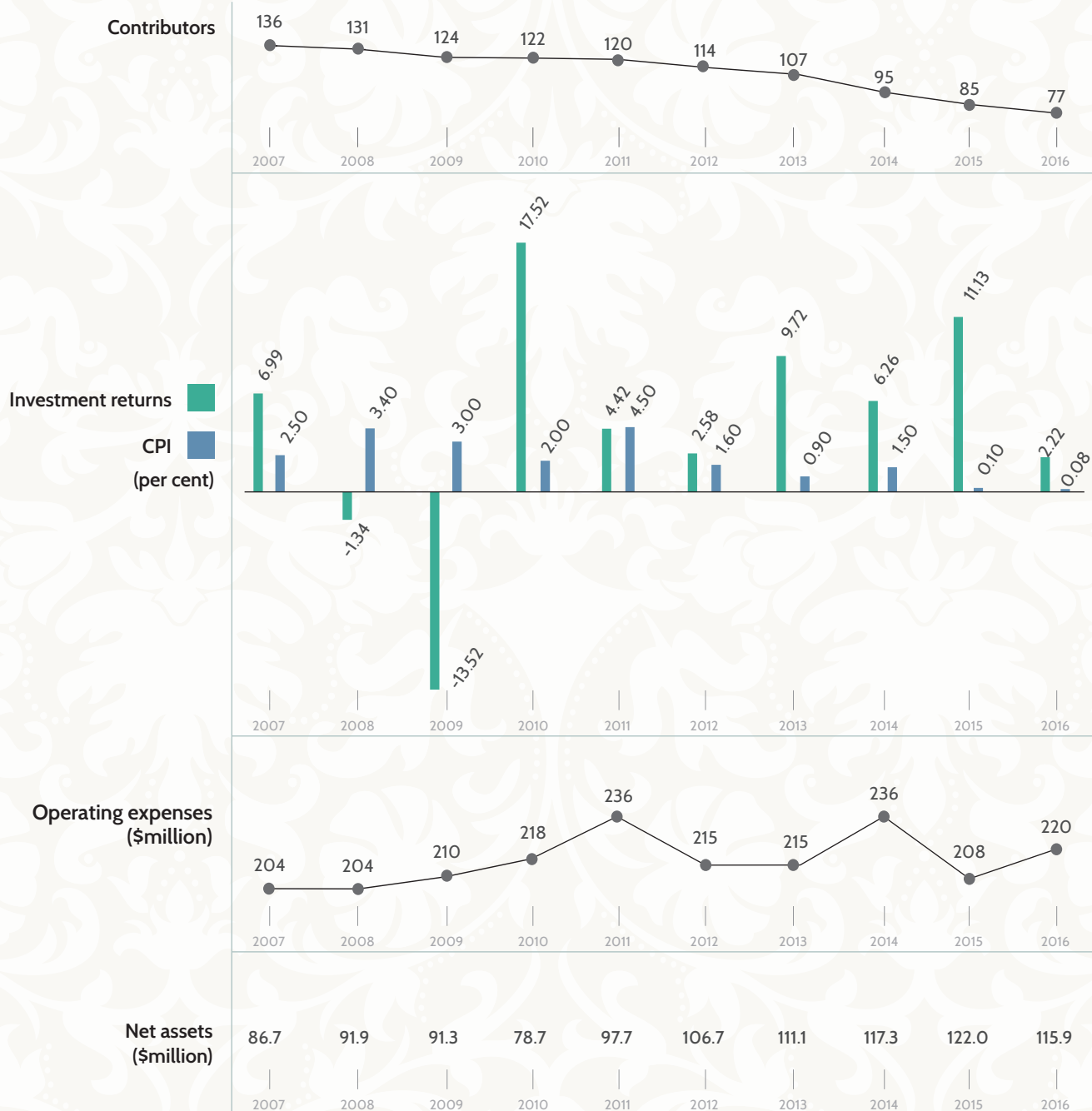


As at 1 October 2015



See our website, [www.npf.co.nz](http://www.npf.co.nz), and the Scheme trust deed for more information about your Scheme.

## 10 YEAR COMPARISON



**Aircrew Superannuation Scheme (the Scheme)**  
**Statement of Changes in Net Assets**  
**for the year ended 31 March 2016**

	Note	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Investment income</b>			
Income from unit funds	4	2,705	12,710
Interest received		84	76
<b>Total investment income</b>		<u>2,789</u>	<u>12,786</u>
<b>Operating expenses</b>			
Actuarial fees		66	50
Audit fees		8	8
Bank fees		1	1
Board member expenses	5	22	24
Management expenses	5	123	125
		<u>220</u>	<u>208</u>
<b>Net income before tax and membership activities</b>		<u>2,569</u>	<u>12,578</u>
<b>Income tax credit</b>	6	38	37
<b>Net income after tax and before membership activities</b>		<u>2,607</u>	<u>12,615</u>
<b>Contributions</b>	1		
Contributor contributions		1,864	1,981
Employer contributions		3,175	4,643
<b>Total contributions</b>		<u>5,039</u>	<u>6,624</u>
<b>Scheme payments</b>			
Pensions paid		107	108
Benefits paid		950	-
Transfers paid to other schemes		12,675	14,434
<b>Total scheme payments</b>		<u>13,732</u>	<u>14,542</u>
<b>Net membership activities</b>		<u>(8,693)</u>	<u>(7,918)</u>
<b>(Decrease)/increase in net assets for the year</b>	9	(6,086)	4,697
<b>Net assets available to pay benefits at beginning of year</b>		121,966	117,269
<b>Net assets available to pay benefits at end of year</b>		<u>115,880</u>	<u>121,966</u>

The notes to the financial statements on pages 4 to 15 form an integral part of these financial statements.

**Aircrew Superannuation Scheme (the Scheme)**  
**Statement of Net Assets**  
**as at 31 March 2016**

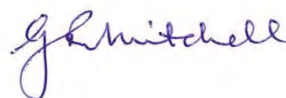
	Note	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Investment assets</b>	3		
<b>Units held in:</b>			
F2 Unit Fund		44,385	-
Fixed Interest Unit Fund		45,061	68,690
New Zealand Equity Unit Fund		3,005	7,657
Overseas Equity Unit Fund		19,423	43,144
		<u>111,874</u>	<u>119,491</u>
<b>Other assets</b>			
Cash		4,014	2,452
Contributions receivable from employers		-	21
Other receivables	8	30	26
Receivable from the Global Asset Trust	7	38	37
		<u>4,082</u>	<u>2,536</u>
<b>Total assets</b>		<u>115,956</u>	<u>122,027</u>
<b>Current liabilities</b>			
Accounts payable		76	61
<b>Total liabilities</b>		<u>76</u>	<u>61</u>
<b>Net assets available to pay benefits</b>		<u>115,880</u>	<u>121,966</u>

Authorised for issue on 23 June 2016.

On behalf of the Board of Trustees of the National Provident Fund.



Catherine M Savage  
*Chairman*



Graeme R Mitchell  
*Chairman*  
*Audit and Risk Review Committee*

The notes to the financial statements on pages 4 to 15 form an integral part of these financial statements.

**Aircrew Superannuation Scheme (the Scheme)**  
**Statement of Cash Flows**  
**for the year ended 31 March 2016**

	Note	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Contributor contributions		1,873	1,980
Employer contributions		3,188	4,642
Interest received		84	76
		<u>5,145</u>	<u>6,698</u>
Cash was applied to:			
Benefits paid		950	-
Operating expenses		173	118
Pensions paid		107	108
Transfers paid to other schemes		12,675	14,434
		<u>13,905</u>	<u>14,660</u>
<b>Net cash flows from operating activities</b>	9	<u>(8,760)</u>	<u>(7,962)</u>
<b>Cash flows from investing activities</b>			
Cash was provided from sale of units in:			
F2 Unit Fund		102	-
Fixed Interest Unit Fund		27,488	6,738
New Zealand Equity Unit Fund		5,730	1,837
Overseas Equity Unit Fund		27,002	6,276
		<u>60,322</u>	<u>14,851</u>
Cash was applied to purchase units in:			
F2 Unit Fund		43,755	-
Fixed Interest Unit Fund		3,689	4,494
New Zealand Equity Unit Fund		862	254
Overseas Equity Unit Fund		1,694	1,063
		<u>50,000</u>	<u>5,811</u>
<b>Net cash flows from investing activities</b>		<u>10,322</u>	<u>9,040</u>
<b>Net increase in cash held</b>		1,562	1,078
Add opening cash brought forward		2,452	1,374
<b>Closing cash carried forward</b>		<u>4,014</u>	<u>2,452</u>

The notes to the financial statements on pages 4 to 15 form an integral part of these financial statements.

## **Summary of Significant Accounting Policies**

### **Basis of Preparation**

The financial statements have been prepared under the requirements of clause 55 of the Scheme trust deed, the Financial Reporting Act 1993 and section 14 and the Second Schedule of the Superannuation Schemes Act 1989. A description of the Scheme and funding arrangements is outlined in note 1.

### **Upcoming changes to the Financial Reporting Framework**

From 1 April 2014, the new Financial Reporting Act 2013 (FRA 2013) and the Financial Market Conduct Act 2013 (FMCA 2013) were enacted replacing the previous financial reporting obligations under the Financial Reporting Act 1993 and the Superannuation Schemes Act 1989. This is effective for all Superannuation Scheme entities with reporting periods beginning on or after 1 April 2014. The Scheme is subject to the transitional provisions under section 55 of the FRA 2013 allowing for the deferral of the application of the new enactment until 1 December 2016.

It is expected that the change in legislation will have no material impact on the Scheme's obligation to prepare general purpose financial statements. The reporting that is undertaken will be similar to that which is currently performed.

### **Statement of Compliance**

These financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities and also 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, except for investment assets which are stated at their fair value as discussed below.

### **Presentational and Functional Currency**

The financial statements are presented in New Zealand dollars, which is the Scheme's functional currency, rounded to the nearest thousand dollars (\$000).

### **Critical Accounting Estimates and Judgements**

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgement has been applied in selecting the accounting policy to designate assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. There are no material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of scheme assets at year end. However as with all investments their value is subject to variation due to market fluctuations.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.



## **Critical Accounting Estimates and Judgements (continued)**

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

### **Investment**

The Scheme is authorised to invest only in the Global Asset Trust (the GAT) or in bank deposits. The GAT is divided into separate unit funds representing various asset classes.

### **Financial Instruments**

Financial instruments include both financial assets and financial liabilities.

Financial assets, designated at fair value through profit or loss upon initial recognition, are managed and their performance evaluated on a fair value basis, consistent with the Scheme's documented investment strategy. The assets are investments in units in the GAT which, in turn, invest in New Zealand equities, overseas equities and fixed interest and debt instruments.

Financial assets, classified as loans and receivables, include balances due from contributors, and receivables from related parties.

Financial liabilities, measured at amortised cost, include accounts payable and bank overdrafts (if applicable).

### **Recognition**

The Scheme recognises financial assets and financial liabilities on the date the Scheme becomes a contractual party to the financial instruments.

### **Measurement**

Financial instruments are initially measured at fair value and their subsequent treatment depends on their classification as described below.

Financial assets, classified at fair value through profit or loss, are recorded at fair value where all resulting gains or losses are recorded in the Statement of Changes in Net Assets. The fair value of the units held by the Scheme in the GAT is based on the valuation of the financial instruments held by the GAT. The fair value of the majority of the financial instruments is based on exit prices at balance date without any deduction for future selling costs. If the exit price for an instrument is not available on a recognised exchange the fair value is estimated taking into account comparable markets and advice from specialised advisories.

Financial assets, classified as loans and receivables, and other financial liabilities are recorded at amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

### **Impairment**

Financial assets, that are recorded at amortised cost, are reviewed at each financial statement date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised in the Statement of Changes in Net Assets as the difference between the asset's carrying amount and the recoverable amount.

## **Derecognition**

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Scheme transfers the financial asset and the transfer qualifies for derecognition in accordance with *NZ IAS 39: Financial Instruments: Recognition and Measurement*. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## **Cash and Cash Equivalents**

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, where there is an insignificant risk of change in value, and that are held for the purpose of meeting short-term cash commitments.

## **Contributions**

Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

## **Benefits and Pensions**

Benefits and pensions are recognised in the Statement of Changes in Net Assets when a request for payment is made and all relevant criteria for payment has been met.

## **Investment Income Recognition**

Interest income is recognised using the effective interest rate of the instrument. Changes in the fair value on GAT unit funds are recognised in the Statement of Changes in Net Assets. Interest income on assets designated at fair value through profit or loss, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex dividend date.

## **Expenses**

All expenses are recognised in the Statement of Changes in Net Assets on an accrual basis.

## **Taxation**

Any income or loss arising from the movement in the fair value of the unit funds of the GAT is received by the Scheme tax paid. The Scheme's deductible operating expenses are offset against the Scheme's interest received to result in nil assessable income.

Any surplus deductible operating expenses are transferred to the GAT under section DV 2 of the Income Tax Act 2007 (the Tax Act) (refer notes 6 and 7).

## **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.

Investing activities – comprise acquisition and disposal of units in the GAT.

Operating activities – include any activities that are the result of normal business activities not classified as investing activities.

**Standards issued but not effective**

Various standards, interpretations and amendments have been issued by the External Reporting Board but have not been adopted because they are not yet effective. The applicable standards and interpretations are adopted in the period in which they become mandatory.

The standard which has not yet been adopted because its not yet effective is *NZ IFRS 9 'Financial Instruments'*. This is effective for annual reporting periods beginning on or after 1 January 2018.

## **1 Description of the Scheme and Funding Arrangements**

The Scheme is a defined benefit scheme, governed by a trust deed.

The Scheme is funded on the principle of aggregate funding. Under this principle, the value of the employer's future contributions is the balancing item between the actuarial value of the contributors' entitlements, and the value of contributors' future contributions and the market value of the Scheme's net assets.

The rate of contribution for contributors is set out in the Scheme trust deed and ranges from 8.75% to 10% of the contributor's salary (as defined in the trust deed), depending on the age of the contributor at commencement of his/her contributory service.

The Actuary, in her actuarial examination as at 31 March 2015 recommended that employer contributions be reduced from 3.5 times contributors' contributions to 1.0 times contributors' contributions from 31 March 2016, when the outcome of the asset allocation review then being carried will be known, to review the recommendation. The recommendation in the examination was accepted and endorsed by the Board.

During the year, employer contributions of \$3,175,000 were made to the Scheme (2015: \$4,643,000).

## **2 Related Parties**

Under the terms of the National Provident Fund Restructuring Act 1990 (the Act), the Board is trustee of the Scheme. Members of the Board are appointed by the Minister of Finance (the Minister).

The Board and the Government Superannuation Fund Authority (the Authority) have formed a joint venture company, Annuitas Management Limited (Annuitas). Each organisation has entered into a management services agreement with Annuitas. The main function of Annuitas is to provide staff who act in management and secretarial roles on behalf of the Board and the Authority. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

Catherine Savage and Catherine McDowell are the two Board appointed directors of Annuitas.

The Board is also the trustee of the GAT, which holds the assets of all the National Provident Fund Schemes. The Schemes are authorised to invest only in the GAT or in bank deposits. The GAT is divided into separate unit funds, representing various asset classes, which have issued units to the Board, as trustee of the Scheme, according to the asset allocation strategy (refer note 3).

There were no transactions between the Board or management, as individuals, and the Scheme.

**Aircrew Superannuation Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

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### **3 Asset Allocation**

The benchmark asset allocations as at 31 March 2016 and 31 March 2015 are shown below. The asset allocation change was effective from 1 October 2015.

	<b>2016</b> <b>%</b>	2015 <b>%</b>
Fixed Interest Unit Fund	40.0	58.0
F2 Unit Fund	40.0	-
New Zealand Equity Unit Fund	2.5	6.5
Overseas Equity Unit Fund	17.5	35.5

### **4 Income from Unit Funds**

Income from unit funds is derived from the changes in value of units and reflects both realised and unrealised gains and losses, net of expenses directly related to investment activities, as follows:

	<b>2016</b> <b>(\$000)</b>	2015 <b>(\$000)</b>
Fixed Interest Unit Fund	170	5,096
F2 Unit Fund	732	-
New Zealand Equity Unit Fund	217	832
Overseas Equity Unit Fund	1,586	6,782
<b>Income from unit funds</b>	<u>2,705</u>	<u>12,710</u>

The income from unit funds is received tax paid.

### **5 Management Expenses**

Management expenses comprise administration fees charged by Datacom Employer Services Limited, and a share of the expenses of the Board. The expenses of the Board are apportioned to each scheme through a costing system, which equitably allocates the expenses based on membership and transaction numbers, and investment asset values.

Investment management and custodial fees are deducted from the earnings of each of the unit funds.



**Aircrew Superannuation Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

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**6 Income Tax**

The income tax reconciliation is as follows:

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Scheme specific income	84	76
Deductible expenses	(220)	(208)
Expense election to the GAT under section DV 2	136	132
<b>Taxable income</b>	<u>-</u>	<u>-</u>
Profit before tax	2,569	12,578
Tax at 28%	719	3,522
- Non-assessable income	(757)	(3,559)
<b>Income tax credit</b>	<u>(38)</u>	<u>(37)</u>
Represented by:		
Income tax credit on current year income	(38)	(37)
Prior year adjustment	-	-
<b>Income tax credit</b>	<u>(38)</u>	<u>(37)</u>

The tax credit results from the benefit of the Scheme electing to transfer surplus deductible expenses to the GAT under section DV 2 of the Tax Act (refer note 7). The GAT is subject to tax at the rate of 28 percent.

The income of \$2,705,000 (2015: \$12,710,000) from unit funds, shown on the Statement of Changes in Net Assets, is all received tax paid.

**7 Receivable from the GAT**

This receivable represents the outstanding tax credits utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Tax Act. The Scheme will realise the receivable by investing in unit funds of the GAT.

**8 Other Receivables**

Other receivables consist of:

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Management fee refund	30	26
<b>Total other receivables</b>	<u>30</u>	<u>26</u>

**Aircrew Superannuation Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**9 Reconciliation of (decrease) in Net Assets for the Year to Net Cash Flows used in Operating Activities**

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Change in net assets for the year</b>	(6,086)	4,697
<b>Movements in working capital</b>		
Change in accounts payable	15	49
Change in contributions receivable	21	(3)
Change in other receivables	(4)	(4)
	<u>32</u>	<u>42</u>
<b>(Less)/add non cash items</b>		
Movement in receivable from the GAT	(1)	9
	<u>(1)</u>	<u>9</u>
<b>Items classified as investing activities</b>		
(Income) from unit funds	(2,705)	(12,710)
	<u>(2,705)</u>	<u>(12,710)</u>
<b>Net cash flows used in operating activities</b>	<u><u>(8,760)</u></u>	<u><u>(7,962)</u></u>

**10 Guaranteed Benefits**

Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

**11 Actuarial Examination and Review, Funding Level and Vested Benefits Ratio – 31 March 2016**

**Actuarial Examination and Review**

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the National Provident Fund Restructuring Act 1990 and the Superannuation Schemes Act 1989 (refer note 12). The most recent actuarial examination was carried out as at 31 March 2015.

In addition, an actuarial review of the Scheme is undertaken annually. Provisional figures from the actuarial review as at 31 March 2016 are set out below for the funding level and vested benefits ratio. The assumptions and methodology used to value the liabilities as at 31 March 2016 are those currently intended to be used for the actuarial review of the Scheme as at 31 March 2016.

**Aircrew Superannuation Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**11 Actuarial Examination and Review, Funding Level and Vested Benefits Ratio – 31 March 2016 (continued)**

***Funding Level – 31 March 2016***

The funding level (solvency ratio) of the Scheme is the ratio of the net assets available to pay benefits to the value of the past service liabilities. The funding level calculated by the Actuary, as at 31 March, is shown below:

Valuation date	2016	2015
	(\$000)	(\$000)
<b>Present value of -</b>		
Past service liabilities	(111,052)	(108,143)
Net assets	115,880	121,966
Past service surplus	4,828	13,823
Funding level	104.3%	112.8%

Amounts are rounded and may not appear to add exactly.

This table should be read in conjunction with note 10.

The most financially significant assumptions are:

- future investment returns assumed, especially over the next 10 years (2.6% per annum to 31 March 2026 and 3.9% per annum thereafter, as at 31 March 2016; and 3.6% per annum to 31 March 2025 and 4.5% per annum thereafter, as at 31 March 2015)
- the difference between the rate of future investment returns and the rate of future salary inflation assumed for pilots in the next 10 years (0.0% per annum difference to 31 March 2026, as at 31 March 2016; and 0.6% per annum difference to 31 March 2025, as at 31 March 2015) ; and
- the age at which contributors are assumed to retire (based on the review of the demographic assumptions completed prior to the actuarial examination as at 31 March 2015).

**Vested Benefits Ratio – 31 March 2016**

The value of the vested benefits is the value of the benefits contributors would have been entitled to if they left the Scheme on the valuation date. As all contributors in this Scheme are now over 50 years of age, the value of the vested benefits of the Scheme is determined by the Actuary as the sum of:

- For contributors, the greater of:
  - the lump sum retirement benefit the contributor would have been entitled to, if the contributor had retired;
  - the value of the retirement pension the contributor would have been entitled to, if the contributor retired; and
  - the transfer value the contributor would have been entitled to, if the contributor had transferred out of the Scheme.
- For pensioners, the value of their future pension entitlement.

**Aircrew Superannuation Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**11 Actuarial Examination and Review, Funding Level and Vested Benefits Ratio – 31 March 2016 (continued)**

The vested benefits ratio of the Scheme is the ratio of the net assets available to pay benefits to the value of vested benefits. The vested benefits ratio, as at 31 March, is shown below:

<b>Valuation date</b>	<b>2016</b>	<b>2015</b>
	<b>(\$000)</b>	<b>(\$000)</b>
<b>Present value of -</b>		
Vested benefits	(115,961)	(120,828)
Net assets	115,880	121,966
Surplus	(82)	1,138
Vested benefits ratio	99.9%	100.9%

Amounts are rounded and may not appear to add exactly

This table should be read in conjunction with note 10.

The key assumptions are:

- The future investment returns assumed (as for the actuarial review).
- The mortality rates assumed for valuing the pensioners (based on the New Zealand Life Tables 2010-2012 with an adjustment for improving mortality).

**12 Statutory Actuarial Examination – 31 March 2015**

Under the National Provident Fund Restructuring Act 1990 and the Superannuation Schemes Act 1989, a statutory examination of the Scheme is required every three years.

The most recent statutory actuarial examination was prepared, as at 31 March 2015, by Christine Ormrod FNZSA, the Actuary to the Scheme, and is dated 23 July 2015. It covers the three years 31 March 2012 to 31 March 2015.

The report on the examination showed that the value of past service liabilities was less than the value of net assets, as at 31 March 2015, based on the actuarial assumptions used. The valuation results were:

<b>Valuation date</b>	<b>2015</b>	<b>2012</b>
	<b>(\$000)</b>	<b>(\$000)</b>
<b>Present value of -</b>		
Past service liabilities	(108,143)	(116,416)
Net assets	121,966	111,099
Past service surplus/(deficit)	13,823	(5,317)
Future service liabilities	(23,653)	(31,172)
Contributors' future contributions	12,060	15,818
Net future service liability	(11,593)	(15,294)
Total service surplus/(deficit)	2,230	(20,610)
Funding level	112.8%	95.4%

This table should be read in conjunction with note 10.

The above figures are rounded and so may not appear to add exactly.

## **12 Statutory Actuarial Examination – 31 March 2015 (continued)**

The Actuary calculated the employer contribution required to meet the net future service liabilities, under the valuation assumptions, as 1.4 times contributors' contributions.

The ratio of the net assets to the value of past service liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and the past service liabilities. The funding level of 112.8% shows that the Scheme had a surplus of assets compared to past service liabilities, as at 31 March 2015, under the valuation assumptions.

The report showed:

- The funding level in three years (31 March 2018) is estimated to be 116.0%, assuming the experience of the Scheme is in line with the valuation assumptions and the employer contributes at the recommended rate.
- The value of net assets was 100.9% of the value of the vested benefits, as at 31 March 2015. This ratio is expected to remain close to 100%.

The Actuary did not express an opinion on the financial condition of the Scheme.

The most significant actuarial assumptions used by the Actuary were:

- The future investment return assumed (3.6% per annum to 31 March 2025 and 4.5% per annum thereafter).
- The difference (0.6% per annum to 31 March 2025 and 1.5% per annum thereafter) between the expected future investment returns and the expected future salary inflation for pilots (3.0% per annum).
- The expected promotional salary increase rates being:

<b>Age</b>	<b>Promotion increase assumption for pilots over age band (%)</b>
50-55	12
55-60	11
60-65	9
65-70	8

The promotional salary increase assumption for cabin crew was nil.

### **Recommendations**

In the report on the statutory examination, the Actuary recommended:

- The employer contribution rate be reduced from 2.5 times contributors' contributions to 1.0 times contributors' contributions from 1 April 2016 and that there is an actuarial review of the Scheme as at 31 March 2016, when the outcome of the current asset allocation review will be known, to review this recommendation. This rate is inclusive of Employer Superannuation Contribution Tax.
- The Board reviews the appropriateness of the investment strategy at least every three years.



## **12 Statutory Actuarial Examination – 31 March 2015 (continued)**

- The Board does not amend the trust deed to increase the benefits payable from the Scheme.
- The next actuarial review of the Scheme be carried out as at 31 March 2016.

The next statutory actuarial examination is due as at 31 March 2018. The Actuary commented that the contribution rate required from the employer is very sensitive to the investment returns, and salary increases experience of the Scheme, differing from the assumptions used. Due to the nature of the Scheme, its asset allocation and the way in which the salary of contributors is determined, large variations between the actual and assumed experience is to be expected on a year by year basis. Consequently, it is highly likely a change in employer contribution will be recommended next year.

The Board accepted the recommendations of the Actuary.

## **13 Financial Instruments and Associated Risks**

The Scheme invests in units of the GAT depending upon the asset allocation determined for the Scheme (see note 3). The unit fund holds quoted equity, fixed interest and debt instruments. These instruments are all measured at fair value.

Under *IFRS 13: Fair Value measurement*, disclosures for fair value instruments are required using a three-level fair value hierarchy. These tiers reflect the availability of observable market inputs. The scheme's investment in units of the GAT is classified as a level 2 investment as the unit prices are based on a net asset valuation derived from either quoted prices for similar assets or unquoted but observable inputs.

The Scheme's major risk in its investment in the GAT is the price risk that the value of its units may fluctuate. Other risks, such as market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk, are managed in the GAT.

For more information on the disclosures under IFRS 13 and the risks mentioned above reference should be made to the financial statements of the GAT. A copy of the financial statements of the GAT can be viewed on the National Provident Fund's website ([www.npf.co.nz](http://www.npf.co.nz)).

The Board manages the other risks by determining a diversified asset allocation appropriate for the Scheme's liabilities. In addition, the Board selects the investment managers, sets their mandates and monitors performance against those mandates.

Based on the Scheme's asset allocation and the long term rate of return for each asset class (after investment management and custody fees, and after tax), and after deducting a provision for the Scheme's operating expenses (after tax), the long run investment return for the Scheme is estimated to be 2.7 % per annum.

If the long term rates of return for all of the asset classes increased by 10% this would increase the investment return from 2.7% to 3.0% per annum. Similarly, if the long term rates of return for the asset classes decreased by 10%, the investment return would decrease to 2.4% per annum. This would increase or decrease the before tax profit by approximately \$335,000.

## **14 Subsequent Events**

There were no material events subsequent to balance date requiring amendments to these financial statements.

**Aircrew Superannuation Scheme (the Scheme)**  
**Trustee's Report**  
**for the year ended 31 March 2016**

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The Board of Trustees of the National Provident Fund (the Board), as trustee of the Scheme, provides contributors with the following information, as required by the Second Schedule to the Superannuation Schemes Act 1989.

- 1 Changes in the Scheme membership numbers during the year were as follows:

	Contributors	Pensioners	Total
Opening membership as at 1 April 2015	85	2	87
Pensioner	-	-	-
Deaths and disablements	(1)	-	(1)
Retirement	-	-	-
Transfer to another scheme	(1)	-	(1)
Transfer to another NPF scheme	(6)	-	(6)
<b>Closing membership as at 31 March 2016</b>	<b>77</b>	<b>2</b>	<b>79</b>

- 2 On the basis of evidence available, the Board believes that all contributions required to be made to the Scheme, in accordance with the terms of the Scheme trust deed, have been made.
- 3 The Board certifies that, to the best of its knowledge, all benefits required to be paid from the Scheme were paid in accordance with the terms of the Scheme trust deed.
- 4 The Board, based on the advice of the Actuary, certifies that the net market value of the Scheme's assets was less than the total value of the vested benefits of the Scheme, as at 31 March 2016 (refer note 11 to the financial statements).
- 5 The Board confirms that, to the best of its knowledge, not more than 10 percent of the net market value of the Scheme assets were invested with the employer, or associated entities, either directly or indirectly, who are parties to the Scheme.
- 6 The Scheme trust deed has not been amended since 25 June 2015, being the date of the Scheme's last annual report.

**Aircrew Superannuation Scheme (the Scheme)  
Trustee's Report  
for the year ended 31 March 2016**

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**7 Directory**

**Trustee** Board of Trustees of the National Provident Fund

Members of the Board are:

Catherine M Savage (*Chairman*)  
Catherine M McDowell  
Graeme R Mitchell  
Fiona A Oliver  
Edward J Schuck (*appointed 1 July 2015*)  
Wayne Stechman

**Administration manager** Datacom Employer Services Limited

**Investment managers** **Fixed interest managers**

AMP Capital Investors (New Zealand) Limited  
Ashmore Investment Management Limited  
Brandywine Global Investment Management, LLC  
Pacific Investment Management Company, LLC  
Wellington Management Company, LLP

**New Zealand equity managers**

ANZ Investments Limited  
Harbour Asset Management Limited

**Overseas equity managers**

AQR Capital Management, LLC  
Arrowstreet Capital, Limited Partnership  
Lazard Asset Management, LLC  
Marathon Asset Management, LLP

**Foreign exchange hedging managers**

ANZ Bank New Zealand Limited  
Bank of New Zealand Limited

**Actuary** Christine D Ormrod, PricewaterhouseCoopers

**Auditor** David J Shadwell, Deloitte (*on behalf of the Auditor-General*)

**Solicitor** DLA Piper New Zealand

**Bank** Bank of New Zealand

**Custodian** JP Morgan Chase Bank

**Aircrew Superannuation Scheme (the Scheme)  
Trustee's Report  
for the year ended 31 March 2016**

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8 All correspondence relating to the Scheme should be addressed to:

The Manager  
National Provident Fund Administration  
Datacom Employer Services Limited  
PO Box 1036  
WELLINGTON 6140

OR

The Secretary  
Board of Trustees of the National Provident Fund  
P O Box 3390  
WELLINGTON 6140

For and on behalf of the Board of Trustees of the National Provident Fund.



Catherine M Savage  
*Chairman*

23 June 2016



## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE READERS OF THE AIRCREW SUPERANNUATION SCHEME FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016**

The Auditor-General is the auditor of the Aircrew Superannuation Scheme (the Scheme). The Auditor-General has appointed me, David Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Scheme on her behalf.

#### **Opinion**

We have audited the financial statements of the Scheme on pages 1 to 15 that comprise the statement of net assets as at 31 March 2016, the statement of changes in net assets and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Scheme:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Scheme's:
  - financial position as at 31 March 2016; and
  - financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 June 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Trustees and our responsibilities, and we explain our independence.

#### **Basis of opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Scheme's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.





An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Trustees;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

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

### **Responsibilities of the Board of Trustees**

The Board of Trustees is responsible for preparing financial statements for the Scheme that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Scheme's financial position, financial performance and cash flows.

The Board of Trustees' responsibilities arise from the Superannuation Schemes Act 1989.

The Board of Trustees is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Trustees is also responsible for the publication of the financial statements, whether in printed or electronic form.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

### **Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Scheme.

A handwritten signature in black ink, appearing to read "D Shadwell".

David Shadwell  
Deloitte  
On behalf of the Auditor-General  
Wellington, New Zealand

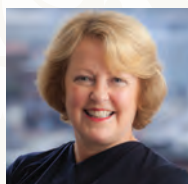
# Directory as at 23 June 2016

## BOARD MEMBERS



**Catherine Savage, BCA, CA**

Catherine Savage (appointed as a Board member and Chair in 2009) is a director of, and indirect shareholder in, CMS Capital Limited, a director of The Griffin Savage Coy Limited; a director and indirect shareholder of Savage Group Limited and its subsidiaries; a director of Savage Capital Holdings Limited, Savage Capital Limited, Pathfinder Asset Management Limited, The Todd Family Office Limited, Courtenay Nominees Limited and Annuitas Management Limited; and Chair of Guardians of New Zealand Superannuation. She is a Member of the Samuel Marsden Collegiate School Trust Board.



**Catherine McDowell**

Catherine McDowell (appointed 2013) is a director of ASB Bank Limited, a member of the Institute of Directors Commercial Board and a director of Annuitas Management Limited, Todd Family Office Limited and Courtenay Nominees Limited. Catherine has over 30 years' experience in the investment and financial services industry in senior executive and advisory roles, working with Executive Management and Boards. She has held management roles at Barclays both in New York and London, following which she moved to ANZ in 2006 in New Zealand. She has over 15 years of Board experience with not for profit, listed and non-listed companies.



**Graeme Mitchell, BA, CA, FCAANZ**

Graeme Mitchell (appointed 2010) is Chair of the External Reporting Board, Barnardos New Zealand and Lifetime Income Limited. He is Chair of the Audit and Risk Committee for the Ministry of Justice, the Ministry of Social Development and for the Human Rights Commission, and a member of the Audit and Risk Committee for the Porirua City Council. He is a licensed independent trustee of the Local Government KiwiSaver Scheme "Super-easy" and Honorary Consul General for Norway. Graeme was previously a senior audit partner with Deloitte in Wellington.



**Fiona Oliver, LLB, BA**

Fiona Oliver (appointed 2011) is Deputy Chair of Public Trust, a member of the Inland Revenue Risk and Assurance Committee, Chair of Vinta Funds Management Limited and a director of Wynyard Group Limited. Fiona has held Executive level leadership and consultancy roles in the financial services industry, specialising in asset and funds management. She has managed Westpac's investment arm, BT Funds Management and more recently, was GM Wealth Management for AMP, managing over \$10bn funds. Fiona's initial career was as a corporate and commercial lawyer where she worked in both private practice and in-house in New Zealand and overseas, specialising in corporate finance.



**Wayne Stechman**

Wayne Stechman (appointed 2012) is a professional director. He retired from Tower Asset Management Limited in 2008 after 18 years as Portfolio Manager and Head of Australasian Equities. Prior to that Wayne worked for a leading share broking firm as an investment advisor/portfolio manager. Wayne has 35 years' experience in the financial services and funds management industry in New Zealand. Other current roles include director and shareholder of Harbour Asset Management, and panel member of Financial Services Complaints Ltd.



**Ed Schuck**

Ed Schuck (appointed 2015) is principal of Fidato Advisory Limited, a provider of investment consulting, research and tender services to institutional investors, Crown agencies and wealth management businesses. Prior to starting Fidato in 2009, he held leadership roles in the financial services industry in New Zealand and the United Kingdom, most recently as Managing Director of Russell Investments. A Chartered Member of the Institute of Directors, Ed is also an independent director of MMC Limited, MFL Mutual Fund Limited, Superannuation Investments Limited, Continuity Capital PE2 GP Limited and Accuro Healthcare (where he also chairs the Audit & Risk Committee). Completed in 2001, Ed's doctoral thesis considered the efficiency of real estate markets and the distributional characteristics of real estate investment risk.

## MANAGEMENT



**Simon Tyler,**  
Chief Executive



**Euan Wright,**  
Board Secretary  
and Chief  
Financial Officer



**Fiona Morgan,**  
Manager,  
Finance



**Philippa Drury,**  
General  
Manager,  
Schemes



**Janet Shirley,**  
Manager,  
Schemes



**Paul Bevin,**  
General  
Manager,  
Investments



**Peter McCaffrey,**  
Manager,  
Portfolio  
Strategy and Risk



**Nicky Rumsey,**  
Manager,  
Investments

## DATACOM

### MANAGEMENT

Datacom Employer Services Limited is the administrator of the NPF schemes.

### CONTACT DETAILS

You are welcome to contact Datacom if you have any specific questions about the information in this package, if you would like to receive a free copy of the full financial statements in the mail, to purchase a copy of the trust deed (\$10) or the actuarial valuation (\$10), or to enquire about your Scheme membership in general.

Please quote your identity number when contacting Datacom.

**Free phone: 0800 628 776** between 8.30am and 5.00pm, Monday to Friday

**Phone: (04) 381 0600**

**Fax: (04) 381 0502**

#### Post:

The Manager  
National Provident Fund Administration  
Datacom Employer Services Limited  
PO Box 1036  
Wellington 6140

**Email: [npfenquiries@datacom.co.nz](mailto:npfenquiries@datacom.co.nz)**

If you would like to know more about NPF in general, or if you would like to view or download a copy of the Scheme's full financial statements rather than receive a copy in the mail, please visit our website - [www.npf.co.nz](http://www.npf.co.nz).

**You may contact the Board by writing to:**

The Board Secretary  
Board of Trustees of the National Provident Fund  
Level 12, The Todd Building  
95 Customhouse Quay  
Wellington 6011

**Auditor:** David J Shadwell, Deloitte, on behalf of the Auditor-General

**Actuary:** Christine D Ormrod,  
PricewaterhouseCoopers

**Bank:** Bank of New Zealand Limited

**Custodian:** JP Morgan Chase Bank, N.A.

**Solicitor:** DLA Piper