

YouWealth Financial Statements

For the period ended 31 March 2019



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Statements of Comprehensive Income

For the period ended 31 March 2019

	Income Fund For the period ended 31 March 2019 \$'000	Moderate Fund For the period ended 31 March 2019 \$'000	Balanced Fund For the period ended 31 March 2019 \$'000	Balanced Growth Fund For the period ended 31 March 2019 \$'000	Growth Fund For the period ended 31 March 2019 \$'000
Notes					
Income					
Interest income on financial assets at amortised cost	1	2	4	2	1
Dividend and distribution income	15	23	48	26	14
Net gains on financial instruments held at fair value through profit or loss	111	199	330	141	124
Total income	127	224	382	169	139
Expenses					
Management fees	5	26	41	87	39
Management fee rebates		(2)	(3)	(4)	(1)
Total expenses		24	38	83	38
Operating profit		103	186	299	131
Gains for the period attributable to Scheme Participants		103	186	299	131
Total comprehensive gains for the period attributable to Scheme Participants		103	186	299	131

The accounting policies and other notes form part of, and should be read in conjunction with, these Financial Statements.

Statements of Changes in Net Assets Attributable to Scheme Participants

For the period ended 31 March 2019

	Notes	Income Fund For the period ended 31 March 2019 \$'000	Moderate Fund For the period ended 31 March 2019 \$'000	Balanced Fund For the period ended 31 March 2019 \$'000	Balanced Growth Fund For the period ended 31 March 2019 \$'000	Growth Fund For the period ended 31 March 2019 \$'000
Net assets attributable to Scheme Participants at the beginning of the period		-	-	-	-	-
Proceeds from units issued		6,132	8,091	14,760	5,501	3,691
Redemption of units		(1,788)	(119)	(984)	(164)	(100)
Scheme Participants' tax liabilities		(19)	(34)	(53)	(23)	(9)
Net increase from transaction in units		4,325	7,938	13,723	5,314	3,582
Total comprehensive gain for the period attributable to Scheme Participants		103	186	299	131	116
Net assets attributable to Scheme Participants at the end of the period	2.3	4,428	8,124	14,022	5,445	3,698

	Income Fund For the period ended 31 March 2019 Units '000	Moderate Fund For the period ended 31 March 2019 Units '000	Balanced Fund For the period ended 31 March 2019 Units '000	Balanced Growth Fund For the period ended 31 March 2019 Units '000	Growth Fund For the period ended 31 March 2019 Units '000
Units on issue at the beginning of the period	-	-	-	-	-
Units issued	6,062	7,993	14,607	5,398	3,687
Units redeemed	(1,788)	(150)	(1,023)	(188)	(108)
Units on issue at the end of the period	4,274	7,843	13,584	5,210	3,579

The accounting policies and other notes form part of, and should be read in conjunction with, these Financial Statements.

Statements of Financial Position

As at 31 March 2019

	Notes	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
Assets						
Cash and cash equivalents		89	232	188	109	76
Financial assets held at fair value through profit or loss		4,361	7,932	13,800	5,365	3,631
Contributions receivable		-	1	100	-	4
Management fee rebates receivable		1	1	1	-	-
Total assets		4,451	8,166	14,089	5,474	3,711
Liabilities						
Management fees payable	5	4	8	14	6	4
Tax payable on behalf of Scheme Participants		19	34	53	23	9
Total liabilities		23	42	67	29	13
Net assets attributable to Scheme Participants		4,428	8,124	14,022	5,445	3,698

The accounting policies and other notes form part of, and should be read in conjunction with, these Financial Statements.

The Directors of BNZ Investment Services Limited authorised these Financial Statements for issue on 29 July 2019.

For and on behalf of the Manager

Director 

Director 

Statements of Cash Flows

For the period ended 31 March 2019

	Income Fund For the period ended 31 March 2019 \$'000	Moderate Fund For the period ended 31 March 2019 \$'000	Balanced Fund For the period ended 31 March 2019 \$'000	Balanced Growth Fund For the period ended 31 March 2019 \$'000	Growth Fund For the period ended 31 March 2019 \$'000
Notes					
Cash (outflows)/inflows from operating activities					
Proceeds from the sale of financial instruments at fair value through profit or loss	1,853	259	2,807	517	94
Purchase of financial instruments at fair value through profit or loss	(6,087)	(7,968)	(16,227)	(5,715)	(3,587)
Interest income received	1	2	4	2	1
Management fee rebates received	2	1	1	-	-
Management fees paid	(22)	(33)	(73)	(33)	(19)
Net cash (outflows)/inflows from operating activities	6	(4,253)	(7,739)	(5,229)	(3,511)
Cash flows from financing activities					
Proceeds from units issued	6,132	8,090	14,660	5,502	3,687
Redemptions of units	(1,790)	(119)	(984)	(164)	(100)
Net cash flows from financing activities	4,342	7,971	13,676	5,338	3,587
Net increase in cash and cash equivalents	89	232	188	109	76
Cash and cash equivalents at the end of the period	89	232	188	109	76
The cash balances of the Funds comprise of:					
Cash and cash equivalents	89	232	188	109	76

The accounting policies and other notes form part of, and should be read in conjunction with, these Financial Statements.

Notes to and Forming Part of the Financial Statements

For the period ended 31 March 2019

1. General information

1.1 Reporting entities

These Financial Statements are for the YouWealth Managed Investment Scheme (the “Scheme”) which comprises the following five Funds (each a “Fund”, together the “Funds”):

- Income Fund;
- Moderate Fund;
- Balanced Fund;
- Balanced Growth Fund; and the
- Growth Fund.

These Financial Statements are for the period ended 31 March 2019. The Scheme was registered as a Managed Investment Scheme in accordance with the Financial Markets Conduct Act 2013 (“FMCA”) on 27 March 2018.

The Funds, which are separate legal entities, are open-ended investment funds domiciled in New Zealand and established under a Managed Investment Scheme’s Governing Document (the “Governing Document”), dated 18 December 2017. Each Fund was established on the date of registration and will terminate in accordance with the provisions of the Governing Document. All Funds commenced operations on 27 March 2018. The Financial Statements for the Funds are prepared for the 13-month period from the date of registration, 27 March 2018 to 31 March 2019.

The principal activity of the Funds is investment via investments in other managed funds.

The objectives of the Funds are as follows:

- Income Fund: The Fund aims to achieve relatively stable returns over the short to medium term.
- Moderate Fund: The Fund aims to achieve moderate returns over the medium term.
- Balanced Fund: The Fund aims to achieve a medium level of return over the medium to long term.
- Balanced Growth Fund: The Fund aims to achieve medium to high levels of return over the long term.
- Growth Fund: The Fund aims to achieve higher returns over the long term.

The Funds’ investment activities are managed by BNZ Investment Services Limited (the “Manager”). The registered office for the Manager is Level 4, 80 Queen Street, Auckland 1010, New Zealand.

1.2 Statutory base

The Financial Statements have been prepared in accordance with the requirements of the FMCA and the Governing Document.

These Financial Statements were authorised for issue by the Board of Directors of the Manager on 29 July 2019.

Notes to and Forming Part of the Financial Statements continued

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied throughout the reporting period presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”). For the purposes of complying with NZ GAAP, the Funds are profit-oriented entities. These Financial Statements comply with the New Zealand Equivalent to International Financial Reporting Standards (“NZ IFRS”) and International Financial Reporting Standards (“IFRS”). These Financial Statements have been prepared under the historical cost method, except for financial assets and financial liabilities held at fair value through profit or loss. There are no standards, amendments or interpretations that have been issued during the reporting period, but are not yet effective that are expected to materially impact the Scheme’s financial statements.

The Financial Statements have been prepared for the period ended 31 March 2019.

Given that this is the first period of operations, no comparative figures are presented in these Financial Statements

Presentation

The Financial Statements are presented in New Zealand dollars, which is the Funds’ functional currency. All amounts are rounded to the nearest thousand unless otherwise stated.

2.2 Financial instruments

The Scheme’s financial assets and liabilities, at initial recognition, are classified as subsequently measured at fair value or amortised cost.

Financial assets at fair value through profit or loss comprise of unlisted funds that are mandatorily required to be measured at fair value under NZ IFRS 9.

Financial assets at amortised cost consist of:

- (a) **Cash and cash equivalents** include cash in hand and deposits held at call with banks, denominated in New Zealand dollars and in foreign currencies.
- (b) **Receivables** include amounts due for management fee rebate receivables, contribution receivables, balance of accrued interest and outstanding settlement receivables.

Financial liabilities at amortised cost comprise **Payables** including related party fees (management fees and expense allowance payable), withdrawals payable and tax.

The Funds recognise financial assets and financial liabilities on the date they become parties to the contractual agreement. Financial assets and financial liabilities are initially recognised at fair value plus or minus, in case of a financial asset or financial liability not at fair value through profit or loss, transaction costs directly attributable to their acquisition or issue. Transaction costs are expensed as incurred in the Statements of Comprehensive Income. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value with gains or losses recognised in the Statements of Comprehensive Income when they arise. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Funds have transferred substantially all of the risks and rewards of ownership. Any gain or loss arising on derecognition of the financial asset at fair value through profit or loss is included in the Statements of Comprehensive Income in the year the item is derecognised.

Financial assets and financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method less any impairment. Any impairment charge is recognised in the Statements of Comprehensive Income. Financial assets at amortised cost are derecognised when the rights to receive cash flows from the investments have expired or the Funds have transferred substantially all of the risks and rewards of ownership. Financial liabilities at amortised cost are derecognised when the obligation under the liability is discharged, cancelled or expired.

Notes to and Forming Part of the Financial Statements continued

2. Summary of significant accounting policies continued

2.2 Financial instruments continued

(c) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value in an active market

The fair value of financial assets and financial liabilities traded in active markets, such as publicly traded futures are based on quoted market prices at the close of trading on the reporting date. The quoted market price used by the Funds is the last traded market price for both financial assets and financial liabilities where the last traded prices fall within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

Fair value in an inactive or unquoted market

The fair value of financial assets and financial liabilities that are not traded in an active market is determined using valuation techniques. The Funds use a variety of methods and make assumptions that are based on market conditions existing as at each reporting date. Valuation techniques used include the use of recent comparable arm's length market transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Funds' investments in other funds are subject to the terms and conditions of the respective funds' offering documentation. The investments in other funds are primarily valued based on the latest available redemption price of such units for each other fund investment, as determined by the other funds' administrators. The Funds review the details of the reported information obtained from the other funds and consider: the liquidity of the other fund or its underlying investments; the value date of the net asset value provided; and restrictions on redemptions; and the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information if it is obtained from the other funds' advisors.

The rights of the Funds to request redemption of their investments in other funds may vary in frequency from daily to weekly redemptions. As a result, the carrying values of the other funds may not be indicative of the values ultimately realised on redemption. In addition, the Funds may be materially affected by the actions of other investors who have invested in other funds in which the Funds have invested.

If necessary, the Funds make adjustments to the net asset value of various other fund investments to obtain the best estimate of fair value. Other Net gains or losses on financial instruments at fair value through profit or loss reported in the Statements of Comprehensive Income include the change in fair value of other funds.

2.3 Net assets attributable to Scheme Participants

The Funds issue units that are redeemable at the Scheme Participants' option and have identical features, and are therefore, classified as equity. Redemption may take place at the redemption price on any business day after appropriate notice. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) as at the reporting date, if the Scheme Participants exercised their right to put the units back to the Funds.

Applications received for units in the Funds are recorded net of any entry fees payable to the Scheme prior to the issue of units in the Funds and any initial service fee (if any). Redemptions from the Funds are recorded gross of any exit fees payable to the Scheme after the cancellation of the units redeemed. Units are issued and redeemed at the Scheme Participant's option at prices based on the Funds' net asset value per unit at the time of issue or redemption adjusted for a margin spread ranging from 0bps to 0.15bps for the respective Funds. The margin spreads on applications and redemptions are to cover costs associated with the transactions. The Funds' net asset value per unit is calculated by dividing the Net assets attributable to the Scheme Participants of the Fund with the total number of outstanding units of the Fund. In accordance with the provisions of the Governing Document, investment positions are valued based at the appropriate market value for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Notes to and Forming Part of the Financial Statements continued

2. Summary of significant accounting policies continued

2.4 Investment income

Interest income

Interest earned on financial assets at amortised cost, including cash and cash equivalents is included as Interest income on financial assets at amortised cost in the Statements of Comprehensive Income on an accruals basis.

Dividend and distribution income

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded in the Statements of Changes in Net Assets Attributable to Scheme Participants as a Scheme Participants' tax liability. Trust distributions are recognised on a present entitlement basis.

Net gains or losses on financial instruments at fair value through profit or loss

Realised and unrealised gains or losses are reflected in the Statements of Comprehensive Income as Net gains/(losses) on financial instruments held at fair value through profit or loss.

Unrealised gains or losses include the change in net market value of investments held as at the reporting date and, if applicable, the reversal of prior reporting periods unrealised gains or losses on investments that have been realised in the current period. Realised gains or losses are calculated based on the gross sale proceeds and the weighted average cost of the investments sold.

2.5 Expenses

All expenses, including the Funds' management fees, are recognised in the Statements of Comprehensive Income on an accruals basis.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the Funds' Financial Statements are measured using the currency of the primary economic environment in which they operate (the "functional currency"). The functional currency for the Funds is the New Zealand dollar, which reflects the currency in which the Funds compete for funds and are regulated. The Funds' investors are from New Zealand, with the subscriptions and redemptions of the units denominated in New Zealand dollars. The performance of the Funds is measured in New Zealand dollars. The Financial Statements are presented in New Zealand dollars, which is also the Funds' presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing as at the reporting date.

Foreign exchange gains or losses resulting from translation are included in the Statements of Comprehensive Income.

Foreign exchange gains or losses relating to the financial assets and financial liabilities carried at fair value through profit or loss are presented in the Statements of Comprehensive Income within Net gains/(losses) on financial instruments held at fair value through profit or loss.

Notes to and Forming Part of the Financial Statements continued

2. Summary of significant accounting policies continued

2.7 Income tax

The Funds qualify as and have each elected to be a Portfolio Investment Entity (“PIE”) for tax purposes. Under the PIE regime income is effectively taxed in the hands of the Scheme Participants, and therefore, the Funds have no income tax expense. Accordingly, no income tax expense is recognised in the Statements of Comprehensive Income. Income is disclosed gross of any resident and foreign withholding taxes deducted at source and the taxes are included in Scheme Participants’ tax liabilities in the Statements of Changes in Net Assets Attributable to Scheme Participants.

Under the PIE regime, the Manager attributes the taxable income of the Funds to Scheme Participants in accordance with the proportion of their interest in the Funds. The income attributed to each Scheme Participant is taxed at the Scheme Participant’s “prescribed investor rate” on redemptions and annually on or around 31 March each year.

Scheme Participant’s tax liabilities disclosed in the Statements of Changes in Net Assets Attributable to Scheme Participants consists of withdrawals to meet Scheme Participant tax liabilities under the PIE regime and any resident and foreign withholding taxes deducted at source.

2.8 Distribution to Scheme Participants

Distributions may be made from the Funds in accordance with the terms of the Governing Document and the distribution policy for the Fund. Amounts that are not distributed, remain invested as part of the assets of the relevant Fund. Proposed distributions to Scheme Participants are recognised in the Statements of Changes in Net Assets Attributable to Scheme Participants when they are appropriately authorised and no longer at the discretion of the Funds’ Manager.

Scheme Participants have the choice to automatically reinvest their distributions. The reinvestment is made on the first available ex-distribution net asset value price for the relevant Fund.

2.9 Goods and services tax (“GST”)

The Funds are not registered for GST. The Statements of Comprehensive Income and Statements of Cash Flows have been prepared so that all components are stated inclusive of GST. All items in the Statements of Financial Position are stated inclusive of GST.

3. Critical accounting estimates and judgements

The Manager of the Funds makes estimates and assumptions that affect the reported amounts of assets and liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below. Estimates are continually evaluated and are based on historical experience among other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value of securities not quoted in an active market

The valuation models employed use observable data, to the extent practicable. However, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of investments in other funds have been fair valued in accordance with the policies set out above in Note 2.2(c).

Classification as an investment entity

The Funds meet the definition of an investment entity as defined by NZ IFRS 10 Consolidated Financial Statements because of the following characteristics:

- they obtain funds from one or more unit holders for the purpose of providing those unit holders with a managed investment product;
- they have committed to its investors via its documented investment strategy that its business purpose is to invest funds solely for returns from capital appreciation, investment income or a combination of both; and
- the Funds measures the performance of its investments on a fair value basis.

The Funds also display the following typical characteristic associated with an investment entity: ownership interest in the Scheme is represented by units of Scheme Participants’ interests.

Notes to and Forming Part of the Financial Statements continued

4. Financial risk management

4.1 Financial risk factors

The Governing Document for the Funds requires that the Manager to invest the assets of each Fund in accordance with the Statement of Investment Policy and Objectives (“SIPO”), in order to manage risk. The Manager monitors the Funds’ investments on a monthly basis to ensure compliance with the SIPO. The Manager reviews the appropriateness of the Funds’ authorised investments as outlined in the SIPO on an annual basis, or more frequently if market conditions, or changes to the nature or characteristics of the authorised investments, warrant it.

The Funds are exposed to: market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Funds’ overall risk management programme seeks to maximise the returns derived for the level of risk to which the Funds are exposed and seeks to minimise potential adverse effects on the Funds’ financial performance.

All securities investments present a risk of loss of capital. The Funds hold unlisted unit trusts where the maximum loss of capital is limited to the carrying value of those positions. The maximum loss of capital on forward foreign exchange contracts and purchased futures contracts is limited to the notional amount of currency that is contracted to be delivered under each contract.

The Funds are also indirectly exposed to risk factors such as liquidity risk, credit risk and interest rate risk via its investments underlying the investment funds. However, the risk management section outlined below is not prepared on a look through basis. This means that the explanation of risks is limited to the Fund’s direct investment and does not take account of the specific risk in the underlying investment funds.

In addition to internal risk management which is carried out by the Manager and the underlying investment managers, financial risk is also managed by the setting of an investment policy, agreed with and monitored by The New Zealand Guardian Trust Company Limited (“the Supervisor”) and set out in the Funds’ SIPO.

4.1.1 Market risk

(a) Price risk

The Funds are exposed to price risk due to their investments in unlisted unit trusts, for which prices in the future are uncertain. This risk includes, but is not limited to, indirect foreign currency exposure, indirect interest rate exposure and indirect valuation exposure. The Funds manage their price risk by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits.

The table below summarises the sensitivity of the Funds’ Net assets attributable to Scheme Participants to price movements in non-monetary assets as at the reporting date (units in unlisted unit trusts). The analysis is based on a price movement of 5% which represents the Manager’s best estimate of a reasonable shift in prices with regard to historic volatility. If prices for the Funds’ investments had increased or decreased by 5% with all other variables held constant, this would have had the following impact on the Statements of Comprehensive Income and Net Assets Attributable to Scheme Participants:

	Income Fund As at 31 March 2019 \$’000	Moderate Fund As at 31 March 2019 \$’000	Balanced Fund As at 31 March 2019 \$’000	Balanced Growth Fund As at 31 March 2019 \$’000	Growth Fund As at 31 March 2019 \$’000
Price increased by 5%	218	397	690	268	182
Price decreased by 5%	(218)	(397)	(690)	(268)	(182)

(b) Foreign exchange risk

Foreign currency risk, as defined in NZ IFRS 7 Financial Instruments: Disclosure (“NZ IFRS 7”), arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. NZ IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk (which forms part of the Price risk sensitivity (see Note 4.1.1(a)) not foreign currency risk.

In accordance with the NZ IFRS 7 definition, the Scheme held no direct monetary assets denominated in foreign currency as at the reporting date owing to the fact that it invested into Australian unit trusts.

Depending on the Funds’ respective investment strategies, the Funds may enter into foreign exchange derivatives to hedge the foreign currency risk implicit in the value of the portfolio securities denominated in foreign currency. As the nature of these contracts is to manage the international investment activities, they are accounted for by marking to market at the reporting date in a manner consistent with the valuation of the underlying securities.

The Funds may be indirectly exposed to further currency risk when an underlying investment fund (non-monetary asset) has investments that are denominated in a foreign currency (other than the currency the underlying fund is denominated in).

Notes to and Forming Part of the Financial Statements continued

4. Financial risk management continued

4.1 Financial risk factors continued

4.1.1 Market risk continued

(b) Foreign exchange risk continued

As at the reporting date, the Fund had the following foreign currency exposures due to holdings of non-monetary assets (expressed in New Zealand dollar equivalents):

	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
Non-monetary assets					
Australian exposure (converted to NZD)	598	1,879	4,629	2,326	1,941

The table below summarises the sensitivity impact on the Statements of Comprehensive Income and Statements of Changes in Net Assets Attributable to Scheme Participants on non-monetary assets as at the reporting date, had the exchange rates between the New Zealand dollar and the foreign currencies increased or decreased by 5% with all other variables held constant. The analysis is based on the Manager's best estimate of a reasonable possible shift in exchange rates with regard to historical volatility.

	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
Non-monetary assets					
Exchange rates increased by 5%	(28)	(89)	(220)	(111)	(92)
Exchange rates decreased by 5%	31	99	244	122	102

(c) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and financial liabilities and future cash flow.

The Funds hold cash and cash equivalents in New Zealand dollars that expose the Funds to cash flow interest rate risk.

The table below summarises the impact on the Statements of Comprehensive Income and Statements of Changes in Net Assets Attributable to Scheme Participants had the relevant interest rates increased or decreased by 1% as at the reporting date with all other variables held constant. The analysis is based on the Manager's best estimate of a reasonable possible shift in interest rates with regard to historical volatility.

	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
Interest rate increase of 1%	1	2	2	1	1
Interest rate decrease of 1%	(1)	(2)	(2)	(1)	(1)

These movements arise substantially from the cash flow variability from cash and cash equivalents.

In addition to the Funds' direct exposure to interest rate changes on the fair value of financial asset and financial liabilities and on the cash flows of cash and cash equivalents shown above, the Funds are indirectly affected by the impact of interest rate changes on the earnings of their investments in Nikko AM Wholesale NZ Cash Fund Two, Harbour NZ Core Fixed Interest Fund, AMP Capital NZ Fixed Interest Fund and Russell Global Bond Fund respectively, which forms part of the Price risk sensitivity (see Note 4.1.1(a)). Therefore, the above sensitivity analysis may not fully indicate the total effect on the Fund's Net assets attributable to Scheme Participants of future movements in interest rates.

Notes to and Forming Part of the Financial Statements continued

4. Financial risk management continued

4.1 Financial risk factors continued

4.1.2 Credit risk

Credit risk is the risk that a counterparty or issuer of a security will be unable to pay amounts in full when they fall due. The Funds are primarily invested in unlisted unit trusts, which are considered to have equity risk, rather than market risk, and therefore, their direct exposure to credit risk is limited to their bank account balances held with Bank of New Zealand (“BNZ”).

The Funds may be indirectly exposed to credit risk through their investments in unlisted unit trusts, who in turn, invest in direct assets such as debt instruments issued by domestic and international companies and governments. The Funds are indirectly exposed to credit risk through their investments in Mint Core Equities Fund, Nikko Asset Management Wholesale Core Equity Fund, Nikko Asset Management Wholesale NZ Cash Fund Two, AMP Capital NZ Fixed Interest Fund, Harbour NZ Core Fixed Interest Fund, JANA Multi-Manager Global Share Trust and Russell Global Bond Fund respectively, which forms part of the price risk sensitivity.

Limits are set for the management of counterparty risk by the Funds and compliance with these limits is monitored daily and reported to the Manager quarterly and by exception. The maximum credit risk of financial instruments is considered to be their carrying value. The investment strategy incorporates an appropriate diversification of investments (at an underlying unlisted unit trust level) so that each Fund has no significant concentration of credit risk. The Funds’ investments in cash balances are all with BNZ which has a credit rating of AA-, as at the reporting date, as measured by Standard & Poor’s.

The Funds measure credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management consider the probability of default to be close to zero as the instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on expected credit losses as any such impairment would be wholly insignificant to the Fund.

4.1.3 Liquidity risk

Liquidity risk is the risk that the Funds may not be able to generate sufficient cash resources to settle their obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Funds are exposed to daily redemptions of units. The liquidity policy applied by the Manager is to be fully invested in unlisted unit trusts that provide adequate liquidity. Each of the Funds also holds an allocation to cash and cash equivalents to help the Manager meet redemptions and expenses.

The required cash outflow to settle the forward currency contracts, which are in a loss position as at the reporting date, will be the fair value as at 31 March 2019, if it was settled on that date. It is expected that the actual undiscounted cash flows will be different, given that the instrument are marked to market. All the open currency contracts which are in a loss position as at 31 March 2019, will mature within six months after the reporting date.

4.2 Capital risk management

The Funds’ capital is represented by the Net assets attributable to Scheme Participants. The Funds’ objective when managing capital is to provide returns for Scheme Participants through investing and to employ an established Investment Manager who manages a diversified portfolios of funds.

The minimum initial investment amount in any Fund is \$1,000, with minimum additional incremental investments of \$100. Further lump sum investments can be made in any Fund for \$500 or more. The minimum withdrawal amount in any Fund is \$500 for one-off withdrawals or \$100 for regular withdrawals, with payments made generally within ten business dates of receiving the redemption notice. There is a minimum account balance of \$1,000. If a withdrawal request will result in an account balance falling below this amount, the request will not be accepted.

The Manager may suspend redemptions for up to 60 business days (or longer if agreed by the Supervisor) if the Manager determines that the withdrawal is not desirable, or would be prejudicial to the interests of Scheme Participants of any of the Funds, or would threaten the relevant Fund’s PIE status.

The Funds do not have any externally imposed capital requirements. Units may be redeemed at any month end subject to the receipt of the redemption request.

Neither the Supervisor, the Manager, or any other party guarantee the units offered by the Funds, the performance or returns of the Funds or the repayment of capital.

Notes to and Forming Part of the Financial Statements continued

4. Financial risk management continued

4.3 Fair value estimation

All Funds primarily invest in unlisted unit trusts that are recorded at fair value on the Statements of Financial Position. The Funds' investments in other funds are subject to the terms and conditions of the respective funds' offering documentation. The investments in other funds are primarily valued based on the latest available redemption price of such units for each other fund investment, as determined by the other funds' administrators. The Funds review the details of the reported information obtained from the other funds and consider: the liquidity of the other fund or its underlying investments; the value date of the net asset value provided; and restrictions on redemptions; and the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information is obtained from the other funds' advisors. The rights of the Funds to request redemption of their investments in other funds may vary in frequency from daily to weekly redemptions. As a result, the carrying values of the other funds may not be indicative of the values ultimately realised on redemption. In addition, the Funds may be materially affected by the actions of other investors who have invested in other funds in which the Funds have invested.

If necessary, the Funds make adjustments to the net asset value of various other fund investments to obtain the best estimate of fair value.

NZ IFRS 13 Fair Value Measurement requires the Funds to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (i.e. Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (i.e. Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (i.e. Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The Funds' investments classified in Level 2 were fair valued using the net asset value of the underlying fund, as reported by the investee fund's administrator. For the investee funds, the Manager believes the Funds could have redeemed their investments at the net asset value per unit as at the reporting date. The Funds hold no financial assets that are classified as Level 1 or Level 3 within the fair value hierarchy. There were no transfers between any of the levels for the year ended 31 March 2019.

The following table analyses within the fair value hierarchy the Funds' financial assets and financial liabilities (by class) measured at fair value as at the reporting period end:

	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
Level 2 assets					
Financial assets held at fair value through profit or loss					
Unlisted funds/trusts	4,361	7,932	13,800	5,365	3,631
Total level 2 assets	4,361	7,932	13,800	5,365	3,631
Total financial assets held at fair value through profit or loss	4,361	7,932	13,800	5,365	3,631

The investments in underlying funds or trusts are not quoted in an active market. The investee funds classified in Level 2 were fair valued using the net asset value of the underlying fund, as reported by the investee fund's administrator. For the investee funds, the Manager believes the Funds could have redeemed their investments at the net asset value per unit as at the reporting date.

Notes to and Forming Part of the Financial Statements continued

5. Related parties

5.1 Key management and key management personnel

BNZ Investment Services Limited is the Manager of the Funds. The Manager is ultimately owned by BNZ. National Australia Bank Limited, a licensed bank in Australia, is the ultimate parent.

In accordance with the Governing Document, management fees are calculated on the daily net asset values of the Funds and paid monthly. Management fees are a related party expense paid to the Manager are shown in the Statements of Comprehensive Income under Management fees. Management fees payable are shown in the Statements of Financial Position.

The management fees percentage rates exclusive of GST are as follows:

	Income Fund	Moderate Fund	Balanced Fund	Balanced Growth Fund	Growth Fund
Management fee rates in percentage terms	1.1	1.2	1.3	1.35	1.4

The Manager and the Supervisor may charge expenses to the Funds as permitted by the Governing Document. These include the Supervisor's fees and the costs of running the Funds such as administration costs, audit expenses, regulatory compliance costs and printing and distribution expenses.

Supervisory fees and audit fees for the period ended 31 March 2019 have been paid by the Manager on behalf of the Funds and are included within the Expense allowance.

As at 31 March 2019, no Directors of the Manager or the Supervisor held any investment interest in the Funds.

As at 31 March 2019, the Manager held no units (valued at \$Nil) in any of the Funds.

5.2 Related party investments

Each Fund operates bank accounts with BNZ on normal commercial terms.

Contributions receivable and redemptions payable are held in client monies bank accounts with BNZ.

The Funds invest in on-call Treasury bank deposits with BNZ. Both BNZ and MLC (issuer of the JANA Multi-Manager Global Share Trust – Class A) operate as subsidiaries of National Australia Bank. All related party investments and income earned is detailed below:

	Income Fund As at 31 March 2019 \$'000	Moderate Fund As at 31 March 2019 \$'000	Balanced Fund As at 31 March 2019 \$'000	Balanced Growth Fund As at 31 March 2019 \$'000	Growth Fund As at 31 March 2019 \$'000
JANA Multi – Manager Global Share Trust – Class A	598	1,879	4,629	2,326	1,941
BNZ bank accounts	89	232	188	109	76
	687	2,111	4,817	2,435	2,017

The total income and gains earned or losses incurred on the investments with related parties were:

	Income Fund For the period ended 31 March 2019 \$'000	Moderate Fund For the period ended 31 March 2019 \$'000	Balanced Fund For the period ended 31 March 2019 \$'000	Balanced Growth Fund For the period ended 31 March 2019 \$'000	Growth Fund For the period ended 31 March 2019 \$'000
JANA Multi – Manager Global Share Trust – Class A	5	29	64	36	52
BNZ bank accounts	1	2	4	2	1
	6	31	68	38	53

Notes to and Forming Part of the Financial Statements continued

6. Reconciliation of operating profit to net cash (outflows)/inflows from operating activities

	Income Fund For the period ended 31 March 2019 \$'000	Moderate Fund For the period ended 31 March 2019 \$'000	Balanced Fund For the period ended 31 March 2019 \$'000	Balanced Growth Fund For the period ended 31 March 2019 \$'000	Growth Fund For the period ended 31 March 2019 \$'000
Operating profit	103	186	299	131	116
Adjustments for non-cash items					
Net unrealised changes in the fair value of financial assets & liabilities	(99)	(200)	(343)	(149)	(124)
Management fee rebates received as units rather than cash	(1)	(1)	(2)	(1)	-
Distributions received as units rather than cash	(15)	(23)	(48)	(26)	(14)
	(115)	(224)	(393)	(176)	(138)
Movements in working capital items					
Increase in trade and other payables	4	7	13	6	4
(Increase) in net cost of investments	(4,245)	(7,708)	(13,407)	(5,190)	(3,493)
	(4,241)	(7,701)	(13,394)	(5,184)	(3,489)
	(4,356)	(7,925)	(13,787)	(5,360)	(3,627)
Net cash (outflows)/inflows from operating activities	(4,253)	(7,739)	(13,488)	(5,229)	(3,511)

7. Commitments or contingent liabilities

There are no material commitments or contingent liabilities as at 31 March 2019.

8. Events occurring after the reporting date

No significant events that have occurred since the reporting date which would have impacted the financial position of the Funds disclosed in the Statements of Financial Position as at 31 March 2019 or on the results and cash flows of the Funds for the reporting period ended on that date.

Independent Auditor's Report



Chartered Accountants

Independent auditor's report to the Scheme Participants of YouWealth

Opinion

We have audited the financial statements of Income Fund, Moderate Fund, Balanced Fund, Balanced Growth Fund and Growth Fund (each a "Fund", together the "Funds") of YouWealth (the "Scheme") on pages 2 to 16, which comprise the statements of financial position of each Fund as at 31 March 2019, and the statements of comprehensive income, statements of changes in net assets attributable to scheme participants and the statements of cash flows for the thirteen month period then ended of each Fund, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 2 to 16 present fairly, in all material respects, the financial position of each Fund as at 31 March 2019 and their financial performance and cash flows for the period then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to each Fund's scheme participants, as separate bodies. Our audits have been undertaken so that we might state to each Fund's scheme participants 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 each Fund's scheme participants as separate bodies, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (New Zealand). 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 are independent of the Funds 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 we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides other assurance services and agreed upon procedures to the Funds. Partners and employees of our firm may deal with the Funds on normal terms within the ordinary course of trading activities of the business of the Funds. We have no other relationship with, or interest in, the Funds.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audits of the financial statements of the current period. These matters were addressed in the context of our audits of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audits addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audits included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Financial assets at fair value through profit or loss ("FVTPL")

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> ▶ Each Fund's financial assets at FVTPL exceeds 99% of the respective Fund's net assets attributable to Scheme participants. ▶ Market volatility can have a significant impact on the value of these financial assets, therefore the recognition and measurement of assets at FVTPL is considered a key area of audit focus. ▶ As detailed in the accounting policies, as described in Note 2 to the financial statements, financial assets at FVTPL are recognised in accordance with NZ IFRS 9: Financial Instruments. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▶ Gaining an understanding of the processes used to record investment transactions and to value the portfolio. As the Administrator and Registrar are involved in the management of the investments, this included evaluating the service organisation reports issued by an independent auditor on the design and operation of the controls at the Administrator and Registrar throughout the period. Our procedures focussed on the nature and significance of services provided by the service organisations and their effect on internal controls relevant to the audit of the financial statements. ▶ Receiving third party confirmations directly from external fund managers for each Fund, of the number of units issued and their respective exit price at balance date and agreeing the accounting records to the confirmations.

Independent Auditor's Report continued

Why significant	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> ▶ Assessing the competence, objectivity and capabilities of the external fund managers to determine whether the exit prices they confirmed are likely to be appropriate. ▶ Assessing whether the disclosures in the financial statements appropriately reflected each Fund's exposure to financial instrument risk with reference to NZ IFRS 7 Financial Instruments: Disclosures.

Information other than the financial statements and auditor's report

The Manager of the Funds is responsible for the Annual Report, which includes information other than the financial statements and 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.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audits, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Manager's responsibilities for the financial statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing each Fund'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 Manager either intends to liquidate a Fund or 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 International Standards on Auditing (New Zealand) 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 the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>. This description forms part of our auditor's report.

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



Chartered Accountants
Auckland
29 July 2019

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