

Annual report  
for the year ended 31 December 2006



nZUSS

New Zealand Universities' Superannuation Scheme

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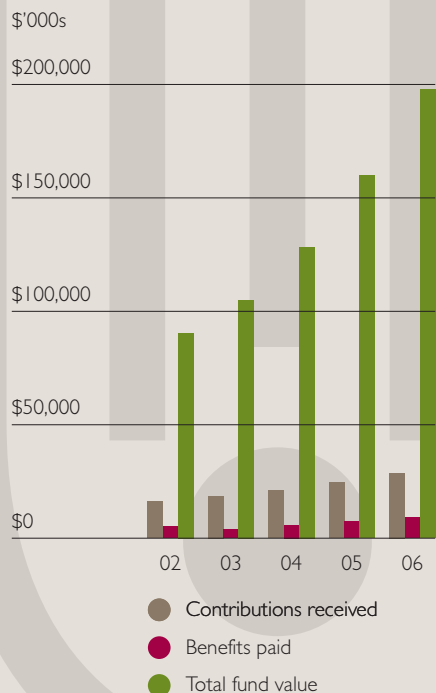
## Summary Highlights

Declared crediting rates for each investment option (after tax) for the year ended 31-12-2006 are:

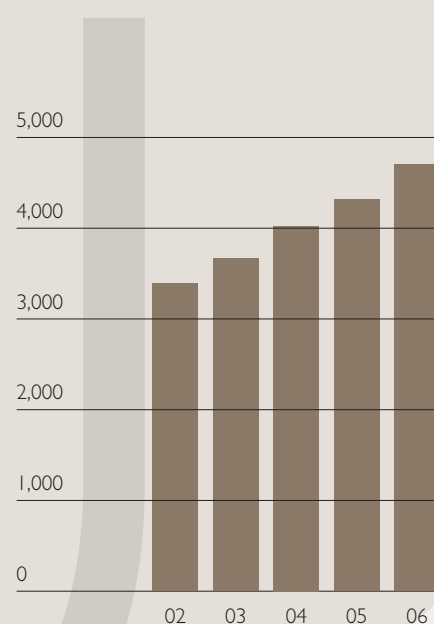
Growth	13.62%
Balanced	10.89%
Conservative	7.74%
Cash	5.50%
Total Membership as at 31-12-2006	4,704
Contributions Received During the Year	\$28,663,933
Benefits Paid During the Year	\$9,099,572
Total Fund Value as at 31-12-2006	\$197,772,437

## Five Year Snapshot

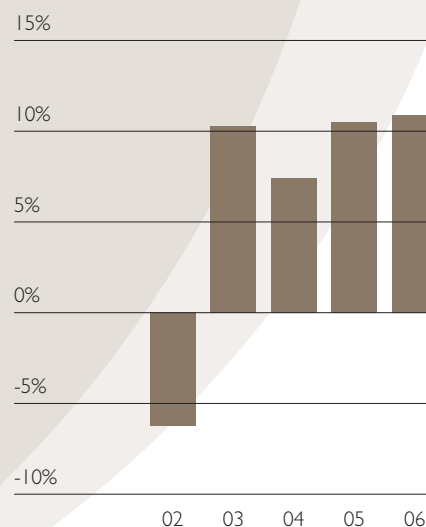
**Scheme Growth, Contributions, Benefits & Total Fund Value**



**Membership Growth**



**Declared Crediting Rate (After Tax) Balanced Investment Option\***



\*When member investment choice was introduced on 1 October 2004, the Scheme's existing balanced investment strategy became the Balanced investment option.

## Message from the Chairman

On behalf of the Trustees, I am pleased to present the annual report of the New Zealand Universities' Superannuation Scheme for the year ended 31 December 2006.

The triennial election for the two Member-elected Trustees was held during June. Trustees are elected for a three-year term of office. Successful candidates were Dr Neville Bennett of Canterbury University, who was re-elected, and Mr Grant McKenzie, Director of Financial Services at Otago University. The Trustees would like to thank Ms Delwyn Arthur for her valuable contribution as a Trustee of the Scheme during her term of office.

The Scheme's new Super Guide and Investment Statement were issued on 1 June 2006. The Super Guide is intended to provide a user-friendly explanation of the Scheme's main features. The Investment Statement provides more technical details in the legally required format. Copies of either or both documents can be obtained

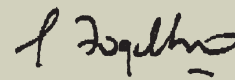
by members from either the human resources or payroll offices of their University.

The Scheme continues to show excellent growth. At balance date, 31 December 2006, assets of \$197.8 million (\$159.9 million at 31 December 2005) were invested on behalf of 4,704 members (4,317 at 31 December 2005) in a number of investment funds.

The declared crediting rates allocated to members' accounts for the Scheme year to 31 December 2006 depend on the investment option chosen. The rates for each option are shown in the table below. For details of the declared crediting rates allocated to the accounts of members who left the Scheme during the year, please refer to page 9.

Note that if a member did not choose an investment option when member choice was introduced over two years ago, his/her monies are invested in the Balanced option.

The Trustees welcome your suggestions and comments about the Scheme. These should be addressed to the Secretary to the Trustees at the address on page 13 or by calling the helpline on 0800 UNIScheme (0800 864 724).



Graeme Fogelberg  
Chairman of Trustees

Option	Declared Crediting Rates – Year to 31 December 2006
Growth	13.62%
Balanced	10.89%
Conservative	7.74%
Cash	5.50%

## Superannuation News

During the year, the Government introduced major changes that will affect everyone in the superannuation industry. Together with the Universities' Vice-Chancellors, the Trustees have been carefully evaluating the impact those changes might have upon members' superannuation decisions.

To encourage more New Zealanders to save for their retirement, KiwiSaver is to be introduced from 1 July 2007.

As this report goes to press, the Trustees are in the middle of finalising necessary adjustments to the Scheme to incorporate a KiwiSaver option for existing and new members who may wish to select it.

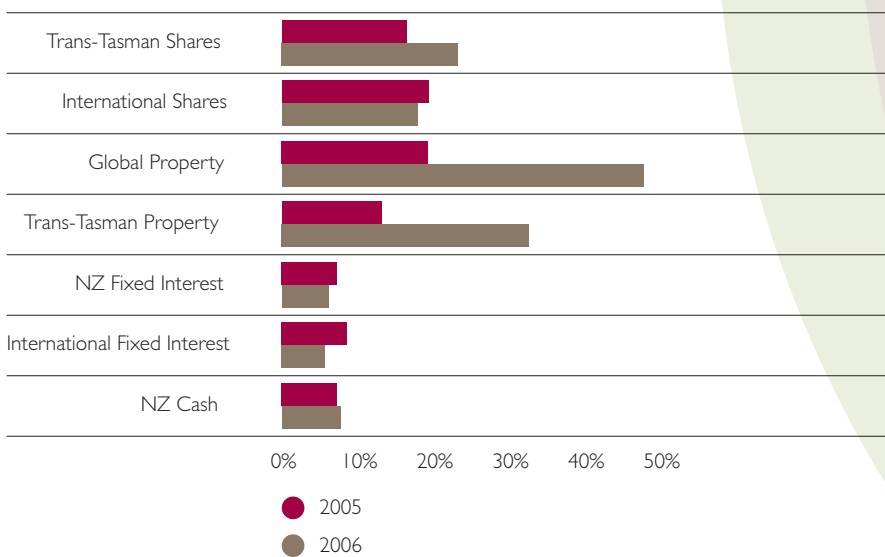
Income taxation changes introduced by the Government will affect members themselves as well as how some of the Scheme's funds are invested in international shares. The changes will become effective during the 2007 year.

All Trustees are very conscious of the need to ensure that changes made to the New Zealand Universities' Superannuation Scheme are in members' best interests. When all the changes have been finalised, we will communicate directly with members to advise details of them.

# Investment Management

## Performance

The graph below compares the annual return (*before tax and investment expenses*) for each asset class in which the Scheme has been invested for the 2005 and 2006 years. From the above it can be seen that 2006 continued the excellent run experienced by investment markets since the beginning of 2003. For the fourth year in a row, all investment sectors produced positive returns. Outstanding performances were achieved by both global and Trans-Tasman property with before tax returns of 47.8% and 32.7% respectively.



Merger and acquisition activity and the prospect of new income tax legislation in New Zealand saw returns from the Scheme's investments in Trans-Tasman shares surge in the last quarter to produce a before-tax return for the year of 23.3%.

Overseas sharemarkets also performed well, benefiting from positive corporate earnings results and a generally favourable global economic environment. Although the strength of the New Zealand dollar detracted from returns from international shares,

before tax the Scheme's investments in this sector still returned an excellent 18.0% for the year. To provide some protection against currency movements, some of the Scheme's investments in this area are hedged.

Returns from both New Zealand and international fixed interest securities were more modest. However, at 7.8% before tax, over the year cash invested short term was able to take advantage of rising interest rates and outperformed both New Zealand fixed interest securities 6.2% and international fixed interest securities 5.7% before tax returns.

### Investment managers

The following table shows how the Scheme's assets were invested with different fund managers as at 31 December 2006:

Asset Class	Manager	Assets (\$m)
Trans-Tasman Shares	Brook Asset Management	15.22
	ING New Zealand	14.89
International Shares	AMP Capital Investors	68.43
Trans-Tasman Property	ING New Zealand	12.44
Global Property	AMP Capital Investors	11.22
NZ Fixed Interest	Tyndall Investment Management	26.21
International Fixed Interest	Tower Asset Management	37.12
NZ Cash	ING New Zealand	11.26

## Asset Allocation Summary

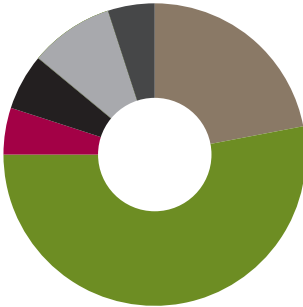
### Growth Option

Value as at 31 December 2006: \$23,212,645

#### Profile

Has the potential to provide the highest returns of the four options over the long term. Returns are likely to be more volatile from year to year. Investors should be aware that this is the highest risk option.

● Trans-Tasman Shares 22%	● International Shares 53%	● Property 5%
● NZ Fixed Interest 6%	● International Fixed Interest 9%	● NZ Cash 5%



### Balanced Option

Value as at 31 December 2006: \$168,658,284

#### Profile

Has the potential to provide higher long-term returns than the Conservative or Cash options. Returns are likely to be more volatile from year to year than the Cash or Conservative options. Some risk, but not as volatile as the Growth option.

● Trans-Tasman Shares 16%	● International Shares 39%	● Property 5%
● NZ Fixed Interest 14%	● International Fixed Interest 21%	● NZ Cash 5%



### Conservative Option

Value as at 31 December 2006: \$4,010,670

#### Profile

Medium to longer-term returns are likely to be lower than Growth or Balanced, but higher than the Cash option. Designed to dampen volatility, but might provide the occasional negative return.

● Trans-Tasman Shares 7%	● International Shares 18%	● Property 5%
● NZ Fixed Interest 16%	● International Fixed Interest 24%	● NZ Cash 30%



### Cash Option

Value as at 31 December 2006: \$1,124,401

#### Profile

The most conservative option. Intended for shorter-term savings since it is not expected to achieve large long-term growth. Very unlikely to post a negative return.

● NZ Cash 100%
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# How the Scheme Works

## Trustees

The Scheme is governed by five Trustees. Of these, two are University-appointed Trustees, two are member-elected Trustees and the fifth is elected by the other four Trustees to act as an independent chair.

At 1 January 2007, the Trustees of the Scheme are:

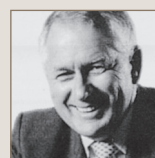
### Dr Graeme Fogelberg

Independent Chair

Appointed 2006

Previously a University-appointed Trustee

(1998-2005)



### Dr Neville Bennett

Member-elected Trustee

History Department

University of Canterbury

Re-elected 2006



### Mr Jonathan Blakeman

University-appointed Trustee

Director of Administration

University of Auckland

Appointed 2000



### Mr Grant McKenzie

Member-elected Trustee

Director of Financial Services

Otago University

Elected 2006



### Mr Wayne Morgan

University-appointed Trustee

Chief Financial Officer

Victoria University

Appointed 2006



Secretary to the Trustees and address for correspondence to the Trustees:

### Mr Lindsay Taiaroa

Executive Director

New Zealand Vice-Chancellors' Committee

Wellington



## Trustee changes

Mr Wayne Morgan was appointed as a Trustee by the Universities effective 1 January 2006.

Dr Neville Bennett and Mr Grant McKenzie were the successful candidates at the Member-Trustee election and took office from 1 July 2006. Ms Delwyn Arthur's appointment ceased effective from 30 June 2006.

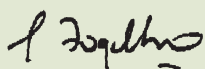
Dr Graeme Fogelberg was elected as Chairman effective 1 January 2006.

## Trustees' Certification


The following is provided in accordance with the Superannuation Schemes Act 1989:

1. The Trustees state that all the contributions required to be made to the Scheme in accordance with the terms of the Trust Deed have been made.
2. The Trustees certify that all the benefits required to be paid from the Scheme in accordance with the terms of the Trust Deed have been paid.
3. The Trustees certify that the market value of the assets of the Scheme at the close of the financial year exceeded 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 the close of the financial year.

For and on behalf of the Trustees:



Trustee



Trustee

# Prospectus

The registration date of the Scheme's most recent Prospectus is 30 June 2006.

## Interim Interest Rates

At the end of each month, members' account balances are updated with interest at the rates declared by the Trustees, based on the actual investment return for the appropriate investment option less estimated income tax and expenses.

The rates applied for the month of December are usually adjusted up or down when the annual financial statements have been completed. Any adjustment to the interim interest rates for December take into account differences between the actual expenses and those estimated during the year. No adjustments are made to the rates declared for the months January to November inclusive.

When a member leaves the Scheme during the financial year, an interim monthly rate is used to cover the period between the end of the previous month and the date on which the benefit is payable.

The Superannuation Schemes Act requires that the year-to-date monthly crediting rates (after tax and expenses) be disclosed. They were:

2006	Investment Option			
	Cash	Conservative	Balanced	Growth
January	0.41%	0.92%	1.51%	1.98%
February	0.75%	1.64%	2.61%	3.37%
March	1.32%	3.45%	5.95%	7.83%
April	1.72%	3.44%	5.73%	7.52%
May	2.17%	2.74%	3.95%	5.05%
June	2.51%	3.47%	5.15%	6.61%
July	2.99%	3.95%	5.59%	7.06%
August	3.39%	4.15%	5.45%	6.70%
September	3.77%	4.86%	6.49%	7.93%
October	4.22%	5.82%	8.05%	9.95%
November	4.59%	6.51%	8.97%	11.03%
December*	4.99%	7.22%	10.35%	13.07%

\*The December year-to-date figures differ from the final rates shown elsewhere in this report because the figures for the December month were adjusted to take into account differences between the actual expenses and those estimated during the year.

Example:

The account balances of a member who left the Scheme in December (after the rates for November were declared) would have been credited with interest at:

- 11.03% had the member elected to invest in the Growth option,
- 8.97% had the member elected to invest in the Balanced option,
- 6.51% had the member elected to invest in the Conservative option and
- 4.59% had he or she elected to invest in the Cash option.

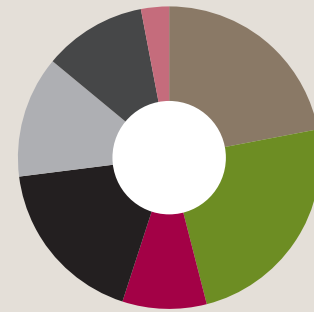
If the member left in December before the November rates were declared, the October rates would apply.

## Membership Profile

The changes in the Scheme's membership over the last two years are shown in the table below:

	Year ended 31 December 2006	Year ended 31 December 2005
Opening Membership	4,317	4,026
<b>Increased by:</b>		
New members	636	563
<b>Decreased by:</b>		
Normal retirements (including late retirements)	(46)	(29)
Early retirements	(9)	(10)
Ill-health retirements	(3)	(3)
Death	(8)	(4)
Redundancies	(29)	(25)
Resignations	(144)	(193)
Transfers out	(10)	(8)
<b>Membership as at 31 December</b>	<b>4,704</b>	<b>4,317</b>

The distribution of members amongst the participating universities is illustrated in the chart below:



● Auckland 22%	● Otago 24%
● Victoria 9%	● Massey 18%
● Canterbury 13%	● Waikato 11%
● Lincoln 3%	

## Scheme Documentation

Copies of the current Investment Statement (which explains the terms and conditions of the Scheme in a standard format), the booklet 'Introducing member investment choice' and the Prospectus are available from the Superannuation Officer at members' Universities. Copies of the Trust Deed are also available from the Secretary to the Trustees. Alternatively, follow the links on the website [www.nzvcc.ac.nz](http://www.nzvcc.ac.nz) to see a copy of the Investment Statement, Prospectus or Trust Deed.

## Statement of Investment Policy and Objectives

A copy of the Scheme's investment policy and objectives is available free of charge by contacting the Secretary to the Trustees at the address shown on page 13. The Trust Deed allows the Trustees to amend the policy and objectives as they see fit.

## Trust Deed

The Trust Deed was not amended during the year. Changes are currently being discussed with the Trustees and the Scheme's advisers and once these are finalised we will inform members of them.

# Summary of the Financial Statements

New Zealand Universities' Superannuation Scheme

Year ended 31 December 2006

	2006 \$	2005 \$
<b>Statement of Financial Performance</b>		
<b>Investment Activities</b>		
Net Investment Revenue	18,525,350	14,652,107
<b>Total Revenue</b>	<b>18,525,350</b>	<b>14,652,107</b>
Less		
<b>Other Expenses</b>		
Administration Fees	236,717	233,314
Superannuation & Investment Consulting Fees	171,182	141,992
Auditors' Remuneration - Audit Fees	14,991	19,631
Other Fees	154,597	144,321
<b>Total Other Expenses</b>	<b>577,487</b>	<b>539,258</b>
<b>Surplus before Taxation and Membership Activities</b>	<b>17,947,863</b>	<b>14,112,849</b>
Income Tax Credit	(330,308)	(276,458)
<b>Surplus after Taxation and before Membership Activities</b>	<b>18,278,171</b>	<b>14,389,307</b>
<b>Membership Activities</b>		
Member Contributions	15,867,267	13,454,047
Employer Contributions	12,520,860	10,932,331
Transfers from Other Funds	275,806	55,787
Less Benefits Paid	9,099,572	7,361,534
<b>Net Membership Activities</b>	<b>19,564,361</b>	<b>17,080,631</b>
<b>Benefits Accrued During Year</b>	<b>37,842,532</b>	<b>31,469,938</b>
<b>Statement of Financial Position</b>		
<b>Assets</b>		
Investments	196,784,112	158,304,448
Current Assets	1,977,099	1,781,587
<b>Total Assets</b>	<b>198,761,211</b>	<b>160,086,035</b>
Less		
<b>Current Liabilities</b>		
Contributions Refundable	16,471	-
Benefits Payable	778,540	40,105
Sundry Creditors	193,763	105,025
<b>Total Liabilities</b>	<b>988,774</b>	<b>145,130</b>
<b>Liability for Accrued Benefits</b>	<b>197,772,437</b>	<b>159,940,905</b>
<b>Vested Benefits*</b>	<b>168,003,738</b>	<b>135,187,039</b>
<b>Statement of Cash Flows</b>		
Net Cash Flows from Operating Activities	19,838,671	16,659,534
Net Cash Flows from Investing Activities	(19,457,647)	(16,632,407)
<b>Net Increase in Cash Held</b>	<b>381,024</b>	<b>27,127</b>
Cash at Beginning of Year	1,220,665	1,193,538
<b>Cash at End of Year</b>	<b>1,601,689</b>	<b>1,220,665</b>

\*Vested Benefits are benefits payable to members or beneficiaries under the conditions of the Trust Deed, on the basis of all members ceasing to be members of the Scheme at balance date.

## Financial Statements

A summary of the Scheme's audited financial statements for the year ended 31 December 2006, which were authorised for issue on 11 April 2007, is shown on page 11. The summary financial report has been extracted from the full audited financial statements dated 11 April 2007 and therefore cannot be expected to provide as complete an understanding as provided by the full financial statements of the financial performance, financial position and cash flows of the entity.

**A copy of the full financial statements can be obtained free of charge from the Superannuation Officer at your University or by calling the Service Centre on 0800 UNISCHEME (0800 864 724).**

## Auditor's Report



■ Chartered Accountants

To the Members of the New Zealand Universities' Superannuation Scheme

We have audited the summary financial statements of the New Zealand Universities' Superannuation Scheme for the year ended 31 December 2006 as set out on page 11.

This report is made solely to the Scheme's members, as a body, in accordance with Section 13(1)(c). Our audit has been undertaken so that we might state to the Scheme's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Trustees' Responsibilities

The Trustees are responsible for the preparation of summary financial statements in accordance with generally accepted accounting practice in New Zealand.

### Auditor's Responsibilities

It is our responsibility to express an independent opinion on the summary financial statements presented by the directors and report our opinion to you.

### Basis of Opinion

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary financial statements are consistent with the full financial statements on which they are based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-39: *Summary Financial Reports*.

Other than in our capacity as auditor we have no relationship with, or interest in, the Scheme.

### Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with generally accepted accounting practice in New Zealand, is correctly extracted from and is materially consistent with the full financial statements from which they are derived and upon which we expressed an unqualified audit opinion in our report to the members dated 11 April 2007.

Our audit was completed on 11 April 2007 and our unqualified opinion is expressed as at that date.

*Ernst + Young*  
Wellington

## Directory

Administrator Mercer Human Resource Consulting Ltd

Auditors Ernst & Young

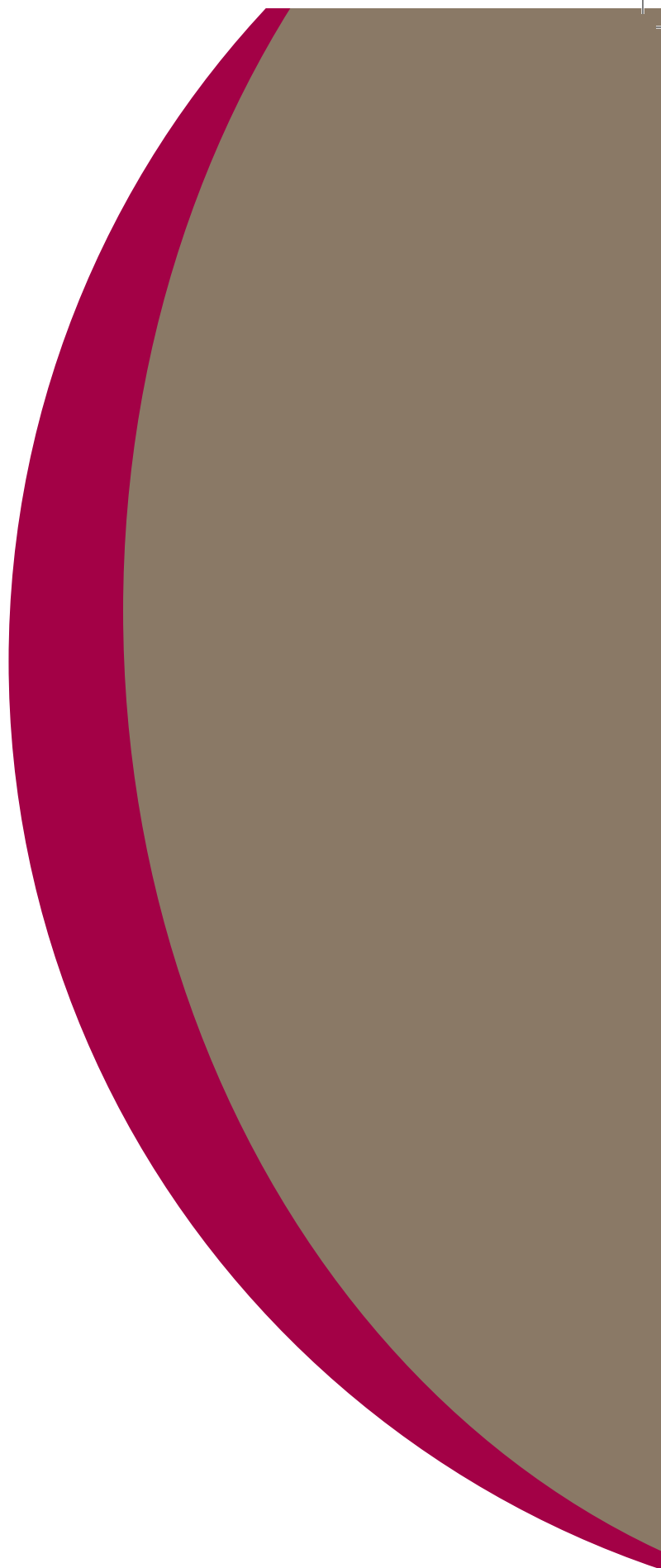
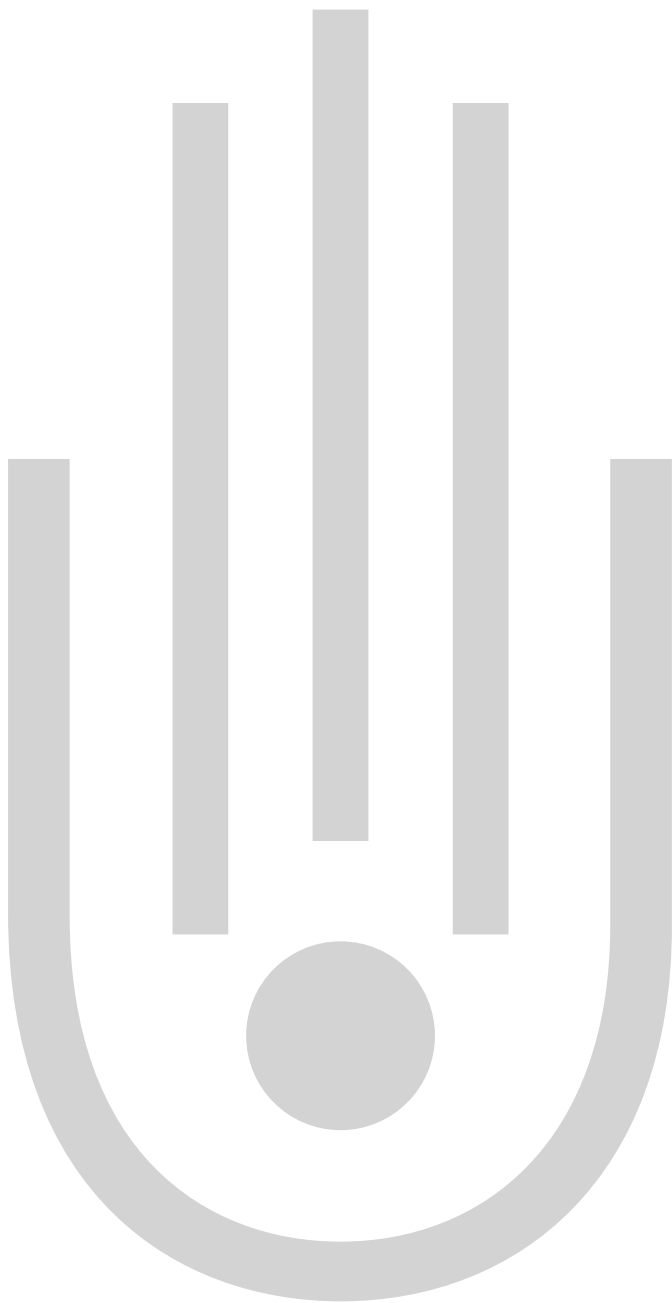
Investment Consultant Mercer Investment Consulting

Legal Advisers Kensington Swan

## Contact Details

Administrators Mercer Human Resource Consulting Ltd  
P O Box 1894  
Wellington 6140  
Phone 0800 UNIScheme (0800 864 724)

Postal address for correspondence  
to the Trustees: The Secretary  
New Zealand Universities'  
Superannuation Scheme  
P O Box 11-915  
Wellington 6142



New Zealand Universities' Superannuation Scheme