



Medical Assurance Society Retirement Savings Plan Financial Statements

For the year ended
31 March 2020

Signatory of:



MEDICAL ASSURANCE SOCIETY

RETIREMENT SAVINGS PLAN

Financial Statements

For the year ended 31 March 2020

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Independent Auditor's Report

To the Members of Medical Assurance Society - Retirement Savings Plan

Opinion

We have audited the financial statements of Medical Assurance Society Retirement Savings Plan ("the Plan") on pages 4 to 19, which comprise the statement of net assets of the Plan as at 31 March 2020, the statement of changes in net assets and statement of cash flows for the year then ended of the Plan, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 4 to 19 present fairly, in all material respects, the financial position of the Plan as at 31 March 2020 and its changes in net assets and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Plan's members, as a body. Our audit has been undertaken so that we might state to the Plan'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 Plan and the Plan's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit 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 Plan 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.

We provide assurance services in relation to the register of members for the Plan. We have no other relationship with, or interest in, the Plan. Partners and employees of our firm may deal with the Plan on normal terms within the ordinary course of trading activities of the business of the Plan.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit 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 audit 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 audit 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.

Investments

Why significant

- ▶ As disclosed in Note 5 of the financial statements the Plan's portfolio of investments represents almost 100% of its assets.
- ▶ As detailed in the Plan's accounting policy, as described in Note 2 to the financial statements, these financial assets are recognised at fair value through profit or loss in accordance with NZ IFRS 9: *Financial Instruments*.
- ▶ Volatility and other market drivers can have a significant impact on the value of these financial assets and the financial statements, therefore the recognition and measurement of the investment portfolio is considered a key area of audit focus. At and subsequent to 31 March 2020 financial markets were significantly impacted by the COVID-19 pandemic and during this period they have experienced greater than usual volatility.
- ▶ Disclosures regarding the Plan's investments are included in Note 5 to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included:

- ▶ Gaining an understanding of the processes used to record investment transactions and the revaluation of the investment portfolio.
- ▶ Receiving confirmation directly, from the entities responsible for the custody and pricing of the Plan's investments, of the number of securities held by the Plan and the relevant exit prices at balance date respectively.
- ▶ Obtaining and reviewing the Independent Assurance Reports on Controls relevant to custody and pricing. We have considered the implications of any control deficiencies for our audit. We relied on these controls over the recognition and valuation of the investment balances.
- ▶ Verifying a sample of investment exit prices at balance date to independent pricing sources.
- ▶ Assessing whether the disclosures in the financial statements appropriately reflect the requirements of *NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans*, *NZ IFRS 7 Financial Instruments: Disclosures* and *NZ IFRS 13 Fair Value Measurement* and the COVID-19 related impact on the Plan.

Those charged with governance responsibilities for the financial statements

Those charged with governance are responsible, on behalf of the Plan, 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 those charged with governance 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, those charged with governance are responsible for assessing the Plan'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 those charged with governance either intend to liquidate the Plan or cease operations, or have no realistic alternative but to do so.



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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 our responsibilities for the audit of the financial statements is located at the External Reporting Board 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 David Borrie.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Chartered Accountants
Wellington
26 June 2020

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN
Statement of Net Assets
As at 31 March 2020

	Notes	2020 NZ\$	2019 NZ\$
Assets			
Cash and Cash Equivalents	6	101,996,019	71,898,885
Investments at Fair Value through Profit or Loss	5	762,549,953	740,773,696
Derivative Financial Instruments	10	655,526	107,438
PIE Tax Refundable		4,169,042	-
Total Assets		869,370,540	812,780,019
Liabilities			
Benefits Payable		-	(5,433)
Prepaid Contributions		-	(54,425)
Accounts Payable		(793,738)	(2,025,249)
PIE Tax Payable		-	(5,111,104)
Derivative Financial Instruments	10	(30,233,418)	(1,490,386)
		(31,027,156)	(8,686,597)
Net Assets Available to pay Benefits		838,343,384	804,093,422
Liability for Promised Benefits			
<i>Represented by:</i>			
Member Accounts	3	838,343,384	804,093,422
		838,343,384	804,093,422

Approved for issue on behalf of the Trustees of Medical Assurance Society Retirement Savings Plan.



Signed by: Harley Aish
Date & Time: 25 Jun, 2020 05:15:20 p.m.
..... Trustee

..... Date



Signed by: Brett Sutton
Date & Time: 25 Jun, 2020 03:08:42 p.m.
..... Trustee

..... Date

This statement is to be read in conjunction with the notes on pages 7 to 19.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN
Statement of Changes in Net Assets
For the year ended 31 March 2020

	Notes	2020 NZ\$	2019 NZ\$
Investment Activities			
Investment Revenues			
Dividends Received		13,876,160	13,196,651
Interest Received		4,957,234	6,360,884
(Loss)/Gain on Investments at Fair Value	7,8	<u>(19,372,077)</u>	<u>36,015,193</u>
Total Investment Revenue		(538,683)	55,572,728
Other Revenues			
Bank Interest Received		<u>3,835</u>	<u>5,277</u>
Total Other Revenue		3,835	5,277
Other Expenses			
Administration Expenses		(8,489,469)	(7,789,351)
Audit Fee - Financial Statements - EY		(18,512)	(17,940)
Audit Fee - Other Assurance Procedures - EY		(1,495)	(1,438)
Audit Fee - Other Assurance Procedures - PwC		-	(5,000)
Trustee Fees		<u>(15,000)</u>	<u>(10,730)</u>
Total Other Expenses		(8,524,476)	(7,824,459)
Change in Net Assets before Taxation and Membership Activities	3	(9,059,324)	47,753,546
Membership Activities			
Member Contributions		81,511,217	71,458,787
Withdrawals		(42,340,026)	(28,933,126)
PIE Tax Refund/(Paid)		<u>4,138,095</u>	<u>(5,118,638)</u>
Net Membership Activities		43,309,286	37,407,023
Net Increase in Net Assets During Year		34,249,962	85,160,569
Net Assets Available for Benefits at Beginning of Year		804,093,422	718,932,853
Net Assets Available for Benefits at End of Year		<u>838,343,384</u>	<u>804,093,422</u>

This statement is to be read in conjunction with the notes on pages 7 to 19.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN
Statement of Cash Flows
For the year ended 31 March 2020

	Notes	2020 NZ\$	2019 NZ\$
Cash Flows from Operating Activities			
Cash provided from:			
Contributions		81,456,792	71,180,518
Sundry Income		3,835	5,280
		81,460,627	71,185,798
Cash applied to:			
Benefits Paid		(42,345,459)	(28,939,433)
Administration Expenses		(9,755,987)	(7,646,514)
Tax Paid		(5,142,052)	(7,021,587)
		(57,243,498)	(43,607,534)
Net Cash Inflow from Operating Activities	8	24,217,129	27,578,264
Cash Flows from Investing Activities			
Cash provided from:			
Proceeds from Sale of Investment Assets		113,655,907	75,790,825
<i>less:</i> Cash applied to:			
Purchase of Investment Assets		(107,775,902)	(84,422,915)
Net Cash Outflow from Investing Activities		5,880,005	(8,632,090)
Net Increase in Cash Held		30,097,134	18,946,174
Add Cash at start of Year		71,898,885	52,952,711
Balance at end of Year		101,996,019	71,898,885

This statement is to be read in conjunction with the notes on pages 7 to 19.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

1. Plan Description

Medical Assurance Society Retirement Savings Plan (the "Plan") is a defined contribution superannuation plan for Members of the Medical Assurance Society. Under the Plan, contributions are made by Plan Members and Employers. The Plan is registered under the Financial Market Conduct Act 2013 (the "FMCA").

The Trustees of the Medical Assurance Society Retirement Savings Plan (the "Trustees") are the manager of the Plan, whose address is 19-21 Broderick Road, Johnsonville, Wellington, New Zealand.

The custodian of the Plan is JBWere (NZ) Nominees Limited. Its address is Level 38, Vero Centre, 48 Shortland Street, Auckland.

There is only one class of Member. There were no Members receiving benefits other than those paid on exit.

The Administration Manager of the Plan is Link Market Services Limited ("Link").

During the year 229 Members received benefits from the Plan (2019: 172 Members).

Funding Arrangements

Members' contributions are discretionary. No additional payments to acquire additional benefits were made by entrants or existing Members during the year. Employer contributions are discretionary. Participating employer contributions are made on behalf of members in accordance with the Employer's Participating Agreement. These funding arrangements are consistent with those of the previous year.

Retirement Benefits

Retirement benefits are determined by contributions to the Plan together with investment earnings on these contributions over the period of membership.

Termination Terms

The Trust Deed sets out the basis on which the Plan can be terminated. Clause A21 of the Trust Deed covers the situation where the Plan can be wound-up.

Changes to the Plan

The Trust Deed was consolidated on 28 November 2018 as a consequence of the change of 'Portfolio' references to 'Funds'. The 'Defensive Portfolio' has been renamed as the 'Conservative Fund', and the 'Conservative Portfolio' has been renamed as the 'Moderate Fund'. The strategic asset allocations and benchmarks of the funds also changed from 1 December 2018. There were no changes in the year to 31 March 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"), the requirements of the FMCA and the Trust Deed governing the Plan. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Plan prepared the financial statements under the FMCA as it is a FMC reporting entity.

The Plan comprises of seven funds: Cash, Conservative, Moderate, Balanced, Growth, Aggressive and Global Equities. The financial statements have been prepared at the Plan level as the liabilities of the individual investment choices are not limited to the assets of each investment choice. Therefore assets of one investment choice could be used to meet the liabilities of another.

The Plan is classified as an investment entity under NZ IFRS 10. It obtains funds from multiple investors and invests these for returns from capital appreciation and investment income. No investments are controlled, and there has been no consolidation of investments.

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

Measurement Base

The measurement base adopted is that of historical cost except for financial instruments which are measured at fair value through profit or loss at the end of the reporting period.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

2. Summary of Significant Accounting Policies (Continued)

Presentation and Functional Currency

These financial statements are rounded to the nearest dollar and presented in New Zealand dollars because that is the currency of the primary economic environment in which the Plan operates.

Classification of Assets and Liabilities

Assets and liabilities are disclosed in the Statement of Net Assets in an order that reflects their relative liquidity.

Standards, amendments and interpretations to existing standards that are effective and have been adopted by the Plan

There were no new standards adopted that had a material impact on the Plan.

Investment Income

Interest, dividends and distributions from unitised investments are taken to income on a due and receivable basis. Net realised and unrealised gains and losses are recognised in the Statement of Changes in Net Assets in the year in which they occur.

Foreign Currencies

Transactions in currencies other than NZ dollars are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance date. Gains and losses arising on retranslation are included in changes in net assets for the year.

Income and Expenses

All income and expenses are accounted for on an accrual basis.

Investments

Investments are recognised and derecognised on the trade date and are initially measured at fair value. Investment fund values are supplied by the Fund Manager JBWere (NZ) Pty Ltd ("JBWere"). Investments are classified at fair value through profit or loss. As the Plan's business is investing in financial assets with a view to profiting from their total return in the form of interest, distributions or increases in fair value, cash deposits are carried at fair value through profit or loss on initial recognition. Financial assets carried at fair value through profit or loss, are measured at subsequent reporting dates at fair value. The valuation techniques used are detailed in the note 10 Fair Value. Purchases and sales of investments are accounted for at trade date.

Financial Instruments

(i) Classification

The Plan classifies its investments as financial assets at fair value through profit or loss. These financial assets are carried by the Plan at fair value through profit or loss at inception.

Financial assets and financial liabilities carried at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Plan's documented investment strategy. The Plan's policy is for the Trustees to evaluate the information about these financial assets on a fair value basis together with other related financial information. The Trustees have determined that all financial assets of the Plan are carried at fair value through profit or loss with the exception of cash, cash equivalents, receivables and payables which are measured at amortised cost.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

2. Summary of Significant Accounting Policies (Continued)

(ii) Recognition/derecognition

The Plan recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date. Investments are derecognised when the right to receive cash flows from the investments has expired or the Plan has transferred substantially all risks and rewards of ownership. All realised gains and losses on financial assets at fair value through profit or loss are recognised in the Statement of Changes in Net Assets.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Changes in Net Assets.

The fair value of unitholdings is determined using the price as calculated by the fund manager at balance date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer a liability takes place either:

- In the principal market of the asset or liability;
- In the absence of a principal market, in the most advantageous market for the asset or liability; or
- The principal or most advantageous market accessible by the Plan.

The fair value of an asset is measured using the assumptions that market participants would use when pricing the asset assuming market participants act in their economic best interest.

Taxation

The Plan is a Portfolio Investment Entity ("PIE") under the Income Tax Act 2007. Under the PIE regime, income earned by the Plan is attributed to all Members in accordance with the proportion of their interest in the overall Plan. The income attributed to each Member is taxed at the Member's prescribed investor rate ("PIR") which is similar to an individual's marginal tax rate, however, it is capped at a maximum rate of 28%. The Plan deducts tax from each Member's allocation and pays the tax to Inland Revenue on behalf of the Member.

PIE tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to Inland Revenue on behalf of the Members based on the Members' current period's taxable income and their PIR.

Receivables

Receivables do not carry any interest and are short-term in nature and are accordingly stated at their amortised cost.

Payables

Payables include liabilities and accrued expenses owing by the Plan which are unpaid as at balance date. These amounts are unsecured and are usually paid within 30 days of recognition. These amounts are initially recognised at fair value, and subsequently measured at amortised cost.

Derivative Financial Instruments

During the year the Plan invested in a range of pooled investment vehicles by way of pooled units that were managed by JBWere. During the normal course of business the Plan enters into foreign exchange contracts, financial futures, swaps and options. These instruments are for economic hedging purposes only and accounted for at fair value. The Plan does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Plan's policies approved by the Trustees.

Changes in the fair value of derivative financial instruments are recognised in the Statement of Changes in Net Assets as they arise.

Goods and Services Tax ("GST")

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

Promised Benefits

The liability for promised benefits is the Plan's present obligation to pay benefits to Members. It has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date. Promised benefits include amounts allocated to Members' accounts.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

2. Summary of Significant Accounting Policies (Continued)

Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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.

Contributions and Benefits

Contributions and benefits are accounted for on an accrual basis. Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

Benefits are recognised in Statement of Changes in Net Assets when they become payable.

Capital Risk Management

The Plan's primary purpose is to ensure that its net assets are sufficient to meet all present and future obligations of the Plan, as defined by the liability for promised benefits.

The Plan achieves this through obtaining contributions from Members and their employers and investing them into financial assets.

Critical Accounting Estimates and Judgements

The Trustees have applied their judgement in selecting the accounting policy to designate financial assets and liabilities at fair value through profit or loss. This policy has a significant impact on the amounts disclosed in the financial statements. With the exception of investments classified in Level 3 of the fair value hierarchy (see Note 10), which are not considered material, it is possible to determine the fair values of all financial assets as unit, bond and derivative prices are readily available from fund managers. Therefore there are no material assumptions or major sources of estimation uncertainty that have a significant risk of making material adjustments to the carrying value of assets and liabilities at year end. However, as with all investments their value is subject to variation due to market fluctuations. For the purposes of the fair value hierarchy of financial assets at fair value through profit or loss, the Trustees have to apply their judgement as to what constitutes "observable prices". For further details refer to note 10 (Fair Value).

Impact of Coronavirus (COVID-19)

On 11 March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was moved to COVID-19 Alert Level 4 and put into lockdown. As a result of both the outbreak and the response of Governments in dealing with the pandemic, economic uncertainties have arisen which are likely to affect our operations, services and financial results going forward.

While there remains a significant amount of uncertainty, the possible effects on MAS Retirement Savings Plan as a result of the COVID-19 pandemic include:

- A reduction in the number of new accounts issued or current accounts withdrawing funds.
- Account holders experiencing financial hardship reducing their level of contributions.
- Greater volatility in the value of investments.
- Reduced market liquidity. This risk is minimised through the fund managers holding a diversified range of securities in different asset classes, sectors and geographic locations, in accordance with the fund mix approved by the Trustees.

At this time it is difficult to determine the full effect of the COVID-19 pandemic or Governments' varying efforts to combat the outbreak and support businesses, and there could be other related matters that affect MAS Retirement Savings Plan. To date the impact on MAS Retirement Savings Plan has largely been increased volatility in the level of net assets due to changing market returns.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

3. Liability for Promised Benefits

	2020 NZ\$	2019 NZ\$
Movements in Members' Accounts - Per Member's Registry System		
Balance at beginning of year	804,056,341	718,934,362
Contributions received	81,658,173	71,458,565
Investment earnings allocated to members	(7,879,159)	47,715,377
PIE tax	4,138,061	(5,118,638)
Withdrawals paid	(42,415,581)	(28,933,326)
Balance at end of year	<u>839,557,835</u>	<u>804,056,341</u>
Movements in Members' Accounts - Timing Variances		
Balance at beginning of year	37,082	(1,509)
Investment earnings for year	(9,059,324)	47,753,546
Investment earnings allocated to members	7,879,159	(47,715,377)
Other variances due to timing differences	(71,368)	422
Balance at end of year - to be allocated to Member's accounts in 2020 (2019)	<u>(1,214,451)</u>	<u>37,082</u>
Total balance at end of year	<u><u>838,343,384</u></u>	<u><u>804,093,422</u></u>

Guaranteed Benefits

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

4. Vested Benefits

Vested Benefits are benefits payable to Members or Beneficiaries, under the conditions of the Plan, on the basis of all Members ceasing to be members of the Plan at balance date. Vested Benefits as at 31 March 2020 were the net assets available to pay benefits less wind up costs.

5. Investments

	2020 NZ\$	2019 NZ\$
The funds were invested by JBWere in the following asset classes:		
Domestic Fixed Interest	76,143,600	77,145,277
International Fixed Interest (Unit Trust)	191,689,187	167,879,576
Domestic Equities	114,777,956	97,546,552
Australian Equities	23,208,010	44,263,562
International Equities	349,198,988	345,023,136
Alternative Investments	4,257,587	5,632,673
Domestic Property	3,274,626	3,282,920
	<u>762,549,954</u>	<u>740,773,696</u>
Cash	101,009,577	71,801,896
Derivatives held for Trading (Forward FX Contracts and Interest Swaps)	(29,577,892)	(1,382,948)
Total Investments	<u><u>833,981,639</u></u>	<u><u>811,192,644</u></u>

The majority of the total sum invested is invested in the name of the investing entity (Medical Assurance Society Retirement Savings Plan), via a custodian. The remaining funds are primarily invested into unitised or pooled vehicles.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements
For the year ended 31 March 2020

5. Investments (Continued)

(a) Trading securities exceeding 5% of net assets available for benefits

	%	2020 NZ\$	%	2019 NZ\$
International Equities				
MAS SRI Global Mandate	33	285,775,555	32	258,838,828
International Fixed Interest (Unit Trust)				
Hunter Global Fixed Interest Fund	22	191,689,187	20	160,731,543
Cash				
JBWere NZD Premium Custody Call	9	77,084,200	7	55,562,940

(b) Trading Securities exceeding 5% of security class

Australian Equities				
Afterpay Touch Group Limited	14	3,299,505	17	7,314,356
ANZ Banking Group Ltd	-	-	6	2,657,902
CSL Ltd	24	5,592,824	9	3,898,435
Healthscope Limited	-	-	9	3,913,958
Macquarie Group Ltd	7	1,708,396	6	2,487,597
News Corp-CDI Class B	6	1,287,446	-	-
Resmed Inc	13	2,989,676	-	-
Rio Tinto Ltd	-	-	7	3,032,274
Suncorp Group Ltd	8	1,918,607	7	2,966,283
Sydney Airports	-	-	6	2,542,958
Telstra Corp Ltd	11	2,466,763	6	2,750,791
International Equities				
SPDR S&P Bank ETF	-	-	6	20,534,487
Technology Select Sect Spdr	7	23,865,898	7	24,855,103
MAS SRI Global Mandate	82	285,775,555	76	258,838,828
Domestic Equities				
A2 Milk Company Ltd	18	20,350,055	14	13,853,955
Auckland International Airport Ltd	-	-	7	6,738,129
Fisher & Paykel Healthcare Ltd	19	21,968,781	10	9,829,346
Fletcher Building Ltd	-	-	7	6,652,741
Infratil Ltd	11	12,880,467	11	11,088,343
Mainfreight Ltd	6	6,838,516	7	6,554,276
Meridian Energy Ltd	10	11,376,454	11	11,078,323
Metlifecare Ltd	-	-	5	4,968,563
Spark New Zealand Ltd	7	8,344,274	6	5,600,934
Domestic Property				
Investor Property Limited	65	1,639,669	42	1,389,461
Kiwi Property Group Ltd	35	878,916	-	-
Stride Property	-	-	58	1,885,165

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements
For the year ended 31 March 2020

5. Investments (Continued)

(b) Trading Securities exceeding 5% of security class (Continued)

		2020		2019
	%	NZ\$	%	NZ\$
Domestic Fixed Interest				
ANZ Bonds	8	5,886,837	12	9,024,813
ASB Bank	-	-	7	5,046,745
Bank of China	6	4,578,623	8	5,677,565
Chorus Ltd	11	8,010,405	13	9,946,210
Insurance Australia Group Ltd	9	6,566,000	-	-
NZ Government Inflation Index Bond	35	26,381,568	-	-
Vector Limited	11	8,577,960	42	31,364,144
Alternative Investments				
Maui Capital Aqua Fund	82	3,477,005	83	4,636,007
Pencarrow IV Fund	17	705,232	14	776,405
International Fixed Interest				
Hunter Global Fixed Interest Fund	100	191,689,187	95	160,731,543
Cash and Cash Equivalents				
Westpac	76	77,084,200	90	55,562,940
BZLNZ Term Deposits	10	9,643,090	5	3,031,941
BCHINA Term Deposit	10	10,419,841	-	-

6. Cash and Cash Equivalents

	2020	2019
	NZ\$	NZ\$
ANZ Bank Current Account	56,930	96,989
JBWere Cash Account	101,009,577	71,801,896
Cash in Transit	929,512	-
	<u>101,996,019</u>	<u>71,898,885</u>

7. Changes in Net Market Value

	2020	2019
	NZ\$	NZ\$
Cash - foreign denominated	1,022,088	(219,695)
Domestic fixed interest	(829,400)	1,551,875
International fixed interest	(4,116,375)	312,652
Domestic equities	(693,044)	8,543,076
International equities	21,045,833	27,412,538
Derivative financial instruments	(35,801,180)	(1,585,253)
	<u>(19,372,077)</u>	<u>36,015,193</u>

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

8. Reconciliation of Increase in Net Assets to Net Cash Flow from Operating Activities

	2020 NZ\$	2019 NZ\$
Increase in Net Assets	34,249,962	85,160,569
Add/(less) non-cash items:		
Dividends received	(13,876,160)	(13,196,651)
Interest received	(4,957,234)	(6,360,884)
Loss/(Gain) on investments at fair value	19,372,077	(36,015,193)
Add/(less) movement in other working capital items:		
(Decrease)/Increase in prepaid contributions	(54,425)	(278,050)
Decrease in benefits payable	(5,433)	(6,307)
(Decrease)/Increase in accounts payable	(1,231,511)	177,729
(Decrease)/Increase in PIE tax payable/refundable	(9,280,147)	(1,902,949)
Net cash inflow from operating activities	<u>24,217,129</u>	<u>27,578,264</u>

9. Financial Instruments and Risk Management

The Plan's risk management is carried out in accordance with policies set by the Trustees. These policies provide clear structure for managing key financial risks. Whilst their review of risk is ongoing, the Trustees formally review the major risks faced by the Plan on a quarterly basis.

The Plan's fund manager enters into currency derivatives, principally to protect the value of investments against adverse currency movements. They are prevented by policy guidelines established by the Trustees from entering into such contracts for speculative purposes.

The Trustees have approved a Statement of Investment Policy and Objectives which establishes investment fund objectives and target asset allocations. Performance against these targets is reviewed at least quarterly by the Trustees and asset reallocations undertaken as required.

The majority of the total sum invested, is invested in the name of the investing entity (Medical Assurance Society Retirement Savings Plan), via a custodian. The remaining funds are primarily invested into unitised or pooled vehicles.

The Plan's activities expose it primarily to the financial risks of; market, liquidity and credit.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Plan is exposed directly, as well as indirectly through investments in unit trusts, to foreign exchange risk, interest rate risk and other price risks through its investments. The investments in unit trusts are unitised and the underlying securities comprise cash, domestic and international equity instruments, New Zealand commercial property and domestic and international fixed interest securities.

Market risk management is carried out in accordance with policies set by the Trustees. These policies provide clear structure for managing market risks. While their review is ongoing, the Trustees formally review market risks faced by the Plan on a quarterly basis.

Liquidity Risk

Liquidity risk represents the risk that the Plan may not have the financial ability to meet its contractual obligations. The Plan evaluates its liquidity requirements on an ongoing basis and maintains a substantial investment in cash and cash equivalents to cover the possibility of any member withdrawals. All financial assets at fair value through profit or loss can be realised within 12 months. All financial liabilities are payable within 12 months.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements
For the year ended 31 March 2020

9. Financial Instruments and Risk Management (Continued)

Liquidity Risk (Continued)

Liquidity Profile of Financial Liabilities

	0-6 Months	6-12 Months	Total
	\$	\$	\$
31 March 2020			
Financial Liabilities			
Derivative Financial Instruments	30,233,418	-	30,233,418
Other Liabilities	793,738	-	793,738
	<u>31,027,156</u>	<u>-</u>	<u>31,027,156</u>
31 March 2019			
Financial Liabilities			
Derivative financial instruments	1,490,386	-	1,490,386
Other liabilities	2,085,107	-	2,085,107
	<u>3,575,493</u>	<u>-</u>	<u>3,575,493</u>

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into, resulting in a financial loss to the Plan. The financial instruments that potentially expose the Plan to credit risk consist of cash and short term deposits, fixed interest securities and receivables and, indirectly, investments in unitised products which invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The Fund Managers of the Plan are JBWere and Bancorp Treasury Services Limited ("Bancorp"), which the Trustees consider to be financial institutions of high quality. The Fund Managers maintain a diversified investment fund in accordance with the fund mix adopted by the Trustees. The credit risk on liquid funds and derivatives is minimised by restricting transactions to rated banks.

There are no financial assets past due or impaired at balance date (2019: Nil).

Statement of Net Asset Credit Exposures	2020 NZ\$	2019 NZ\$
Cash and cash equivalents	101,996,019	71,898,885
Domestic fixed interest	76,143,600	77,145,277
International fixed interest	191,689,187	167,879,576
Derivatives held for trading	655,526	107,438
	<u>370,484,332</u>	<u>317,031,176</u>

The following table provides information on the credit risk exposure for financial assets with external credit ratings of the Plan. Investment grade financial assets are classified within the range of AAA to BBB, with AAA being the highest possible rating. The 'not rated' column discloses those assets not rated by external ratings agencies and principally comprises fixed interest investments with local government authorities.

	AAA	AA	A	BBB	Below BBB	Not Rated	Carrying Value
31 March 2020							
Cash	-	100%	-	-	-	-	101,996,019
Fixed interest	-	37.7%	8.4%	44.3%	-	9.6%	267,832,787
Derivatives held for trading	-	100%	-	-	-	-	655,526
31 March 2019							
Cash	-	100%	-	-	-	-	71,898,885
Fixed interest	-	6.1%	9.1%	72.6%	-	12.2%	245,024,853
Derivatives held for trading	-	100%	-	-	-	-	107,438

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

9. Financial Instruments and Risk Management (Continued)

Currency Risk

The Plan is exposed to currency risk in that future currency movements will affect the valuation of holdings in foreign currency denominated investments.

Trustees set limits for the management of currency risk. At 31 March 2020, 87% of the foreign currency exposure is hedged (2019: 51%).

Sensitivity Analysis

The following table shows the sensitivity of profit and members' funds to reasonably possible appreciation or depreciation in the NZ dollar against the basket of currencies at 31 March:

	Change in Net Assets after Taxation Higher/(Lower)	
	2020 NZ\$	2019 NZ\$
10% Decrease in NZD	11,536,159	16,221,485
10% Increase in NZD	(9,438,676)	(13,272,124)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plan is exposed to interest rate risk in that interest rate movements will affect cash flows and net market values of fixed interest securities. The Trustees review the Plan's interest rate exposure on a quarterly basis.

Sensitivity Analysis

The following table shows the sensitivity of profit and members' funds to reasonably possible changes in interest rates at 31 March:

	Change in Net Assets after Taxation Higher/(Lower)	
	2020 NZ\$	2019 NZ\$
50bp Decrease in Interest Rates		
NZD Denominated Bonds	1,571,501	1,357,668
Cash and Cash Equivalents	358,003	356,081
50bp Increase in Interest Rates		
NZD Denominated Bonds	(1,571,501)	(1,357,668)
Cash and Cash Equivalents	(358,003)	(356,081)

Other Price Risk

All equity and unit price instruments present a risk of loss of capital often due to factors beyond the Fund Manager's control such as competition, regulatory changes, commodity price changes and changes in general economic conditions. These risks are managed through stock selection and diversification.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

9. Financial Instruments and Risk Management (Continued)

Other Price Risk (Continue)

Sensitivity Analysis

The following table shows the sensitivity of profit and Members' funds to reasonably possible changes in equity and unit prices at 31 March:

	Change in Net Assets after Taxation Higher/(Lower)	
	2020 NZ\$	2019 NZ\$
Prices Increase by 10%	65,682,846	66,058,261
Prices Decrease by 10%	(65,682,846)	(66,058,261)
Classification of Financial Instruments	2020	2019
	NZ\$	NZ\$
Financial Assets carried at fair value through profit or loss	762,549,953	740,773,696
Derivatives held for trading	655,526	107,438
Loans & Receivables (including cash and cash equivalents)	101,996,019	71,898,885
Financial Liabilities held at amortised cost	(793,738)	(2,085,107)
Financial Liability for Derivatives held for trading	(30,233,418)	(1,490,386)

Capital Management

Net assets available to pay benefits are considered to be the Plan's capital for the purposes of capital management. The Plan does not have to comply with externally imposed capital requirements.

The Plan'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 maximise the Plan's Members value.

10. 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 Plan's accounting policies.

The Plan classifies fair value measurements of financial instruments at fair value through profit or loss 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:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - 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).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Trustees. The Trustees consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

**Notes to the Financial Statements
For the year ended 31 March 2020**

10. Fair Value (Continued)

The following table analyses within the fair value hierarchy the Plan's financial assets and liabilities (by class) measured at fair value:

	NZ\$	NZ\$	NZ\$	NZ\$
	Level 1	Level 2	Level 3	Total Balance
31 March 2020:				
Assets				
Derivative Financial Instruments	-	655,526	-	655,526
Fixed Interest Investments	-	267,832,787	-	267,832,787
Equity Investments	490,459,580	-	-	490,459,580
Alternative Investments	-	-	4,257,587	4,257,587
Total Assets	490,459,580	268,488,313	4,257,587	763,205,480
Liabilities				
Derivative Financial Instruments	-	(30,233,418)	-	(30,233,418)
Total Liabilities	-	(30,233,418)	-	(30,233,418)
31 March 2019:				
Assets				
Derivative Financial Instruments	-	107,438	-	107,438
Fixed Interest Investments	-	245,024,853	-	245,024,853
Equity Investments	490,116,170	-	-	490,116,170
Alternative Investments	-	-	5,632,673	5,632,673
Total Assets	490,116,170	245,132,291	5,632,673	740,881,134
Liabilities				
Derivative Financial Instruments	-	(1,490,386)	-	(1,490,386)
Total Liabilities	-	(1,490,386)	-	(1,490,386)

There were no transfers between levels during the year (2019: Nil).

The financial assets carried at fair value through profit or loss level 1, being the Plan's Pooled Investment Funds held with JBWere were traded in an active market. For these Pooled Investment Funds, the Trustees believe the Plan could have redeemed its investments at the quoted market price per unit at the year end date of the Statement of Net Assets.

The financial assets carried at fair value through profit or loss level 2 were not quoted in an active market. The fair value is measured using market observable prices as used by market participants. For these investment funds the Trustees believe the Plan could have redeemed its investments at unit pricing provided by the Fund Managers.

The fair value for fixed interest investments is determined by reference to quoted prices in active markets for similar assets or liabilities. Where not available or the market is considered to be lacking sufficient depth to be active, fair value is determined by reference to other significant inputs that are based on observable market data, for example interest rate yield curves and the maturity profile.

The financial assets carried at fair value through profit or loss level 3 were not quoted in an active market, and not based on observable market data. The fair value is measured using the net asset value which is a reasonable approximation of fair value.

MEDICAL ASSURANCE SOCIETY RETIREMENT SAVINGS PLAN

Notes to the Financial Statements For the year ended 31 March 2020

10. Fair Value (Continued)

Reconciliation of level 3 fair value movements	2020 NZ\$	2019 NZ\$
Opening Balance	5,632,673	6,415,641
Capital Investment/(Withdrawal)	(49,268)	(1,390,986)
Total Gains	(1,325,818)	608,018
Closing Balances	<u>4,257,587</u>	<u>5,632,673</u>

The financial assets carried at fair value through profit or loss level 3 were valued using valuation techniques which were consistent with last year. The fair value used for the Maui Capital Indigo Fund, Maui Capital Aqua Fund and Pencarrow IV Fund are determined with reference to valuations. The potential change in the relevant input by 10% would have the effect of impacting the fair value by \$425,758 (2019: \$563,267).

Derivative Financial Instruments Valuation

Derivative financial instruments are measured at fair value. The fair value of derivatives has been determined by reference to approximate price valuations received from registered banks. Valuations take account of relevant market conditions.

11. Related Parties

The Plan is distributed by Medical Assurance Society New Zealand Limited. Medical Funds Management Limited ("MFM") provides management services to the Plan. MFM charged a management fee to the Plan of \$8,741,114.41 (2019: \$7,706,661) being 1% of funds under management, except for the Cash Fund where the fee is 0.5%. \$732,713.03 (2019: \$2,007,846.44) has been accrued at balance date. MFM is responsible for paying JBWere and Bancorp investment management fees relative to the management of those funds. MFM is also responsible for paying Link for administration costs. All related party transactions are at arms length. No related party debts have been written off or forgiven during the year (2019: Nil).

12. Commitments and Contingent Liabilities

	2020 NZ\$	2019 NZ\$
Maui Capital Aqua Fund	1,038,586	1,384,781
Maui Capital Indigo Fund	13,297	36,311
Pencarrow IV Fund	21,811	24,013
Total Capital Commitments	<u>1,073,694</u>	<u>1,445,105</u>

Capital commitments represent the uncalled capital contracted for at balance date but not yet paid to Maui Capital Aqua Fund, Maui Capital Indigo Fund, and Pencarrow IV Fund.

13. Events after Balance Date

There have been no material events after balance date that require adjustment or disclosure in the financial statements.

The RIAA Certification Symbol signifies that a product or service offers an investment style that takes into account certain environmental, social, governance or ethical considerations. The Symbol also signifies that the Medical Assurance Society Retirement Savings Plan adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Superfund Option. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the Medical Assurance Society Retirement Savings Plan's methodology and performance can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.



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