



# Financial statements

For the nine-month period ended 31 March 2020

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**Statement of net assets available for benefits**

As at 31 March 2020

	Note	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Assets</b>			
Cash and cash equivalents		16,451,290	15,815,156
Other receivables		1,000,000	–
Financial assets	6	1,979,748,217	2,136,257,843
PIE tax refundable	8	18,135,415	–
<b>Total assets</b>		<b>2,015,334,922</b>	<b>2,152,072,999</b>
<b>Less liabilities</b>			
Benefits payable		1,490,129	1,464,957
Sundry creditors		290,474	320,134
Income tax payable	8	18,494	9,684,847
<b>Total liabilities</b>		<b>1,799,097</b>	<b>11,469,938</b>
<b>Net assets available for benefits</b>		<b>2,013,535,825</b>	<b>2,140,603,061</b>
<b>Liability for promised benefits</b>			
Represented by:			
Member accounts	4	573,764,986	609,826,716
Employer accounts	4	1,433,337,117	1,530,031,084
Reserve accounts	10	596,431	745,261
Unallocated contributions		5,837,291	–
		<b>2,013,535,825</b>	<b>2,140,603,061</b>

For and on behalf of the trustee, PSS Trustees Limited, who authorised the issue of these financial statements.



Director  
22 June 2020



Director  
22 June 2020

## Statement of changes in net assets available for benefits

For the nine-month period ended 31 March 2020

	Note	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Investment activities</b>			
<b>Investment income</b>			
(Losses)/gains on financial assets at fair value through profit or loss	7	(147,769,033)	126,103,102
Interest		79,854	73,090
		(147,689,179)	126,176,192
<b>Investment expenses</b>			
Investment management fees		(8,796,527)	(11,023,229)
<b>Net investment income</b>		<b>(156,485,706)</b>	<b>115,152,963</b>
<b>Other expenses</b>			
Administration fees		628,295	763,742
Investment consultancy fees		231,732	287,075
Auditor's remuneration – for audit of financial statements		23,000	17,250
Auditor's remuneration – taxation service fees		27,848	62,146
Secretarial fees		89,207	124,529
Member communications		113,999	154,126
Legal fees		39,753	78,283
Trustee's remuneration and expenses	15	215,151	272,579
Financial Markets Authority		195,426	98,751
Other expenses		271	16,115
<b>Total other expenses</b>		<b>1,564,682</b>	<b>1,874,596</b>
<b>Change in net assets before taxation and membership activities</b>		<b>(158,050,388)</b>	<b>113,278,367</b>
Income tax (credit)/expense	8	–	18,576,469
<b>Change in net assets after taxation and before membership activities</b>		<b>(158,050,388)</b>	<b>94,701,898</b>
<b>Membership activities</b>			
<b>Contributions</b>			
Member contributions		44,994,733	57,508,830
Voluntary member contributions		2,417,396	2,824,692
Employer contributions		62,917,695	80,045,539
Unallocated contributions		5,837,291	–
<b>Total contributions</b>		<b>116,167,115</b>	<b>140,379,061</b>
<b>Benefits paid</b>			
Retirement		12,786,833	21,940,168
Withdrawals		31,760,219	48,916,007
Retrenchment		–	–
In-service access		31,955,269	40,063,661
In-service termination		1,217,101	2,602,064
First home		19,778,769	8,821,691
Medical disengagement		928,460	366,532
Death and permanent incapacity		2,936,379	1,765,394
Hardship		1,920,344	1,700,100
<b>Total benefits paid</b>		<b>103,283,374</b>	<b>126,175,617</b>
Portfolio Investment Entity tax (credit)/expense	8	(18,099,411)	–
<b>Net membership activities</b>		<b>30,983,152</b>	<b>14,203,444</b>
<b>Net (decrease)/increase in net assets during the year</b>		<b>(127,067,236)</b>	<b>108,905,342</b>
Net assets available for benefits at beginning of year		2,140,603,061	2,031,697,719
<b>Net assets available for benefits at end of year</b>		<b>2,013,535,825</b>	<b>2,140,603,061</b>

This statement is to be read in conjunction with the notes on pages 5 to 14.

## Statement of cash flows

For the nine-month period ended 31 March 2020

	Note	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Cash flows from operating activities</b>			
<b>Cash provided from</b>			
Member contributions		53,249,420	60,329,357
Employer contributions		62,917,695	80,045,539
Interest		79,854	73,090
Income tax refund		–	6,659
		<b>116,246,969</b>	<b>140,454,645</b>
<b>Cash applied to</b>			
Benefits paid		103,258,202	126,962,477
Administration fees		626,795	753,945
Investment consultancy fees		230,769	279,887
Auditor's remuneration – audit of financial statements		23,000	19,550
Auditor's remuneration – taxation service fees		32,948	54,056
Secretarial fees		110,674	124,902
Member communications		121,021	173,720
Legal fees		47,481	70,019
Trustee's remuneration and expenses		239,583	270,549
Financial Markets Authority		150,426	99,353
Other expenses		1,806	14,580
PIE tax paid		9,702,357	–
		<b>114,545,062</b>	<b>128,823,038</b>
<b>Net cash flows from operating activities</b>	<b>9</b>	<b>1,701,907</b>	<b>11,631,607</b>
<b>Cash flows from investing activities</b>			
<b>Cash provided from</b>			
Sale of investments		61,591,171	89,638,266
<b>Cash applied to</b>			
Purchase of investments		62,656,944	96,060,469
<b>Net cash flows utilised by investing activities</b>		<b>(1,065,773)</b>	<b>(6,422,203)</b>
<b>Net increase in cash held</b>		<b>636,134</b>	<b>5,209,404</b>
<b>Cash at beginning of the year</b>		<b>15,815,156</b>	<b>10,605,752</b>
<b>Cash at end of the year</b>		<b>16,451,290</b>	<b>15,815,156</b>

This statement is to be read in conjunction with the notes on pages 5 to 14.

## Notes to the financial statements

For the nine-month period ended 31 March 2020

### 1. Scheme description

Police Superannuation Scheme (the scheme) is a defined contribution restricted workplace savings scheme registered in New Zealand under the Financial Markets Conduct Act 2013 to provide retirement benefits to the salaried employees of the New Zealand Police.

The registered office is Mercer (N.Z.) Limited, PO Box 1849, Wellington 6140.

The trustee of the scheme is PSS Trustees Limited. The directors of PSS Trustees Limited are Charlie Cahn, Greg Fleming, Sarah Graydon, Tim McGuinness (resigned effective 1 January 2020), Ian Russon, Dave Trappitt (resigned effective 1 September 2019) and Sandra Venables (appointed effective 1 September 2019). The Licensed Independent Trustee is Ian Russon.

The custodian of the scheme's financial assets is BNP Paribas Fund Services Australasia Pty Limited.

The administrator of the scheme is Mercer (N.Z.) Limited.

Details of membership as at 31 March 2020 were:

<b>30 June 2019</b>	<b>10,626</b>
New members	566
Death and total and permanent disablement	(12)
Retirement	(38)
Withdrawals/resignations	(194)
Medical disengagements	(1)
In-service terminations	(16)
<b>31 March 2020</b>	<b>10,931</b>

#### Funding arrangements

In 2020 the employer contributed to the scheme at rates of up to 15.2% (2019: 15.2%) (before deduction of withholding tax) of the salaries of those employees who were members of the scheme. Employees contributed to the scheme during 2020 at rates of up to 7.5% (2019: 7.5%) of gross salary, excluding any additional voluntary contributions.

There are three classes of members: retained members, standard sworn entrants and optional or special entrants.

#### Retirement benefits

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

#### Termination terms

The trust deed sets out the basis on which the scheme can be terminated.

#### Changes in the scheme

The scheme transitioned to the Portfolio Investment Entity (PIE) regime effective 1 July 2019. Accordingly, the scheme has changed its balance date to 31 March and therefore the financial statements have been prepared for the 9 months ended 31 March 2020 (2019: 12 months ended 30 June 2019).

### 2. Basis of preparation

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

The scheme has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The scheme is a Tier 1 entity as it is publicly accountable.

#### Statement of compliance

These financial statements comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities 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 modified by the revaluation of assets that are measured at fair values at balance date.

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**2. Basis of preparation** continued**Presentation currency**

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

**Classification of assets and liabilities**

Police Superannuation Scheme operates as a retirement savings scheme. As such, the assets and liabilities are disclosed in the statement of net assets in an order that reflects their relative liquidity.

**3. Summary of significant accounting policies**

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

**Financial assets at fair value through profit or loss**

The scheme classifies its investments as designated at fair value through profit or loss. The financial assets are recognised and derecognised on the trade date where a purchase or sale is under contract whose terms require delivery within the time frame established by the market concerned, initially measured at fair value. Subsequent to initial recognition, all financial assets through profit or loss are measured at fair value.

Gains or losses arising from changes in fair value of the financial assets through profit or loss category are presented in the statement of changes in net assets when they arise. Interest and dividends related to financial assets at fair value through profit or loss are recognised as part of the gains and losses presented in the statement of changes in net assets.

The fair value of financial assets is determined using the last sale price (exit price) as calculated by the fund manager at balance date.

**Income recognition**

- (i) Interest income is recognised as interest accrues using the effective interest rate method. Interest income is earned on cash and cash equivalents.
- (ii) Gains or losses on financial assets at fair value through profit or loss are recognised in the statement of changes in net assets as disclosed above.
- (iii) Dividends and distributions from unitised investments are recognised on a due and receivable basis.

**Foreign currencies**

Transactions in currencies other than New Zealand dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on balance date. Gains and losses arising on translation are included in changes in net assets for the period.

**Expenses**

All expenses are accounted for on an accruals basis.

**Taxation**

The scheme qualifies as, and has elected to be treated as, a Portfolio Investment Entity (PIE) for tax purposes from 1 July 2019.

Under the PIE regime, the manager attributes the taxable income of the scheme to members in accordance with their proportionate interest in the scheme. The income attributed to each member is taxed at the member's prescribed investor rate (PIR) which is currently capped at 28%. The manager accounts for tax on behalf of natural persons and certain other members and adjusts the members' interests in the scheme to reflect that tax is paid at varying rates on behalf of the members. There is a unit price for each fund and for each tax rate.

As the legislation regarding the taxation of PIEs provides that the scheme pays tax on behalf of its members, the PIE taxation expense/(refund) disclosed in the statements of changes in net assets is the expense attributable to members and is measured based on tax rates applicable to those members.

The tax amounts in the statements of net assets represent the remaining tax payable/(receivable) by the scheme on behalf of the members under the PIE regime to 31 March each year.

## Notes to the financial statements continued

For the nine-month period ended 31 March 2020

### 3. Summary of significant accounting policies continued

#### Financial instruments

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

#### Derivative financial instruments

The scheme's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates. The scheme may use foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The scheme does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the scheme's policies approved by the trustee, which provide written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments are recognised in the statement of changes in net assets as they arise.

#### Sundry creditors

Sundry creditors are not interest-bearing and are stated at their amortised cost.

#### Goods and services tax (GST)

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

#### Statement of cash flows

The cash flows of the scheme do not include those of the investment managers. The following are definitions of the terms used in the statement of cash flows:

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

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

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

#### Promised benefits

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

#### Contributions and benefits

Contributions and benefits are accounted for on an accruals basis.

Under the unitised mode in which the scheme operates, there are inherent timing differences between the banking of contributions and the application of those contributions to member accounts. Unallocated contributions are disclosed separately in the statement of net assets available for net assets and the statement of changes in net assets available for benefits.

#### Application of accounting standards

(a) New and amended standards adopted by the scheme:

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 July 2019 that have a material effect on the financial statements of the scheme.

(b) New standards, amendments and interpretations not yet adopted:

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

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**4. Liability for promised benefits**

## Changes in promised benefits as at 31 March 2020

	Member account \$	Employer account \$	Unallocated contributions \$	No 1 reserve account \$	No 2 reserve account \$	Total 2020 \$
Balance 1 July	609,826,716	1,530,031,084	–	546,917	198,345	2,140,603,062
Contributions	47,412,129	62,917,695	5,837,291	–	–	116,167,115
Withdrawals	(42,211,950)	(61,071,424)	–	–	–	(103,283,374)
Member deductions	5,298,159	12,041,913	–	(78,780)	(28,570)	17,232,722
Income allocated	(46,560,068)	(110,582,151)	–	(30,441)	(11,040)	(157,183,700)
<b>Balance 31 March</b>	<b>573,764,986</b>	<b>1,433,337,117</b>	<b>5,837,291</b>	<b>437,696</b>	<b>158,735</b>	<b>2,013,535,825</b>

## Changes in promised benefits as at 30 June 2019

	Member account \$	Employer account \$	No 1 reserve account \$	No 2 reserve account \$	Total 2019 \$
Balance 1 July	573,633,746	1,457,355,439	519,964	188,570	2,031,697,718
Contributions	60,333,521	80,045,540	–	–	140,379,061
Withdrawals	(51,494,429)	(74,681,188)	–	–	(126,175,617)
Member deductions	(34,892)	(880,521)	–	–	(951,413)
Interest allocated	27,388,770	68,191,814	26,953	9,775	95,617,312
<b>Balance 30 June</b>	<b>609,826,716</b>	<b>1,530,031,084</b>	<b>546,917</b>	<b>198,345</b>	<b>2,140,603,061</b>

**Guaranteed benefits**

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

**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 scheme at balance date.

	2020 \$	2019 \$
	2,007,102,103	2,139,857,800

**6. Financial assets**

	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Mercer Investment Trusts New Zealand</b>		
Balanced	884,293,371	1,067,714,418
Cash Plus	218,225,845	50,215,523
Growth	530,996,432	683,403,558
Stable	346,232,569	334,924,344
<b>Total financial assets</b>	<b>1,979,748,217</b>	<b>2,136,257,843</b>



**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**7. (Losses)/gains on financial assets at fair value through profit or loss**

	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Mercer Investment Trusts New Zealand</b>		
Balanced	(68,225,766)	69,693,194
Cash Plus	780,749	1,321,012
Growth	(71,764,925)	37,740,475
Stable	(8,559,091)	17,348,421
<b>Total (losses)/gains on financial assets at fair value through profit or loss</b>	<b>(147,769,033)</b>	<b>126,103,102</b>

The net gains/(losses) on items of fair value through profit or loss do not include interest or dividend income. These are disclosed separately on the face of the financial statements.

**8. Income tax**

	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
<b>Comprising:</b>		
Current tax	–	18,441,230
Deferred tax	–	135,239
	–	18,576,469

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	–	113,278,367
Income tax @ 28%	–	31,717,943

**Tax effect of:**

Non-assessable investment gains and losses	–	(32,222,364)
PIE tax liability	–	19,061,853
Non-deductible expenditure	–	19,037
Prior period adjustment	–	–
<b>Income tax (credit)/expense</b>	<b>–</b>	<b>18,576,469</b>

**Current tax asset**

Opening balance	(9,684,847)	6,659
Net tax (refunded) in current year	9,665,144	(6,659)
Prior period adjustment	1,209	–
Tax payable in current year	–	(9,684,847)
<b>Closing balance</b>	<b>(18,494)</b>	<b>(9,684,847)</b>

**Deferred tax asset**

Opening balance	–	135,240
Current year movement	–	(135,240)
Balance at end of year	–	–

With effect from 1 July 2019, the scheme elected to be a multi-rate PIE. As a result, the scheme's taxable income and deductible expenditure is now attributed to the scheme's members and is taxed with reference to those member's PIRs.

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**9. Reconciliation of increase in net assets to net cash flows from operating activities**

	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
Increase in net assets	(127,067,236)	108,905,342
<b>Non-cash items</b>		
Losses/(gains) on fair value through profit or loss	147,769,033	(126,103,102)
PIE tax paid	–	8,756,382
Investment management fees deducted as units from the scheme	8,806,365	11,025,822
Deferred tax expense/(benefit)	–	135,240
<b>Movements in other working capital items</b>		
(Increase)/decrease in income tax refundable	–	6,659
(Increase)/decrease in PIE tax refundable	(18,135,415)	–
(Decrease)/increase in income tax payable	(9,666,353)	9,684,847
Increase/(decrease) in benefits payable	25,172	(786,860)
(Decrease)/increase in sundry creditors	(29,659)	7,277
<b>Net cash flows from operating activities</b>	<b>1,701,907</b>	<b>11,631,607</b>

**10. Reserve account**

Pursuant to the trust deed, the trustee has established a reserve account for term engagement entrants and special entrants, and optional entrants and savings contributors.

Reserve Account No 1 relates to standard sworn entrants and special entrants (police officers).

Reserve Account No 2 relates to optional entrants and savings contributors (support staff).

The reserve account has been allocated with the earnings from the investments of the scheme held in the reserves, forfeited benefits, and any amounts not required for the payment of benefits.

The reserve account may be used at the trustee's discretion and the direction of the Commissioner in meeting any expenses of the scheme, meeting employer's contributions to the scheme, providing benefits (other than retirement benefits), increasing members' and employer's accounts on an equitable basis, in respect of forfeited benefits (as a consequence of the member's bankruptcy) for the member's (or the member's dependant's) benefit in the case of hardship, in payment of any insurance premiums and in such other manner as the trustee may from time to time consider appropriate.

**11. Financial instruments**

The scheme is involved with a number of financial instruments in the course of its normal investing activities.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability, are disclosed in the accounting policies.

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

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**11. Financial instruments** continued**Fair value**

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the scheme's accounting policy in relation to financial assets held at fair value through profit or loss.

**Categories of financial instruments – 31 March 2020**

	Fair value through profit or loss \$	Financial assets at amortised cost \$	Financial liabilities at amortised cost \$	Total \$
<b>Financial assets</b>				
<b>Mercer Investment Trusts New Zealand</b>				
Balanced	884,293,371	–	–	884,293,371
Cash Plus	218,225,845	–	–	218,225,845
Growth	530,996,432	–	–	530,996,432
Stable	346,232,569	–	–	346,232,569
Cash at bank	–	16,451,290	–	16,451,290
<b>Total financial assets</b>	<b>1,979,748,217</b>	<b>16,451,290</b>	<b>–</b>	<b>1,996,199,507</b>
<b>Financial liabilities</b>				
Benefits payable	–	–	1,490,129	1,490,129
Sundry creditors	–	–	290,474	290,474
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>1,780,603</b>	<b>1,780,603</b>

**Categories of financial instruments – 30 June 2019**

	Fair value through profit or loss \$	Financial assets at amortised cost \$	Financial liabilities at amortised cost \$	Total \$
<b>Financial assets</b>				
<b>Mercer Investment Trusts New Zealand</b>				
Balanced	1,067,714,418	–	–	1,067,714,418
Cash Plus	50,215,523	–	–	50,215,523
Growth	683,403,558	–	–	683,403,558
Stable	334,924,344	–	–	334,924,344
Cash at bank	–	15,815,156	–	15,815,156
<b>Total financial assets</b>	<b>2,136,257,843</b>	<b>15,815,156</b>	<b>–</b>	<b>2,152,072,999</b>
<b>Financial liabilities</b>				
Benefits payable	–	–	1,464,957	1,464,957
Sundry creditors	–	–	320,134	320,134
<b>Total financial liabilities</b>	<b>–</b>	<b>–</b>	<b>1,785,091</b>	<b>1,785,091</b>

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**11. Financial instruments** continued**Hierarchy of fair value measurements**

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

Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2020

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Description</b>				
Financial assets at fair value through profit or loss				
<b>Mercer Investment Trusts New Zealand</b>				
Balanced	–	884,293,371	–	884,293,371
Cash Plus	–	218,225,845	–	218,225,845
Growth	–	530,996,432	–	530,996,432
Stable	–	346,232,569	–	346,232,569
<b>Total</b>	–	1,979,748,217	–	1,979,748,217

The financial assets above have been classified as level 2 as they are unit trusts with fair values derived from quoted prices in active markets. There were no transfers between levels in the period.

30 June 2019

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Description</b>				
Financial assets at fair value through profit or loss				
<b>Mercer Investment Trusts New Zealand</b>				
Balanced	–	1,067,714,418	–	1,067,714,418
Cash Plus	–	50,215,523	–	50,215,523
Growth	–	683,403,558	–	683,403,558
Stable	–	334,924,344	–	334,924,344
<b>Total</b>	–	2,136,257,843	–	2,136,257,843

The financial assets above have been classified as level 2 as they are unit trusts with fair values derived from quoted prices in active markets. There were no transfers between levels in the period.

## Notes to the financial statements continued

For the nine-month period ended 31 March 2020

### 11. Financial instruments continued

#### Investment policies

The scheme adheres to the investment manager mandates as follows:

Trans-Tasman Shares – core are managed by Mercer Investment Trusts New Zealand (MITNZ). The objective of the manager is expected to achieve returns (gross of fees and taxes) that are 1.5% above the selected benchmark index over a rolling 3-year period.

Global Shares are managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 2% above the selected benchmark index over a rolling 3-year period.

Global Property is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 1.5% above the selected benchmark index over a rolling 3-year period.

Global Collateralised Commodity Futures is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 0.8% above the selected benchmark index over a rolling 3-year period.

Global Infrastructure is managed by MITNZ. The manager is expected to achieve returns (gross of fees and taxes) that are 1.5% above the selected benchmark index over a rolling 3-year period.

Global Fixed Interest is managed by MITNZ. The overseas fixed interest manager is expected to achieve returns (gross of fees and taxes) that are 1% above the selected benchmark over a rolling 3-year period.

Cash investments are managed by MITNZ. The cash manager is expected to achieve returns (gross of fees and taxes) that are 0.1% above the selected benchmark over a rolling 3-year period.

#### Liquidity risk

The administrator monitors the scheme's liquidity position on a daily basis. Liquidity management is designed to ensure that the scheme has the ability to generate sufficient cash in a timely manner to meet its financial commitments and normal levels of withdrawals. The administrator regularly monitors market volatility and withdrawal levels to establish the scheme's appropriate liquidity levels within allowable benchmark ranges.

The scheme holds financial assets and liabilities that are highly liquid and all can be realised within 12 months.

#### Credit risk

Financial instruments that potentially expose the scheme to credit risk consist of cash, receivables and, indirectly, investments in unitised products that invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The significant counterparty of the scheme is its investment manager, Mercer Investments (New Zealand) Limited, which the trustee considers to be a financial institution of high quality. The investments are held in trust by the investment manager for the benefit of the scheme. The manager maintains diversified investment portfolios in accordance with the portfolio mix adopted by the trustee.

#### Currency risk

The scheme is indirectly exposed to currency risk in that future currency movements will affect the valuation of investments in unitised products that invest in foreign currency denominated investments. The scheme is also exposed to currency risk in respect of directly held investments denominated in a foreign currency.

Cash Plus has 0% foreign currency exposure.

Stable is made up of 25% domestic investments (Trans-Tasman Shares and NZ Cash) and 75% foreign currency exposure; Overseas Fixed Interest and Commodities (both 100% hedged to NZD) and the Overseas Shares Composite Portfolio (50% hedged to NZD).

Balanced is made up of 12.5% domestic investments (Trans-Tasman Shares and NZ Cash) and 87.5% foreign currency exposure; Overseas Fixed Interest and Commodities (both 100% hedged to NZD) and the Overseas Shares Composite Portfolio (50% hedged to NZD).

Growth is made up of 17.5% domestic investments (Trans-Tasman Shares and NZ Cash) and 82.5% foreign currency exposure; Overseas Fixed Interest and Commodities (both 100% hedged to NZD) and the Overseas Shares Composite Portfolio (50% hedged to NZD).

**Notes to the financial statements** continued

For the nine-month period ended 31 March 2020

**11. Financial instruments** continued**Risk management**

Risk management activities are undertaken by the scheme's investment manager to operate within the guidelines provided by the trustee.

Net assets available for benefits are considered to be the scheme's capital for the purposes of capital management. The scheme does not have to comply with externally imposed capital requirements. The scheme'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 to maximise scheme members' value as well as ensuring its net assets available for benefits are sufficient to meet all present and future obligations.

In order to meet its objectives for capital management, the scheme's management review the scheme's performance on a regular basis.

**Interest rate risk**

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

Interest rate risk management activities are undertaken by the investment manager in accordance with the investment mandate set by the trustee. The intention of the trustee is not necessarily to hold these assets to maturity, but to realise and purchase similar assets as part of the ongoing management of the investments of the scheme. There is no maturity period for unitised investments.

An appropriate level of portfolio risk for the scheme will be determined and agreed by the trustee in consultation with professional advisors. Investment risk must be minimised for the expected level of return and an appropriate level of diversification across securities, sectors, asset classes and countries must be maintained.

**12. Sensitivity analysis**

A 5% movement in the unit prices of the scheme's investments in Mercer Investment Trusts New Zealand would have an impact on the value of the scheme's assets of \$98,987,411 (2019: \$106,812,892).

Over the last 3 years, the scheme has experienced returns ranging between 1.3% p.a. and 2.1% p.a. (after tax and after fees).

**13. Commitments and contingent liabilities**

There were no commitments or contingent liabilities outstanding as at 31 March 2020 (2019: nil).

**14. Key sources of estimation uncertainty**

The preparation of the financial statements requires the trustee to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. The trustee has also used judgement in the categorisation of its financial assets and liabilities at fair value through profit or loss in accordance with the fair value hierarchy under NZ IFRS 13.

**15. Related parties**

The scheme holds no investments in any of the employer companies or any of its related parties and during the period had no related-party transactions except for employer contributions. During the year, \$215,151 representing the trustee's remuneration and expenses, was paid to the directors of the trustee of the scheme (2019: \$272,579).

	Nine-month period ended 31 March 2020 \$	Year ended 30 June 2019 \$
Trustee's remuneration	178,202	218,207
Trustee's expenses	36,949	54,372
<b>Total</b>	<b>215,151</b>	<b>272,579</b>

**16. Events after balance date**

The COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The disease has affected financial markets and economic activity across the world. Subsequent to 31 March 2020, some volatility in financial markets remained. As at 31 May 2020, the estimated value of financial assets in the scheme was \$2,113,319,456, an increase of 6.75% from 31 March 2020 (2019: the scheme became a Portfolio Investment Entity (PIE) effective 1 July 2019).

## Independent auditor's report

To the members of the Police Superannuation Scheme



### Opinion

We have audited the financial statements of the Police Superannuation Scheme (the 'Scheme'), which comprise the statement of net assets as at 31 March 2020 and the statement of changes in net assets and statement of cash flows for the nine month period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 2 to 14, present fairly, in all material respects, the financial position of the Scheme as at 31 March 2020, and its financial performance and cash flows for the nine month period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

### Basis for opinion

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

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

We are independent of the Scheme 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*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Scheme. These services have not impaired our independence as auditor of the Scheme.

### Key audit matters

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

We have determined that there are no key audit matters to communicate in our report.

### Other information

The Directors of the Trustee are responsible on behalf of the Scheme for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Trustee and consider further appropriate actions.



**Directors of the Trustee's responsibilities for the financial statements**

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

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

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

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

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

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

This description forms part of our auditor's report.

**Restriction on use**

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

*Deloitte Limited*

**James Shepherd, Partner  
for Deloitte Limited**  
Wellington, New Zealand  
22 June 2020



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