

Generate™

Dreams worth saving

Generate
KiwiSaver
Scheme

**Annual
Report**

For the
period ended
31 March 2016



Annual Report for the period ended
31 MARCH 2016

Your Generate KiwiSaver Scheme

Year in review...

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Description of the Generate KiwiSaver Scheme

This Annual Report is for the Generate KiwiSaver Scheme (“the Scheme”) for the period ended 31 March 2016

The Manager and Promoter of the Scheme is Generate Investment Management Limited (“Generate”)

Generate is a New Zealand owned and operated KiwiSaver specialist provider. We invest the international equity allocation of our funds with proven international equities managers who have outstanding long term track records. We manage the fixed interest and Australasian property (including aged care) and infrastructure allocation in house. The Scheme is made up of three funds; the Focused Growth Fund, Growth Fund and Conservative Fund. You are able to invest your KiwiSaver savings across any or all of the funds at any time. Also we offer a life stages investment option which automatically adjusts your weighting to the three funds based on your age.

The Trustee and Custodian of the Scheme is Public Trust

Whether you are with a big Australian bank or a New Zealand owned KiwiSaver specialist the KiwiSaver Act requires your investments to be held by a Licensed Trustee or its nominee and not the scheme provider. We have appointed Public Trust, New Zealand’s most enduring trustee organisation. There is a select handful of Licensed Trustees serving the KiwiSaver market and Public Trust is the only one that is a Crown owned entity. It provides services to a number of KiwiSaver schemes. Public Trust’s role is important, as it is the supervisor of your investment in the Scheme. As the Trustee, Public Trust has full oversight of your KiwiSaver investment but does not guarantee the performance of the Scheme or any of the Funds. Generate as the investment manager simply provides instructions to Public Trust on how to invest your KiwiSaver savings.

The Administration Manager and Registrar of the Scheme is currently Aon New Zealand. However, these services will be transitioning to MMC Limited (MMC) later this year.

Aon New Zealand is part of the global Aon Corporation, a world leader in insurance broking, risk management and associated services. It provides administration services for superannuation and employee benefit schemes. MMC is a leader in funds administration in New Zealand with 27 clients and over \$23 billion in funds under administration. We expect to transition to MMC by the end of 2016.

The Auditor is Grant Thornton New Zealand Audit Partnership (Grant Thornton)

Grant Thornton audits the Generate KiwiSaver Scheme financial statements on your behalf. Grant Thornton is one of the world’s leading independent assurance, tax and advisory firms. Grant Thornton New Zealand operates from three locations in Auckland, Wellington and Christchurch, with 33 partners and more than 250 professional and management services staff.

The registration date of the most recent Prospectus of the Scheme is 8 September 2015.

Generate KiwiSaver Scheme Highlights

Awarded Gold Rating for 2016 by SuperRatings

In its unique value for money assessment SuperRatings awarded Generate a Gold Rating for 2016¹.

Investment Provider of the Year 2015 and 2016

Generate was voted the Investment Provider of the Year for 2015 and 2016 by the Professional Advisers Association. Advisers were asked to rate investment providers, not only on performance but also on the quality of our communications and investment statements, our services and education to clients and our services and support to advisers.

We are delighted to have received this award in consecutive years and we are working hard to continually improve our service to you.

Top performing KiwiSaver funds²

As at 31 March 2016 our Conservative Fund ranked 1st for investment performance over one year, and 2nd for performance over two years in the FundSource Diversified Defensive sector. Our Growth Fund and Focused Growth ranked 1st and 2nd respectively for 2 year returns in the Diversified Growth Sector out of 25 funds.

We want Kiwis to get advice on their KiwiSaver accounts

The latest surveys still show there is a significant knowledge gap for KiwiSaver members. One third of all members are still in default funds, just over half know about the HomeStart grant to buy a first home and just under half know about the \$521 member tax credit³. Over 770,000 members missed out entirely on their \$521 Member Tax Credit last year alone⁴. We're proud to say that over 95% of Generate KiwiSaver Members have joined through talking to a financial adviser⁵. Further, in our new member survey 95% of respondents rate us 4 or 5 out of 5 when asked: "Can you rate the experience out of 5 – with 1 being not very informative or helpful and 5 being really valuable information and a good use of my time"⁶.

Many people are switching on to the benefits of Generate

Over the last two years Generate has had the fastest growing membership (in percentage terms) of any KiwiSaver provider and is now the 12th largest provider by members⁷. Over 23,000 Kiwis are now enjoying the benefits of Generate.

Proud to be Kiwis looking after your KiwiSaver savings

We're proud to be a New Zealand owned and operated KiwiSaver specialist. We strive to deliver a great product and industry leading service to try to help you to make the most of your KiwiSaver account.

¹ SuperRatings does not issue, sell, guarantee or underwrite this product. Go to www.superratings.com.au for details of its ratings criteria.

² FundSource Performance Tables March 2016.

³ 'KiwiSaver Statements Survey' FMA Colmar Brunton June 16 & 'KiwiSaver fears may be based on misinformation, survey shows' Stuff April 16.

⁴ 'KiwiSaver: How to get an extra \$521 from the Govt' Newshub May 16.

⁵ As at 31 May 2015.

⁶ Generate New Member Survey 1588 responses.

⁷ Workplace Savings Quarterly KiwiSaver Surveys.

Your Fund's Performance

GENERATE FUND	RETURN FOR THE YEAR TO 31 MARCH 2016*
Focused Growth Fund	4.81%
Growth Fund	7.20%
Conservative Fund	9.07%

* The returns above are after fund fees and before taxes. Past performance is not necessarily an indicator of future performance. Returns to members of the Scheme are subject to investment and other risks (including potential losses).

Performance commentary

Looking at the year to 31 March 2016 and the New Zealand share market put in a strong performance with the NZ50G rising 15.7%. Not only was this a strong return in an absolute sense but also a relative one as most of the international indices we follow ended the year in negative territory. For example in Australia the ASX200 was down 13.7%, the EuroStoxx50 fell 18.7% whilst in the U.S. the S&P500 recorded a more modest fall of 0.4%.

This divergent performance between local and international equities plays a significant factor in explaining the stellar performance from our Conservative Fund (CF) and the more modest performance of our most aggressive fund – the Focused Growth Fund (FGF). The FGF has a target asset allocation of 66% to international equities; whereas the only equity exposure the CF has is to Australasian share markets (and in FY16 the vast majority of this allocation was invested in New Zealand).

Strong stock selection in our Australasian property (including aged care) and infrastructure investments also contributed to the allocation's performance. Finally, a dramatic fall in interest rates in New Zealand meant the bonds held by the CF (and Growth Fund) performed well.

As the Growth Fund is effectively a hybrid of the CF and FGF it is no surprise its return fell neatly between the two.

For up to date performance commentary and investment market insight from our team please follow our monthly newsletter.

Statutory Information

For the Year Ended 31 March 2016

MEMBERSHIP SUMMARY	Number of Members
Contributing Members as at 1 April 2015	3,456
New Members/Members Restarting	12,499
Exits/Members Ceasing Contributions	(6,287)
Members on Section 104 Contribution Holidays	143
Other Non-contributing Members (Not on Section 104 Holidays)	7,798
Members as at 31 March 2015	17,609

CONTRIBUTION SOURCE	Number of Members	Amount (\$)
Member Contributions	9,846	11,531,384
Employer Contributions	9,838	7,300,163
Crown Contributions	6,603	3,570,493
Transfers in from Other Schemes	9,028	104,119,422
Transfers in from Australian Superannuation Schemes	54	1,206,821

TYPE OF WITHDRAWAL	Number of Members	Amount (\$)
First Home Purchase	136	3,003,442
Significant Financial Hardship	65	315,983
Serious Illness	3	25,932
Permanent Emigration	-	-

Fee information for Annual Return

As at the end of the Scheme year, the total value of members' accumulations was \$176,043,578 and there were 17,609 members with balances in their KiwiSaver accounts.

FEE SUMMARY	Direct	Indirect
Trustee	-	71,710
Manager	147,072	1,052,342
Administration Manager	294,143	-
Other Persons*	-	504,449

* Auditor, Solicitors Tax Agent, brokerage

Changes relating to the Scheme

1. The following is a summary of all the changes relating to the Scheme that were made during the period ended 31 March 2016:

(a) The Trust Deed:

There were no amendments to the Trust Deed for the Scheme during the year.

(b) The terms of offer of interests in the Scheme:

From 1 April 2015 members were able to withdraw their Member Tax Credits as part of any First Home Withdrawal (a minimum of \$1,000 must be retained in Member accounts) and the First Home Subsidy was replaced by the KiwiSaver HomeStart Grant (which effectively doubled the previous First Home Subsidy when building or purchasing a new home, or for purchasing land to build a new home on). From 21 May 2015 the \$1,000 Kickstart benefit was removed by the Government.

2. The following changes relating to the Manager and the Trustee occurred during the year ended 31 March 2016:

- (a) There were no changes to the Directors of the Manager.
- (b) Changes to the Board members of Public Trust as Trustee and Custodian:
- Simon Craddock was appointed as a Board member on 1 November 2015.
 - John Duncan was appointed as a Board member on 1 November 2015.
 - David Tapsell retired at the end of his term on 31 October 2015.
 - Sue McCormack retired at the end of her term on 30 April 2016.

Summary Financial Statements

Summary Statement of Net Assets As at 31 March 2016

	2016 NZ\$	2015 NZ\$	2014 NZ\$
Cash and Cash Equivalents	18,759,314	2,951,643	759,061
Investment Assets	159,369,394	48,416,319	6,366,894
Total Assets	178,128,708	51,367,962	7,125,955
Total Tangible Assets	178,128,708	51,367,962	7,125,955
Less: Liabilities			
Total Liabilities	2,085,130	666,314	107,930
Net Assets Available for Benefits	176,043,578	50,701,648	7,018,025

Summary Statement of Cash Flows For the Reporting Period Ended 31 March 2016

	2016 NZ\$	2015 NZ\$	2014 NZ\$
Cash and Cash Equivalents at the Beginning of the Reporting Period	2,951,643	759,061	-
Net Cash Flows from Operating Activities	123,204,951	40,243,702	7,016,868
Net Cash Flows from Investing Activities	(107,397,280)	(38,051,120)	(6,257,807)
Cash and Cash Equivalents at End of the Reporting Period	18,759,314	2,951,643	759,061

Summary Statement of Changes in Net Assets For the Reporting Period Ended 31 March 2016

	2016 NZ\$	2015 NZ\$	2014 NZ\$
Investment Activities			
Dividend & Distribution Income	3,041,536	395,387	34,199
Interest Income	1,132,258	343,677	38,524
Net Changes in Fair Value of Financial Assets through Profit or Loss	1,905,170	3,616,918	69,597
Sundry Income	91,153	12,451	785
Brokerage Fees	(337,010)	(134,892)	(27,532)
Net Investment Revenue	5,833,107	4,233,541	115,573
Less Expenses			
Manager Fees	(1,052,342)	(243,637)	(20,302)
Auditor's Remuneration	-	-	-
Trustee Fees	(71,710)	(17,054)	(1,421)
General Expenses	(167,439)	(45,880)	(5,675)
Total Other Expenses	(1,291,491)	(306,571)	(27,398)
Net Increase in Net Assets before Membership Activities	4,541,616	3,926,970	88,175
Membership Activities Contributions			
Member Contributions	13,872,889	3,785,255	463,116
Employer Contributions	7,300,229	2,002,371	216,440
Crown Contributions	3,571,493	2,333,513	331,821
Transfers from Other Schemes	106,147,917	33,470,808	5,997,259
Transfers to Other Schemes	(5,287,337)	(1,073,541)	(23,911)
Withdrawals Paid to Members	(3,780,939)	(581,677)	(18,700)
Administration Fee	(441,215)	(142,509)	(15,612)
PIE Tax Expense	(582,723)	(37,567)	(20,563)
Net Membership Activities	120,800,314	39,756,653	6,929,850
Net Increase in Net Assets During the Reporting Period	125,341,930	43,683,623	7,018,025
Net Assets Available for Benefits at Beginning of the Reporting Period	50,701,648	7,018,025	-
Net Assets Available for Benefits at End of the Reporting Period	176,043,578	50,701,648	7,018,025

Additional disclosures

The specific disclosures included in the Summary Financial Statements have been extracted from the full Financial Statements which are dated 28 June 2016. The full Financial Statements comply with and were registered under the Financial Reporting Act 1993 on 28 July 2016.

The Summary Financial Statements cannot be expected to provide as complete an understanding as provided by the full Financial Statements of the Statement of Net Assets, Statement of Changes in Net Assets and Statement of Cash Flows. The Summary Financial Statements were authorised for issue by the Manager on 28 June 2016.

The full Financial Statements, most recent Prospectus and other documents are available on the Companies Office website www.business.govt.nz/companies under 'search other registers' as a Superannuation Scheme. In addition, members can receive, on request from the Manager, a copy of the most recent financial statements, auditor's report, an estimate of the member's benefits or the most recent prospectus relating to the Scheme.

The Scheme was registered on 17 December 2012. The Scheme prospectus was registered and the scheme was made available to the public on 22 February 2013. No transactions were made in 2012 and no assets were held by the Scheme from the date of registration to 22 February 2013.

The Scheme is a profit oriented entity and the full Financial Statements of the Scheme have been prepared by the Manager in accordance with the New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZIFRS"), other applicable Financial Reporting Standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Scheme has made an explicit and unreserved statement of compliance with NZIFRS in Note 2 of its full Financial Statements.

The presentation currency is New Zealand dollars and has been rounded to the nearest dollar.

The full financial statements have been audited and the auditor expressed an unmodified opinion on those financial statements on 28 June 2016. The Summary Financial Statements have been prepared in compliance with Financial Reporting Standard No. 43 – Summary Financial Statements and clause 7 of Schedule 5A of the Securities Regulations 2009.

Related parties

The Scheme is promoted by the Manager Generate Investment Management Limited ("The Manager"). The Manager receives a Management Fee from the Scheme of 1% of funds under management. The Management Fee paid to the Manager for the reporting period ended 31 March 2016 totalled \$1,052,342 (2015: \$243,637, 2014: \$20,302). The amount accrued but unpaid as at 31 March 2016 was \$141,497 (2015: \$40,523, 2014: \$20,302).

The Manager also retains 33% of the monthly Administration Fee charged to Members. The remainder is paid out to the Administrator of the Scheme. The total Administration Fee paid for the reporting period ended 31 March 2016 totalled \$441,215 (2015: \$142,509, 2014: \$15,612). The amount accrued but unpaid as at 31 March 2016 was \$52,253 (2015: \$20,127, 2014: \$4,570).

Generate Investment Holdings Limited ("GIHL") (the parent company of the Manager) paid an interest free deposit of \$1,000 to the Scheme in 2014 to provide a float for Scheme bank accounts. Nil was paid in the current year (2015: \$0).

Generate Funds Limited ("GFL") is the ultimate parent of the Manager. No transactions were made between the Scheme and GFL.

The Scheme has paid to the Manager the Trustee Fees and Expenses. The amount paid for the reporting period ended 31 March 2016 for Trustee Fees totalled \$71,710 (2015: \$17,054, 2014: \$1,421) and for General Expenses \$159,321 (2015: \$38,241, 2014: \$2,494). The amount accrued but unpaid as at 31 March 2016 for Trustee Fees was \$9,053 (2015: \$2,837, 2014: \$0) and for general expenses \$21,347 (2015: \$6,222, 2014: \$0).

GIHL has paid Scheme expenses for the reporting period ended 31 March 2016. These comprise of: Audit Fee of \$29,425 comprising Audit Fee of \$25,000 (2015: \$23,920, 2014: \$19,750) and other assurance services of \$4,425 (2015: \$2,500, 2014: \$0); Trustee Fee and other expenses of \$472,909 (2015: \$137,059, 2014: \$35,280) and legal expenses of \$28,031 (2015: \$8,873, 2014: \$42,890).

Peter Brook, a Director of the Manager, is also a Director of Argosy Property Limited. The funds hold the following investments in Argosy Property Limited:

	NZ\$ 2016	NZ\$ 2015	NZ\$2014
Balance of Holdings at 31 March	215,104	206,935	228,064
Transactions during the reporting period ending 31 March			
Purchases	-	203,523	272,336
Sales	-	(246,100)	(36,730)

All Directors of the Manager (GIML), who are eligible to invest in the Scheme, are members of the Scheme. The following is a summary of investment balances as at 31 March.

Balance of Holdings at 31 March	134,879	117,015	27,214
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Contributions made by Directors included member, government and employer contributions.

Manager Certification

The Manager confirms that:

- all benefits required to be paid from the Scheme in accordance with the terms of the Trust Deed and the KiwiSaver scheme rules have been paid.
 - the market value of the assets of the Scheme as at 31 March 2016 equalled the total value of benefits that would have been payable had all members of the Scheme ceased to be members at that date and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries as at 31 March 2016.
 - there is a Scheme Provider Agreement between the Commissioner of Inland Revenue and the Scheme's provider that remained in force throughout the period covered by this Annual Report.
 - contributions received in respect of each member, including contributions paid via Inland Revenue in respect of each member, have been applied in accordance with the terms of the Trust Deed and the KiwiSaver Act.
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Trustee Statement

In respect of the year ended 31 March 2016, the Trustee is satisfied that the Manager has not breached an issuer obligation (as defined in section 4(1) of the Securities Trustees and Statutory Supervisors Act 2011) in a material respect.



Gerard Field
Senior Manager Client Services
Public Trust

Report of the Independent Auditor on the Summary Financial Statements

Audit

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To the Members of Generate KiwiSaver Scheme

We have prepared this report for inclusion in the Generate KiwiSaver Scheme Annual Report for the year ended 31 March 2016.

The accompanying summary financial statements which comprise the summary statement of net assets as at 31 March 2014, 31 March 2015 and 31 March 2016, the summary statement of changes in net assets and summary statement of cash flows for the reporting periods then ended, and related notes, are derived from the audited financial statements of Generate KiwiSaver Scheme for the period ended 31 March 2014 and the years ended 31 March 2015 and 31 March 2016. We expressed an unmodified audit opinion on the 31 March 2015 financial statements in our audit report dated 9 July 2015. We expressed an unmodified audit opinion on the 31 March 2016 financial statements in our audit report dated 28 June 2016. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our reports on those financial statements.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the full audited financial statements of the Generate KiwiSaver Scheme.

Manager Responsibility for the Summary Financial Statements

The Manager is responsible for the preparation of a summary of the audited financial statements in accordance with FRS-43: *Summary Financial Statements* ("FRS-43") and Clause 4(3)(b)(ii) of Schedule 1A of the KiwiSaver Regulations 2006. Compliance with this clause requires compliance with Clause 7 of Schedule 5A of the Securities Regulations 2009.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our audit procedures which were conducted in accordance with International Standard on Auditing (New Zealand) 810: *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditors, we have no relationship with or interests in the Generate KiwiSaver Scheme.

Opinion

In our opinion the summary financial statements within the Annual Report, stated pursuant to Clause 4(3)(b)(ii) of Schedule 1A of the KiwiSaver Regulations 2006 which requires compliance with Clause 7 of Schedule 5A of the Securities Regulations 2009:

- the amounts for the period ended 31 March 2014, and the years ended 31 March 2015 and 31 March 2016 have been correctly taken from the audited financial statements of the Generate KiwiSaver Scheme (except for any presentational differences required by Clause 7 of Schedule 5A of the Securities Regulations 2009) which have been prepared in compliance with New Zealand equivalents to International Financial Reporting Standards and
- are consistent in all material respects, with those financial statements (except for any presentational differences required by Clause 7 of Schedule 5A of the Securities Regulations 2009) in accordance with FRS-43.



Contact Information

If you have any enquiries or complaints please contact the Manager, Generate:

Chief Executive Officer
Generate Investment Management Limited
Level 2
32 Market Place
Viaduct
Auckland Central 1010

PO Box 91609
Victoria Street West
Auckland 1142

T: 0800 855 322
E: info@generatekiwisaver.co.nz

You may also make a complaint about the Scheme to the Trustee:

General Manager
Public Trust
Level 9
34 Shortland Street
Auckland

PO Box 1598
Auckland 1140

T: 0800 371 471

If your complaint has not been satisfactorily resolved by Generate or the Trustee, you are able to contact our external disputes resolution scheme. Both are members of the Financial Services Complaints Limited (FSCL) scheme:

Financial Services Complaints Limited
Level 4
101 Lambton Quay
Wellington 6145

PO Box 5967
Wellington 6145

T: 0800 347 247
E: info@fscl.org.nz

Alternatively, you may contact the Financial Markets Authority:

Financial Market Authority
PO Box 106 672
Auckland 1143

T: 0800 434 566
www.fma.govt.nz

For more information see the investment statement for the Generate KiwiSaver Scheme at:
www.generatekiwisaver.co.nz/forms-downloads/

None of the Manager, the Trustee or any other person guarantees the interests in the Scheme.

Generate

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