

Bonus Bonds Scheme

Annual Report | For the year ended 31 March 2020

Manager:
ANZ Investment Services (New Zealand) Limited



Welcome

Annual report for the Bonus Bonds Scheme (the scheme) for the year ended 31 March 2020.

Launched in 1970 by the New Zealand Government through what was then the Post Office Savings Bank, Bonus Bonds quickly became popular with Kiwis.

Half a century later, it remains a quintessential part of New Zealand life.

However, for some time low interest rates have reduced the investment returns of the Bonus Bonds Scheme. This in turn, has affected the size of the prize pool, which fell by 15% over the year to 31 March 2020. This is despite a 19% reduction in our fees.

Covid-19 and its impact on the global economy and interest rates have exacerbated the decline in investment returns. These economic impacts are likely to continue into the medium term, which would mean further reductions to the prize pool.

Because of this, we have decided that it is no longer appropriate to accept new investment into the scheme, and we intend to start winding up the scheme no later than the end of October 2020. Winding up the scheme includes the process of returning funds to bondholders.

From 1 September 2020, we reduced our management fee to 0%, which we felt was the right thing to do in these circumstances.

Until any wind-up starts, the scheme will continue to run monthly prize draws. The September prize draw has been held and by the time you read this, we will likely have held what we expect will be the final draw in October.

If you do not redeem your Bonus Bonds before we commence winding up the scheme, you will be entitled to a share of the remaining reserves, after expenses, when the scheme is wound up. Investors who choose to stay during the wind-up phase will have their investments locked in during this process, which may take up to 12 months.

We believe current reserves are sufficient for bondholders to be confident they will receive back at least their initial investment when the scheme is wound up. The current redemption price for each Bonus Bond continues to be \$1 for anyone redeeming prior to the start of a wind-up.

Stay up to date by regularly checking anz.co.nz. Here you'll find the latest information and updates, including answers to some of the most frequently asked questions.

We'd like to take this opportunity to thank you for supporting Bonus Bonds over the years.



Mark Davies

General Manager Funds

On behalf of the manager

ANZ Investment Services (New Zealand) Limited

Details of the scheme

Name of the Scheme

Bonus Bonds Scheme (**scheme**).

Manager

ANZ Investment Services (New Zealand) Limited (**ANZIS, manager, we, us and our**).

Supervisor

Trustees Executors Limited (**supervisor**).

Product Disclosure Statement

The scheme's latest product disclosure statement is dated 19 August 2019. As at 31 March 2020, the product disclosure statement had an 'open for applications' status. However, this was changed to a 'closed for applications' status on 25 August 2020.

Financial Statements and Auditor's Report

The scheme's latest financial statements for the 12 months ended 31 March 2020, and the auditor's report on those financial statements, were dated 24 September 2020 and were lodged with the Registrar on 25 September 2020. See page 5 for more details.

Description of the scheme

The scheme is a managed investment scheme. As at 31 March 2020, money invested in the scheme was pooled with other bondholders' money and invested in fixed interest assets and cash and cash equivalents. Instead of earning interest or receiving investment gains, each eligible Bonus Bond gave the holder one entry into the monthly prize draw.

On 26 August 2020, we announced that we were no longer accepting purchases from new or existing investors, and intend to start winding up the scheme no later than the end of October 2020.

The scheme now invests mostly in cash and cash equivalents (including term deposits). Until any wind-up starts, the scheme will continue to run monthly prize draws. The scheme is governed by a governing document, which details the requirements for how the scheme will be managed.

The scheme was established on 17 September 1990*.

Information on composition of the scheme

Number of managed investment products

The number of managed investment products on issue at the start and end of the year were:

Investment products	Units on issue at 31 March 2020 000s	Units on issue at 31 March 2019 000s
Bonus Bonds	3,125,672	3,177,423

* While Bonus Bonds was established in 1970, it transitioned to a managed investment scheme in 1990 following the sale of the Post Office Bank Limited to ANZ Bank New Zealand Limited.

Changes relating to the scheme

This section describes any material changes to the scheme's nature, property and management during the year.

Changes to the governing document

There were no material changes to the governing document for the scheme during the year.

Changes to the terms of offer of interests in the scheme

There were no material changes to the terms of offer of interests in the scheme during the year.

Changes to the Statement of Investment Policy and Objectives (SIPO)

The SIPO was updated on 19 August 2019 to reflect:

- that environmental, social and governance factors form part of our investment philosophy, and
- the clarification of our guidelines for duration of investments.

The SIPO was then updated on 27 March 2020 to reflect:

- clarification of the rules around using the assets we hold for liquidity purposes, and
- non-material changes to our investment strategy.

The SIPO was then updated on 26 August 2020 to reflect that the scheme had stopped accepting new investments and intends to start winding up the scheme no later than the end of October 2020. The investment strategy was changed to generate liquidity to fund the monthly prize pool. Other changes included:

- the removal of 'Restrictions on investment liquidity' given the strategy of the scheme is to generate liquidity, and
- clarification that funds held in bank accounts for the purpose of funding investor redemptions are excluded from the maximum percentage of the scheme's investments by New Zealand-registered banks, so that we can hold liquid funds in our bank account to pay investor redemptions.

The SIPO was then updated on 28 August 2020 to ready the scheme further for any intended wind-up, including:

- an additional bullet to the scheme's investment strategy, to enable, to the extent reasonably practicable, prompt distributions to bondholders, in the intended wind-up of the scheme, of the \$1 subscription price for each Bonus Bond, while minimising the risk of distributions to bondholders, in the intended wind-up of the scheme, being less than the \$1 subscription price for each Bonus Bond
- updated investment objectives to maintain the redemption value of each Bonus Bond at \$1, and so far as possible, achieve a distribution of at least \$1 per Bonus Bond in the intended wind-up of the scheme, by maintaining a sufficient level of reserves, and maintain sufficient liquidity in the scheme
- clarification about when ANZ Investments measures performance
- clarification that the SIPO will be reviewed until the SIPO is no longer required
- clarification around investment liquidity, given the closed status of the scheme and primary objectives of the SIPO, there is no defined minimum or maximum liquidity levels
- changes to the maximum exposures by credit rating and issuer type that the scheme can hold, and
- changes to the guidelines for the duration of investments.

Changes to the nature or scale of related party transactions

There were no material changes to the nature or scale of related party transactions entered into for the scheme during the year. All related party transactions were conducted on arm's-length terms.

Changes to valuation and pricing methodologies

There were no material changes to the scheme's valuation and pricing methodologies during the year. However, as a result of the announcement by the manager of its intention to begin winding up the scheme no later than the end of October 2020, the scheme's investments will be sold to redeem Bonus Bonds issued. From 1 April 2020, tradeable investment securities, that is, those investments other than term deposits, are measured at fair value. This change resulted in a \$14.5 million after-tax increase in net assets of the scheme as at 1 April 2020.

Financial condition and performance of the scheme

Total assets of the scheme decreased by 1.71% over the year as a result of the reduction in Bonus Bonds on issue. There was no significant change in the scheme's financial condition over the year, with reserves being 1.90% of Bonus Bonds on issue as at 31 March 2020.

Summary Balance Sheet

	31 March 2020 \$000s	31 March 2019 \$000s	Change %
Cash and investments	3,190,125	3,245,689	-1.7%
Income tax receivable	108	0	n/a
Deferred tax asset	149	95	56.8%
Total assets	3,190,382	3,245,784	-1.7%
Prizes payable	2,543	3,247	-21.7%
Management fees, expenses and tax payable	2,749	4,858	-43.4%
Securities settlements payable	0	3,900	-100%
Total prizes and expenses payable	5,292	12,005	-55.9%
Scheme assets, net of prizes and expenses payable	3,185,090	3,233,779	-1.5%
<i>Represented by:</i>			
Bonus Bonds on issue	3,125,672	3,177,423	-1.6%
Reserves	59,418	56,356	5.4%
Total Bonus Bonds and reserves	3,185,090	3,233,779	-1.5%
Reserves as a percentage of Bonus Bonds on issue	1.90%	1.77%	

Summary of Financial Performance

Investment income continued to fall due to the low interest rate environment. This meant that the prizes that were able to be distributed to investors also fell. In March 2020, we made a reduction to our management fee in order to share some of the impact of the low interest rate environment.

	31 March 2020 \$000s	31 March 2019 \$000s	Change %
Investment income	84,173	99,018	-15.0%
<i>less:</i>			
Management fee and other operating expenses reimbursed to the Manager	32,024	39,616	-19.2%
Supervisor fee	1,120	1,137	-1.5%
Tax	14,233	16,331	-12.8%
Credit impairment charge / (release)	195	(60)	
Scheme returns	36,601	41,994	-12.8%
<i>less Prizes awarded</i>	33,539	39,645	-15.4%
Net income/(loss) after tax and decrease in reserves	3,062	2,349	30.4%
Scheme returns as a percentage of average Bonus Bonds on issue and reserves	1.13%	1.27%	
Prizes awarded as a percentage of the average scheme assets*	1.03%	1.20%	
Average odds of winning a prize in each monthly prize draw	1 in 42,402	1 in 32,296	

* The figures shown illustrate the collective returns to all bondholders in the scheme; they do not represent your returns.

Fees

The following fees and expenses were paid by the scheme during the year ended 31 March 2020:

	\$000s	As a percentage of average scheme property
Management fee	30,962	
Other operating expenses reimbursed to the manager	1,062	
Management fee and other operating expenses reimbursed to the manager	32,024	0.99%
Fees and expenses charged by the supervisor	1,120	0.03%
Total fees and expenses	33,144	1.02%

Fees and expenses charged by the manager and its associated persons at the beginning of the financial year was made up of a management fee of 1.15%, GST on the management fee of 0.02% and expenses of 0.03%.

From 1 July 2019, we reduced the management fee from 1.15% to 0.87%, which also reduced the GST on the management fee to 0.01%.

From 1 June 2020, we reduced the management fee from 0.87% to 0.77%.

From 1 July 2020, we reduced the management fee from 0.77% to 0.32% (including GST of less than 0.005%).

From 1 September 2020, we no longer charge a management fee. Bondholders will still be charged for scheme expenses and the supervisor's fee.

The fees and expenses payable in respect of the scheme may change, as follows:

- Management fees can be changed by giving one month's prior written notice to the supervisor. The percentage of the management fee that is subject to GST is agreed between the Financial Services Council and Inland Revenue (on behalf of the industry).
- The supervisor's fee may be amended by agreement between the supervisor and us.
- The expenses vary each year.
- The manager's removal fee can only be changed by amending the governing document. We would require bondholder approval if the fee change was material.

We will not notify you if we make changes to these fees. We no longer charge a management fee. Bondholders will continue to be charged for scheme expenses and the supervisor's fee. Bondholders who choose to remain in the scheme during wind-up will be entitled to a share of the remaining reserves, after expenses, when the scheme is wound up. The scheme's expenses and the supervisor's fees during the wind-up process will be published in the scheme's financial statements.

Scheme property

As at 31 March 2020, the scheme invested in fixed interest assets and cash and cash equivalents, issued in New Zealand dollars by the types of issuers listed in the SIPO. These investments included but were not limited to:

- for fixed interest assets, debt securities issued in New Zealand by a government, corporation, local authority or bank, and
- for cash and cash equivalents, deposits, short-term debt securities or floating rate notes issued by New Zealand registered banks:

	31 March 2020		31 March 2019		Change %
	\$000s	% of total	\$000s	% of total	
Deposits with New Zealand registered banks	1,221,699	38.3%	1,481,082	45.6%	-17.5%
Securities issued by New Zealand registered banks	1,533,476	48.0%	1,394,459	43.0%	10.0%
Securities issued by the New Zealand Government	425,970	13.4%	370,485	11.4%	15.0%
Other securities	9,512	0.3%			
Gross cash and investments	3,190,657	100.00%	3,246,026	100.00%	-1.7%
Provision for credit impairment	(532)		(337)		57.9%
Net cash and investments	3,190,125		3,245,689		-1.7%

As at 31 March 2020, the SIPO restricted the manager to invest no more than 30% of the scheme's investments with ANZIS's parent company ANZ Bank New Zealand Limited.

The SIPO was updated on 26 and 28 August 2020 to reflect that the scheme was closed to new investors and to assist liquidity and cash management for redemptions. Refer to page 4 for the list of changes to the SIPO.

Changes to persons involved in the scheme

Manager

ANZ Investment Services (New Zealand) Limited was the manager of the scheme throughout the year.

Directors of the manager

The directors of the manager as at 31 March 2020 were:

- Paul Robert Daley
- Benjamin Paul Kelleher
- Craig Andrew Mulholland
- Annis Gail O'Brien

The following changes to the directors of the manager of the scheme occurred during the year:

- Ronald Bruce Macintyre resigned as a director of the manager on 2 December 2019.
- Antonia Margaret Watson resigned as a director of the manager on 23 March 2020.
- Benjamin Paul Kelleher was appointed as a director of the manager on 23 March 2020.

Key personnel of the manager

The following changes have taken place since 1 April 2019:

- Keren Roberts ceased being General Manager Wealth Operations on 6 April 2020.
- Grant Hodder was appointed as Acting General Manager Wealth Operations on 6 April 2020.

Supervisor and Custodian

Trustees Executors Limited was the supervisor and custodian of the scheme throughout the year.

Directors of the supervisor and custodian

The directors of the supervisor and custodian as at 31 March 2020 were:

- Ryan Elliot Bessemer
- Victoria Grace
- Graeme Kirkpatrick
- Laurence Stanley Kubiak

The following changes to the directors of the supervisor and custodian occurred during the year:

- Ryan Elliot Bessemer was appointed as a Director on 2 October 2019.
- Victoria Grace was appointed as a Director on 2 October 2019.
- Graeme Kirkpatrick was appointed as a Director on 2 October 2019.
- Laurence Stanley Kubiak was appointed as a Director on 25 October 2019.
- Mark Charles Darrow resigned as a Director on 2 October 2019.
- Sarah Mary Roberts resigned as a Director on 2 October 2019.
- Matthew James Sale resigned as a Director on 17 December 2019.

The following changes to Trustees Executors Limited Directors occurred after 31 March 2020:

- Richard Klipin was appointed as a Director on 1 May 2020.

Investment Manager

ANZ New Zealand Investments Limited was the investment manager of the scheme throughout the year.

Registrar

ANZ Bank New Zealand Limited was the registrar of the scheme throughout the year.

Auditor

KPMG was the auditor to the scheme throughout the year.

How to find further information

On disclose

Disclose is a website that contains two registers – an offer register and a scheme register. These include current information on the scheme, including the governing document, financial statements, SIPO and product disclosure statement.

 disclose-register.companiesoffice.govt.nz

Search 'Bonus Bonds Scheme' on both the offer and scheme register.

On our website

Other valuable information and resources to help you manage your Bonus Bonds, including winning numbers, forms, frequently asked questions and access to MyBonusBonds, are available at:


 bonusbonds.co.nz


You can also obtain a copy of any of the above information on request and free of charge by contacting us (contact details below).

Contact details and complaints


Manager and Registrar


 info@comms.bonusbonds.co.nz


 0800 266 374

 Bonus Bonds Centre
71 George Street, Dunedin Central
Freepost Bonus Bonds
PO Box 898, Dunedin 9054

Supervisor

 cts@trustees.co.nz

 09 308 7100


 Trustees Executors Limited
Level 9, Spark Central
45 Willis Street, Wellington
PO Box 10-519, Wellington 6143


If you have a complaint

Contact us first

If you have any problems with the scheme, please let us know. As the manager of the scheme, we're committed to resolving your complaint as quickly as possible.


 info@comms.bonusbonds.co.nz

 0800 266 374

 Bonus Bonds Centre
71 George Street, Dunedin Central
Freepost Bonus Bonds, PO Box 898, Dunedin 9054

Contact the supervisor next

You can contact Trustees Executors Limited at:

 cts@trustees.co.nz

 09 308 7100


 Trustees Executors Limited
Level 9, Spark Central
45 Willis Street, Wellington
PO Box 10-519, Wellington 6143


If you're still not happy


If you have contacted us and the supervisor, and you're still not happy, you can get free independent assistance from the following respective dispute resolution schemes.

Our dispute resolution scheme

You can contact the Banking Ombudsman at:

 help@bankomb.org.nz


 0800 805 950


 The Banking Ombudsman
1 Post Office Square, Wellington 6011
Freepost 218002, PO Box 25327, Featherston Street, Wellington 6146

The supervisor's dispute resolution scheme

You can contact Financial Services Complaints Limited at:

 info@fscl.org.nz

 0800 347 257

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

You won't be charged a fee

You won't be charged a fee by us, the supervisor or the dispute resolution scheme for investigating or resolving a complaint.

Investments in the scheme are not deposits in ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited, or their subsidiaries (together ANZ Group), nor are they liabilities of ANZ Group. ANZ Group does not stand behind or guarantee the scheme. Investments are subject to investment risk, including possible delays in repayment, and loss of income and principal invested. ANZ Group will not be liable to you for the capital value or performance of your investment.

Your investment in the scheme is not guaranteed by ANZ Group, Trustees Executors Limited, any of their directors or any other person.

Our security and privacy policy is the same as ANZ Bank New Zealand Limited's and can be found at anz.co.nz/auxiliary/help/help/website-security-privacy/. You should read it as if references to ANZ are to ANZIS. It explains how we protect your privacy and confidentiality and how we treat your personal information.

