

Aon KiwiSaver Scheme

Annual Report 2018



Dear members

We are pleased to bring you the annual report for the Aon KiwiSaver Scheme for the year ended 31 March 2018.

The Aon KiwiSaver Scheme (Scheme) continues to consistently deliver good investment returns compared with its peers due to the quality of our underlying investment managers.

Morningstar Awards

We were thrilled that the Aon KiwiSaver Scheme was a finalist in the KiwiSaver category in the recent Morningstar Awards. In addition, two of the Scheme's underlying investment managers (Nikko and Milford) were finalists in the Fund Manager of the year category with Nikko taking the award in this category.

Investment markets over the year

After a period of fairly steady growth in asset prices through most of 2017, volatility returned to capital markets in the first three months of 2018, leading to negative returns from share markets and only small positive returns from fixed interest investments. Fortunately, the strong returns which were achieved in the previous 9 months meant that returns for the year as a whole were reasonably robust. Growth-oriented funds outperformed the more conservative funds as growth assets (primarily shares and property) fared better than cash and fixed interest investments over the year, despite underperforming in the last quarter.

The volatility that investors experienced in the first quarter of 2018 was a useful reminder that asset prices do not go up in a straight line. In fact, the period of very low volatility in share markets that has been experienced over the last 5 years or so is very unusual. Perhaps we are just starting to see a move back towards a more normal level of volatility.

It is hard to pinpoint exactly why volatility has returned after such a long period of calm. The catalyst for the share sell off in equity markets in early February 2018 was the announcement of a higher than anticipated level of wage inflation in the US. But the number itself was not significantly higher than expected – indeed with unemployment in the US running at a 17 year low, some evidence of wage inflation should not really have come as a surprise. So why the extreme reaction?

The recovery in share markets since the Global Financial Crisis of 2008/9 has come about as a result of slowly improving economic fundamentals and very accommodative monetary policy (i.e. very low interest rates accompanied by reserve banks aggressively buying fixed interest investments in order to keep yields low). This combination of policies has provided a tailwind that has allowed asset prices (in particular share prices) to outpace economic growth. Now that economic growth looks healthy enough to sustain some monetary tightening (rising interest rates and the end of bond buying by reserve banks), asset prices face a commensurate headwind. Any hint of higher than expected inflation makes investors nervous that the monetary tightening headwind will accelerate, even if the underlying economy remains healthy; and this is what we saw in February.

There are two other reasons for the increase in volatility – and these also originate in the US. Firstly the fiscal stimulus (tax cuts accompanied by additional borrowing and spending) that Donald Trump's presidency is implementing at this late stage in the economic cycle. This goes against traditional economic theory which would suggest fiscal tightening is more appropriate. And running alongside this is the prospect of a trade war between the US and China (and others), which is impacting heavily on share markets.

If we add into the mix political uncertainty in Europe, ongoing Brexit negotiations in the UK, a pick-up in economic growth and inflation in Japan and the oil price back above \$70 per barrel and seemingly moving higher, it is likely that heightened volatility is here to stay. But it is the outlook for the global economy that will ultimately drive markets. In the short to medium term we are cautious about this. Inflation creeping up, rising interest rates in economies used to ultra-low rates and diminished liquidity as central banks tighten all point to the potential for asset prices to correct at some point. Trade and geopolitical stress add to the short term risks.

As we continually point out, KiwiSaver is a long term investment and investment managers need to be able to deliver in all economic conditions. They need to constantly balance risk and reward to ensure that members capture investment gains when things go well but are not overexposed when asset prices fall.

Putting fees into context


At a time when there is a lot of focus on the fees that KiwiSaver members are paying to their managers it is worth remembering why investors pay fees. Successful investment management takes skill, and skill costs money. Ultimately what should matter to investors is the net investment return they receive after all fees have been paid and Aon's KiwiSaver investment options have consistently delivered strong after-fee returns.

If investment markets always went up in a straight line, investing would be easy and KiwiSaver members would be rewarded for simply selecting the lowest fee options. But we know that is not the case. After-fee returns are what matters, and in an uncertain world, the lowest cost options might not provide the best returns over the long term.

Thank you

Thank you for choosing the Aon KiwiSaver Scheme as your KiwiSaver scheme.

We are committed to the ongoing success of the Aon KiwiSaver Scheme and helping you on your path to financial security in retirement.



Janet Hayden

On behalf of the Manager
Aon Saver Limited

"Ultimately what should matter to investors is the net investment return they receive after all fees have been paid and Aon's KiwiSaver investment options have consistently delivered strong after-fee returns."



Details of Scheme

The name of the Scheme is the Aon KiwiSaver Scheme. The Scheme is a KiwiSaver scheme.

Aon Saver Limited is the manager of the Scheme (Manager) and a subsidiary of Aon Holdings New Zealand, which is a member of the Aon group of companies whose ultimate parent company is Aon plc of London. Aon plc is a leading global professional services firm providing a broad range of risk, retirement and health solutions.

The supervisor of the Scheme is Public Trust.

The date of the most recent product disclosure statement (PDS) is 5 June 2018. The PDS has an “open for applications” status on the Disclose register. The latest fund updates for each fund within the Scheme are dated 31 March 2018. The latest financial statements for the Scheme and auditor’s report have been lodged on the Disclose register and are available at disclose-register.companiesoffice.govt.nz or at aonkiwiwsaver.co.nz.

Information on contributions and scheme participants

The total value of members’ accumulations at 1 April 2017 was \$429,747,950 and at 31 March 2018 totalled \$498,574,954.

Membership	Number of members at 1 April 2017	Number of members at 31 March 2018
Members	19,947	19,808
Contributing members	11,969	12,163
Note: a contributing member is a member who is making contributions to the Scheme or on whose behalf contributions are being made to the Scheme		
Non-contributing members	7,978	7,645

The following tables set out the number of people who became members and ceased to be members during the year ended 31 March 2018.

New members	Number of members
New members other than transfers from other schemes	1,199
Transfers in from other KiwiSaver schemes	417
Transfers in from other retirement schemes	7
Transfers in from Australian superannuation schemes	27
Total	1,650

Exits	Number of members
Retirement	175
Death	30
Permanent emigration	5
Transfer out	1,518
Other reasons	61
Total	1,789

The total amount of contributions received during the year ended 31 March 2018 was \$56,773,290 in respect of 13,759 members. The following table provides further information on the types of contributions to which the total amount relates.

Contributions	Amount \$000	Number of members
Member contributions	29,051	13,759
Employer contributions	17,169	13,630
Government contributions	5,808	13,139
Member voluntary additional contributions	4,745	2,150

Changes relating to the Scheme

The Scheme's trust deed, PDS and the statement of investment policy and objectives (SIPO) were updated during the year ended 31 March 2018. The trust deed was amended to clarify the method of payment of fees and expenses by the Scheme and to make other updates to reflect legislative changes affecting the Scheme. The PDS and SIPO were updated mainly to reflect changes in the target mix and permitted ranges of some of the Scheme's funds.

Since 31 March 2018, the PDS and SIPO were updated (effective 5 June 2018) mainly to reflect a change in the target mix and permitted ranges of the Nikko Balanced Fund.

There were no related party transactions entered into during the year ended 31 March 2018 that were not on arm's length terms.

Other information for particular types of managed funds

Withdrawal information

The following table sets out the permitted withdrawals made during the year ended 31 March 2018:

Type of withdrawal	Number of members
Retirement	316
Death	30
Permanent emigration	5
First home purchase	142
Significant financial hardship	89
Serious illness	26
Tax liabilities and student loan obligations	0
Mortgage diversion	1

Investment returns

The performance of our underlying investment managers gets regularly reviewed with the assistance of our investment consultant. The purpose of these reviews is to monitor the performance of our underlying investment managers taking into consideration the amount of risk the underlying investment manager is taking for the return it delivers. Asset mixes for the Nikko, Milford and Russell funds are determined by the respective underlying investment manager, but are reviewed by the Manager to ensure they continue to be appropriate for the Scheme.

All 14 Aon KiwiSaver Scheme funds have performed well. The investment returns for each of the funds for the year to 31 March 2018, and the unit prices at the start and end of the year, are set out below:

Fund	Investment return (net of fund charges but before tax)	Unit price at start of year (1 April 2017) \$	Unit price at end of year (31 March 2018) \$
ANZ Cash	1.83%	15.0252	15.3008
ANZ Balanced	6.17%	23.5873	25.0420
Milford Active Growth Wholesale	13.21%	2.9875	3.3820
Nikko Cash	2.20%	14.0363	14.3457
Nikko Balanced	10.14%	17.0017	18.7254
Russell LifePoints® Conservative	5.45%	9.1862	9.6869
Russell LifePoints® Moderate	7.19%	9.0256	9.6744
Russell LifePoints® Balanced	8.95%	8.6245	9.3962
Russell LifePoints® Growth	10.25%	8.5262	9.4002
Russell LifePoints® Target Date 2015	5.44%	8.7773	9.2548
Russell LifePoints® Target Date 2025	6.92%	8.5296	9.1200
Russell LifePoints® Target Date 2035	8.70%	8.3849	9.1143
Russell LifePoints® Target Date 2045	10.08%	8.1102	8.9281
Russell LifePoints® Target Date 2055	11.44%	6.0521	6.7444

The formula used to calculate the investment performance is:

$$\frac{\text{Unit price at end of year}}{\text{Unit price at start of year}} - 1$$

Unit prices are net of fund charges but before tax. The unit price at the start of the year is the closing price for 31 March 2017.

Manager's statement

The Manager states that:

- All the benefits required to be paid from the Scheme in accordance with the terms of the governing document of the Scheme and the KiwiSaver scheme rules have been paid; and
- The market value of the scheme property at 31 March 2018 equalled or 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 31 March 2018.

Changes to persons involved in the Scheme

Changes to the directors of the Manager (Aon Saver Limited) during the year ended 31 March 2018 were:

- With effect from 22 December 2017, Vincenzo Cutrupi was appointed to replace Janice Segupta.

Changes to the board of the supervisor (Public Trust) during this period were:

- Ian FitzGerald was appointed on 22 May 2017.
- Lyn Lim's term ended effective 30 June 2017 and Sarah Roberts' term ended effective 31 August 2017.

At Aon, the successful close of the divestiture of our HR outsourcing and global benefits administration business to Blackstone in early May 2017 has provided Aon with the opportunity to reshape the business. This has resulted in changes in the business both globally and at Pacific level. As a result of these changes:

- Janet Hayden's role as Head of Retirement and Financial Management was disestablished and Janet left Aon in September 2017.
- Simon Ferry, Manager of Retirement & Financial Management, joined Aon New Zealand in May 2017.
- Amanda Beeslaar took on the role of Head of Retirement Products in July 2017.

Although Janet Hayden left the employment of Aon New Zealand she continued as a director of Aon Saver Limited (the manager of the scheme).

How to find further information

Further information relating to the Scheme (including financial statements, the trust deed, the SIPO, fund updates, annual reports, the PDS, and other material information) is available on the offer register and the scheme register. These registers can be found at disclose-register.companiesoffice.govt.nz. This information is also available on our website aonkiwisaver.co.nz.

A copy of information on the offer register or scheme register is available on request to the Registrar of Financial Service Providers.

The following information may also be requested from us free of charge, by contacting us in writing:

- A copy of the PDS.
- Copies of all written investor communications sent to you (including annual reports, financial statements, PIE statements and confirmation information).
- Copies of the trust deed, SIPO and fund updates.
- A written statement of your unit holding as detailed in the Scheme's register of investors.
- Minutes of any investor meetings.
- Resolutions passed by investors.

Keep track of your KiwiSaver money

You can view your account online by going to aonkiwisaver.co.nz.

Alternatively, call us on 0800 266 463 and one of our team will be able to assist you.

By using the online facility, as well as viewing your account, you are able to update your personal details including your email address and view relevant publications and investment performances.

Contact details and complaints

Contact details

The Manager can be contacted at:

Aon Saver Limited
Level 16, AMP Centre, 29 Customs Street West
PO Box 3167, Auckland 1140

Telephone: 0800 266 463
Email: aonkiwisaver@linkmarketservices.com
Website: aonkiwisaver.co.nz

The supervisor can be contacted at:

Public Trust
Level 9, 34 Shortland Street
PO Box 1598, Auckland 1140

Telephone: 09 985 5300

Link Market Services Limited is the administrator and maintains the register of the Scheme and can be contacted at:

Link Market Services Limited
PO Box 91976, Auckland 1142
Level 11, Deloitte Centre, 80 Queen Street, Auckland

Telephone: 0800 266 463

Questions or complaints

Should you have any questions or complaints please direct them to us via the administrator at:

Aon KiwiSaver Scheme
Level 11, Deloitte Centre, 80 Queen Street
PO Box 332, Shortland Street, Auckland 1140

Telephone: 0800 266 463
Email: aonkiwisaver@linkmarketservices.com

You may also make a complaint to the supervisor:

Public Trust
Level 9, 34 Shortland Street
PO Box 1598, Auckland 1140

Telephone: 09 985 5300
Email: cts.enquiry@publictrust.co.nz

We, and the supervisor, are members of the independent dispute resolution scheme operated by Financial Services Complaints Limited. If you have made a complaint to us or the supervisor and it has not been resolved within 40 business days or if you are dissatisfied with the proposed resolution, you can refer it to:

Financial Services Complaints Limited
4th Floor, 101 Lambton Quay
PO Box 5967, Wellington 6145

Telephone: 0800 347 257
Fax: 04 472 3728

Financial Services Complaints Limited will not charge you a fee for investigating or resolving a complaint.

Contact us

Our helpdesk staff are available to assist you with any queries. Please note that our contact centre staff are not able to provide you with financial advice.

t: 0800 266 463

e: aonkiwisaver@linkmarketservices.com

w: aonkiwisaver.co.nz

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

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