Deloitte.

Matters Relating to the Electronic Presentation of the Audited Financial Statements

The audit report on pages 27 and 28 relates to the financial statements of the Government Superannuation Fund Authority and the Audit Report on pages 60 and 61 relates to the financial statements of the Government Superannuation Fund for the year ended 30 June 2004 included on the Government Superannuation Fund Authority website. The Government Superannuation Fund Authority Board is responsible for the maintenance and integrity of the Authority's website. We have not been engaged to report on the integrity of the Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 7 September 2004 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Reports of the

GOVERNMENT SUPERANNUATION FUND AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2004

Presented to the House of Representatives pursuant to Section 44A of the Public Finance Act 1989.

GOVERNMENT SUPERANNUATION FUND

FOR THE YEAR ENDED 30 JUNE 2004

Presented to the House of Representatives pursuant to Section 93B of the Government Superannuation Fund Act 1956.

CONTENTS

GOVERNMENT SUPERANNUATION FUND AUTHORITY

CHAIRMAN'S REPORT

I am pleased to present, on behalf of the Government Superannuation Fund Authority Board ("the Authority Board"), the third report of the Government Superannuation Fund Authority ("the Authority"). The report covers the period 1 July 2003 to 30 June 2004 and is made in accordance with section 41 of the Public Finance Act 1989.

A separate report has been prepared for the Government Superannuation Fund ("GSF or the Fund"), covering investment performance, GSF Schemes' membership and the financial statements of the Fund. The report on the Fund commences on page 31.

The report for the Authority covers the second full year of its management and administration of the Fund.

During the year the Minister re-appointed Helen Bowie as a Board member for a further term of three years from 1 December 2003, and David May as Deputy Chairman and Tim McGuinness as a Board member for further terms of three years from 1 June 2004.

Transition process to strategic asset allocation

During the 2003/04 year, the Authority Board largely completed the transition, that commenced in October 2001, to the Fund's strategic asset allocation. Funding of the three international fixed interest managers was completed in November 2003, in line with expectations. The only asset class yet to be funded is property. This is expected to be completed by the end of the next financial year.

The following table illustrates the transition progress over the year.

Asset Class	**Actual at 30 June 2003**		**Actual at 30 June 2004**		**Strategic Asset Allocation Target**
	$000	**%**	**$000**	**%**	**%**
NZ Fixed Interest	535,269	16.9	473,128	14.0	14.0
International Fixed Interest	185,290	5.8	760,156	22.6	21.0
NZ Equities	483,035	15.2	550,442	16.4	15.0
International Equities	1,157,006	36.5	1,338,940	39.8	42.5
Alternative growth assets – Property	–	–	–	–	7.5
Cash and short term investments	812,547	25.6	242,251	7.2	–
	3,173,147	**100.0**	**3,364,917**	**100.0**	**100.0**

NOTE: This table is based on the investment numbers set out on page 45 in the Statement of Net Assets for the Fund ("the Statement"). In the Statement short-term investments, included in the assets being managed by the investment managers appointed by the Authority Board, have been separated from each asset class to comply with accounting standards. Short-term investments are added back to each asset class when comparing the actual asset allocation with the strategic asset allocation target for the Fund – see page 10.

As required by the Government Superannuation Fund Act 1956 (“the Act”), the Authority Board conducted the annual review of the Authority’s Statement of Investment Policies, Standards, and Procedures (“SIPSP”) in April 2004.

The SIPSP is an operational document which is subject to amendment as circumstances change, for example a new asset class is added to the strategic asset allocation for the Fund. The annual review is intended to examine the SIPSP in total to determine whether it remains an appropriate and relevant framework for the Authority’s investment strategy going forward. No significant changes were made to the SIPSP as a result of the review.

Quite separately, the Authority completed its research into alternative growth assets, commenced following the 2003 review of the SIPSP, and concluded that the allocation to this asset class should be invested initially in listed and unlisted property .

Schemes’ administration

National Mutual Corporate Superannuation Services Limited, trading as AXA New Zealand (“AXA”), is the administrator of the GSF Schemes. AXA was first appointed under an Agreement originally entered into by the Crown in 1996. In terms of Section 23 of the Government Superannuation Fund Amendment Act 2001, the Authority was appointed as the Minister of Finance’s agent in relation to this Agreement, which expired on 28 February 2003.

Although satisfied with current arrangements and the performance of AXA the Authority wished to ensure the future administration of the GSF Schemes was sustainable for the long term. To assist in this process the Authority contracted with AXA to administer the GSF Schemes for a further term until 30 April 2005 with the intention of using this period to put in place arrangements to meet the long term objective.

During the current year two key initiatives were undertaken by the Authority:

1. The GSF Schemes’ administration computer hardware and operating system were upgraded. The upgrades extended the effective life of the hardware and operating system beyond 2010 and provided for ongoing support by the suppliers. Both of these benefits were seen as key to ensuring long term sustainability of the computer hardware and operating system.
2. The Authority carried out a tender for the role of administrator of the GSF Schemes.

   The tender process commenced with a wide range of organisations being invited to express interest in the role and present their credentials. Only organisations, which demonstrated capability to meet the high standards set by the Authority, were invited to tender.

   During the tender process AXA decided to withdraw, advising that its strategic focus is on continuing to grow its own superannuation and funds management schemes.

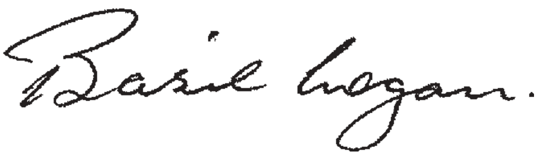
Following a detailed and comprehensive review of the remaining tenderers the Authority resolved to appoint Datacom Employer Services (“DES”), a subsidiary of Datacom Group, as the new administrator. The Authority, DES and AXA are all working towards achieving a seamless transition of the GSF Schemes’ administration, on or before 30 April 2005, with the objective of ensuring contributors, annuitants and employers notice no change in service. The transition will be assisted by DES offering employment to the GSF team currently employed by AXA.

Investment returns

Details of the investment returns and the benchmark indices used by the Authority are set out in the Investment Commentary section on page 37 of the report for the Fund.

For the year, the Fund’s overall after-tax return was 10.16% (pre-tax 12.62%). The after-tax return compares with the median superannuation scheme after-tax return in the Watson Wyatt Investment Performance Survey (covering 86 superannuation schemes), for the year ended 30 June 2004, of 9.66%.

The Authority remains confident it will achieve its medium to long-term objective for the Fund to out-perform an equivalent portfolio invested entirely in New Zealand Government Stock.



Basil Logan
Chairman
Government Superannuation Authority Board

STATEMENT OF GOVERNANCE AND ACCOUNTABILITY

The Government Superannuation Fund Authority ("the Authority") was established as a Crown Entity by section 15A of the Government Superannuation Fund Act 1956 ("the Act"). The business of the Authority is to manage the assets, and administer the schemes of the Government Superannuation Fund ("the Fund") in accordance with the Act.

Section 15G of the Act specifies that the Government Superannuation Fund Authority Board ("the Authority Board") is responsible for the business of the Authority.

Government Superannuation Fund Authority Board

The Minister of Finance appointed the following seven members to the Authority Board:

Basil Logan, Chairman, is also Chairman of Opus International Consultants Limited.

David May, Deputy Chairman, was formerly Chief Executive of Jacques Martin NZ Ltd and Managing Director of Colonial Life NZ Ltd. He is Chairman of the Guardians of New Zealand Superannuation, and a director of Southern Cross Healthcare.

Colin Blair OBE, retired as a member of the Board of Trustees of the National Provident Fund on 31 July 2004. He was formerly a Partner of the accounting firm Deloitte , and was the Retirement Commissioner until 14 February 2003.

Helen Bowie is a partner of Chapman Tripp Sheffield Young.

Tim McGuinness is currently a Board member of the Earthquake Commission, a trustee of the Global Retirement Trust and a trustee of the Globus NZ Pension Plan. He previously held senior investment management positions at Royal & Sun Alliance and Norwich Union Investment Management.

Ralph Stockdill held senior management positions at the Department of Labour in the employment relations area before his retirement. Immediately before his appointment to the Board, Mr Stockdill was a member of the Executive of the Government Superannuitants' Association.

Susie Weaver is a principal of Weaver Consulting Ltd and former General Manager of Investments at Armstrong Jones (now ING (NZ)).

At the expiry of their terms during the year, the Minister of Finance reappointed the following Board members for further terms of three years.

Helen Bowie	Member	to 30 November 2006
David May	Deputy Chairman	to 31 May 2007
Tim McGuinness	Member	to 31 May 2007

Remuneration of the Authority Board members

Remuneration of the Authority Board members is in accordance with the rates set by the Minister of Finance.

Responsibilities and operations of the Authority Board

The Authority Board is responsible for all decisions relating to the business of the Authority.

The Authority Board has established four committees with specific responsibilities for Audit & Risk Review, Investments, Schemes and Responsible Investing. The Committee responsible for reputational policy development and implementation was disbanded during the year as it had completed its work. The Chairman is an ex-officio member of all committees.

As required by the Act, the Board does not delegate the following powers:

- the power of delegation;
- the power to grant power of attorney; and
- the power to appoint schemes' administration managers, investment managers, other service providers, and custodians.

The Board held 12 regular meetings during the year, and one special meeting to review strategic investment issues.

Auditor

The Auditor-General is the auditor of the Authority. The Auditor-General has appointed Michael Wilkes of Deloitte to act on his behalf.

Management team

The Authority and the Board of Trustees of the National Provident Fund ("NPF") have formed a joint venture company, Annuitas Management Limited ("Annuitas"). Each organisation has entered into a management services agreement ("MSA") with Annuitas.

The main function of Annuitas is to provide staff who act in management and secretarial roles on behalf of the Authority and NPF. The MSA between Annuitas and the Authority contains delegations of authority to enable staff appointed by Annuitas to carry out the day-to-day management of the Authority's investment and schemes' management arrangements. In the case of schemes' management, the delegation includes interpretation of the provisions of the GSF schemes and exercise of discretionary powers in accordance with the Statement of Provisions, Policies and Procedures, subject to appropriate consultation with the Authority Board.

The Management team is:

Alan Langford	Chief Executive
Euan Wright	Chief Financial Officer
Philippa Drury	General Manager, Schemes
Denise Healey	General Manager, Investments
Nicky Rumsey	Manager, Investments

STATEMENT OF RESPONSIBILITY

The financial statements of the Government Superannuation Fund Authority ("the Authority") for the year ended 30 June 2004 have been prepared in accordance with section 41 of the Public Finance Act 1989.

The Government Superannuation Fund Authority Board ("the Authority Board") is responsible for the preparation of the financial statements, and the judgments made in the process of producing those statements.

The Authority Board confirms that internal control systems have been established and maintained during the period to assure reasonable reliability and integrity of financial and non-financial reporting.

In our opinion, the attached financial statements and reports for the Authority fairly reflect the financial position, as at 30 June 2004, and the financial performance and the cash flows of the Authority for the year ended 30 June 2004.

Basil Logan
Chairman
Government Superannuation Fund Authority Board

Alan Langford
Chief Executive

7 September 2004

STATEMENT OF SERVICE PERFORMANCE

Output Class O1 – Management of the Government Superannuation Fund

This output class provides investment and schemes' management for the Government Superannuation Fund ("GSF or the Fund").

Outputs in this class are:

- management of the GSF assets;
- interpretation of the provisions of the Government Superannuation Fund Act 1956 (the Act), and exercising the statutory powers under the Act;
- management of the GSF Schemes, including the Agreement between the Authority and the Administrator of the GSF Schemes; and
- overall financial management of the Fund, including reporting on its liabilities and the Crown's financial obligations to the Fund.

The performance targets are set out in the Government Superannuation Fund Authority's Statement of Intent 2003/2004.

Investment management

PERFORMANCE TARGET	PERFORMANCE ACHIEVED
Determine the asset types that will comprise "other growth assets".	Achieved. The Authority Board has determined that initially property investments will constitute "other growth assets" . Hedge funds and private equity investments were also considered.
Determine its policies, standards and procedures for investing in other growth assets.	Partially achieved. The policies for investing in property assets have been determined. The standards and procedures will be determined in consultation with the property investment managers yet to be appointed.
Invest funds to give effect to the Fund's strategic asset allocation.	Partially achieved. The international fixed interest allocation has been achieved. The alternative growth assets (now property) allocation will be completed with the appointment and funding of property investment managers by the end of the next financial year.
Re-balance assets between asset classes as required to maintain the strategic asset allocation within agreed ranges.	Achieved. A monthly re-balancing procedure was instituted from November 2003.

PERFORMANCE TARGET	PERFORMANCE ACHIEVED
Monitor and review the performance of the appointed investment managers.	Achieved. This is an on-going function of the Authority.
Continue to develop policies with respect to ethical investment and investing to avoid prejudice to New Zealand's international reputation as a responsible member of the world community.	Achieved. Revised policies with respect to ethical investment and investing to avoid prejudice to New Zealand's international reputation as a responsible member of the world community, were adopted by the Authority Board on 10 May 2004.
Carry out the annual review of the Statement of Investment Policies, Standards and Procedures.	Achieved. The annual review of the Statement of Investment Policies, Standards and Procedures was completed in April 2004.
Document the governance and management procedures relating to the investment process.	Achieved. GSF Management maintains and continuously updates an Investment Operations Manual that covers the governance and management procedures relating to the investment process.

Over the year implementation of the Fund's strategic asset allocation has developed as set out below:

Asset Class	Strategic Asset Allocation Target %	Actual Asset Allocation at 30 June 2003 %	Actual Asset Allocation at 30 June 2004 %
NZ Fixed Interest	14.0	17.9	14.1
International Fixed Interest	21.0	6.2	22.5
NZ Equities	15.0	15.7	16.4
International Equities	42.5	40.7	39.8
Alternative Growth Assets - Property	7.5	–	-
Cash and short-term investments	–	19.5	7.2
TOTAL	**100.0**	**100.0**	**100.0**

NOTE: The actual asset allocation percentages are based on the assets being managed by the investment managers for each asset class, at 30 June 2003 and 2004. The investment assets include items which, for accounting purposes, are classified as short term investments and are reported separately in the table set out on page 3, and in the Statement of Net Assets for the Fund on page 45. For this reason the percentages for the actual asset allocations at 30 June 2003 and 2004, set out in the table above, differ from the percentages set out in the table on page 3.

With the exception of cash, which is being held pending the appointment and funding of property investment managers, all asset classes were within their rebalancing tolerances at 30 June 2004. The Authority Board expects to complete its allocation to property by the end of the next financial year.

Schemes' management

PERFORMANCE TARGET	**PERFORMANCE ACHIEVED**
Schemes' Administration Manager's performance will be monitored and maintained in accordance with the requirements of the Management Agreement, including service levels to contributors, annuitants and employers.	Achieved. The Schemes' Administration Manager delivered the services required by the Management Agreement. Service delivery was certified quarterly by the Schemes' Administration Manager, as required by the Agreement.
The Statement of Provisions, Policies and Procedures will be maintained, and amended to record policy changes made by the Authority.	No changes were required or made to the Statement of Provisions, Policies and Procedures, which was published by the then Superintendent of the Fund on 28 September 2001.
Submissions from the Schemes' Administration Manager will be dealt with in accordance with the Act and the published policies. All submissions will be responded to within 5 working days.	Achieved. All schemes decisions were made in accordance with the Act and the published policies. The 195 submissions from the Schemes' Administration Manager were responded to within 5 working days.
Appeals against decisions made by, or on behalf of, the Authority will be responded to in accordance with the Act. The Authority's report to the Appeals Board will be provided at least 14 days before each scheduled hearing date.	Achieved. The one appeal made during the period was reported on to the Appeals Board at least 14 days before the scheduled hearing.
Sufficient funding will be provided to the Schemes' Administration Manager to ensure all benefit payments are able to be made as they become due.	Achieved. Sufficient funding to meet benefit payments was provided to the Schemes' Administration Manager by the due dates.
Actuarial data on the Fund, required for the Crown accounts, will be provided in accordance with the timetable agreed with Treasury.	Achieved. Actuarial data required for the Crown accounts was provided to Treasury by the agreed dates.

PERFORMANCE TARGET	**PERFORMANCE ACHIEVED**
A strategy will be developed for the administration of the Schemes beyond 30 April 2005, when the present contract with AXA New Zealand expires, on a basis which the Authority Board is satisfied will provide a viable and sustainable operation in the long term.	Achieved. The administration of the GSF Schemes was originally contracted to National Mutual Corporate Superannuation Services Limited trading as AXA New Zealand, ("AXA"), in 1996 for a seven-year term ending in February 2003. After the creation of the Authority, this Agreement was extended to 30 April 2005 and a study made of options for administering the GSF Schemes from May 2005 onwards. As a result of the study, the Authority decided to proceed with a tender for the schemes administration role. Only parties, who had clearly demonstrated to the satisfaction of the Authority that they had the resources and capability to carry out the role, were invited to tender. AXA was invited to tender but elected not to take part. Datacom Employer Services Limited ("DES") has been selected as the new administrator of the GSF Schemes. The Authority, DES and AXA are all working towards a seamless transition. It is anticipated most if not all of the GSF team at AXA New Zealand will transfer to DES. A detailed transition plan is currently being prepared. The transition date will be no later than 30 April 2005.
The Schemes' administration IT hardware and operating system will be upgraded and/or replaced in the first half of the year.	Achieved. The Schemes' administration IT hardware was replaced and the operating system upgraded. Management of the GSF Business System was transferred to the new hardware and operating system during December 2003.

Communications will be sent to all annuitants, contributors and their employers regarding the activities of the Authority and the performance of the Fund.	Achieved. Communications were sent to all annuitants, contributors and their employers covering these topics and other matters.

Other

A review will be undertaken of the performance of Annuitas under the Management Services Agreement ("MSA") between the Authority and Annuitas.	Achieved. A review was undertaken of the performance of Annuitas under the MSA between the Authority and Annuitas.
	The Authority Board concluded that Annuitas was meeting its obligations under the MSA. The Authority Board was satisfied with Annuitas' performance.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000 Actual		Notes	**2004 $000 Actual**	2004 $000 Forecast
	Revenue			
14	Interest received		**13**	11
522	Other revenue, including Bowen space rental		**526**	–
9,308	Transfer from the Government Superannuation Fund	1	**11,480**	12,177
9,844	**Total revenue**		**12,019**	12,188
	Expenses			
3,050	Schemes administration		**3,050**	3,050
4,162	Investment management and custody	2	**6,108**	6,758
2,632	Operating	3	**2,861**	2,380
9,844	**Total expenses**		**12,019**	12,188
–	**Net operating result**		–	–

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

2003 $000 Actual		Notes	**2004 $000 Actual**	2004 $000 Forecast
	Public equity			
–	General fund	10	–	–
–	**Total public equity**		–	–
	Represented by:			
	Current assets			
354	Cash at bank		**206**	130
1,378	Receivables and prepayments	4	**1,981**	346
1,732	**Total current assets**		**2,187**	476
	Current liabilities			
1,732	Payables	5	**2,187**	476
1,732	**Total current liabilities**		**2,187**	476
–	**Net assets**		–	–

The Financial Statements were approved by the Government Superannuation Fund Authority Board on 7 September 2004.

Basil Logan
Chairman
Government Superannuation Fund Authority Board

Colin Blair
Chairman
Audit and Risk Review Committee
Government Superannuation Fund Authority Board

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000 Actual		Note	**2004 $000 Actual**	2004 $000 Forecast
	Cash flows from operating activities			
	Cash was provided from:			
9,136	Government Superannuation Fund	1	**10,973**	12,171
14	Interest		**13**	11
522	Other		**532**	–
9,672			**11,518**	12,182
	Cash was disbursed to:			
(9,829)	Operating expenses		**(11,666)**	(12,172)
(9,829)			**(11,666)**	(12,172)
(157)	**Net cash out flows from operating activities**		**(148)**	10
	Cash flows from financing activities			
	Cash was disbursed to:			
(287)	Repayment of capital to the Crown	10	**–**	–
(287)	**Net cash in flows from financing activities**		**–**	–
(444)	Net (decrease) increase in cash held		**(148)**	10
798	Opening cash brought forward		**354**	120
354	**Closing cash balance**		**206**	130

The forecast has been amended to include projected payments for investment management and custody expenses direct from the Fund, and to accord with the financial statement disclosure. The amendments affect cash provided from Government Superannuation Fund and operating expenses.

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004 - Continued

Reconciliation of Net Operating Result to Net Operating Cash Flows

2003 $000 Actual		**2004 $000 Actual**	2004 $000 Forecast
–	Net operating result	**–**	–
	Movements in working capital items:		
(169)	Receivables and prepayments	**(603)**	(6)
12	Payables	**455**	16
(157)	**Net cash flows from operating activities**	**(148)**	10

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF MOVEMENT IN PUBLIC EQUITY
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000 Actual		**Note**	**2004 $000 Actual**	2004 $000 Forecast
287	**Public equity at beginning of the period**		**–**	–
–	Net operating result		**–**	–
–	**Total recognised revenues and expenses for the period**		**–**	–
(287)	Repayment of capital to the Crown	10	**–**	–
(287)			**–**	–
–	**Public equity at end of the period**		**–**	–

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF COMMITMENTS
AS AT 30 JUNE 2004

Section 22 of the Government Superannuation Fund Amendment Act 2001 ("the Amendment Act") vested in the Authority the whole of the leasehold interest in floors 3 and 4 at 33 Bowen Street, Wellington ("the Bowen space"). The Bowen space lease terminates in February 2009. The annual lease payment is subject to three-yearly reviews. The amounts disclosed below, as future commitments, are based on current rental rates.

The Authority has entered into sub leases with the Ministry of Economic Development ("MED") and Accident Compensation Corporation ("ACC") for the Bowen space. The MED sub lease is on a month to month basis. The ACC sub leases are to 31 May 2005 . The commitments stated below are gross commitments before netting off rental income from sub-leases.

In terms of section 15E (1) of the Government Superannuation Fund Act 1956 (the Act), the Authority's expenses are reimbursed by the Government Superannuation Fund, which recovers them from the Crown, as provided for in section 95 of the Act, and from other employers. Accordingly, any shortfall between the lease commitments and the sub-lease rental income is not onerous to the Authority.

Other operating commitments include non-cancellable contracts for building services.

2003 $000 Actual		**2004** **$000** **Actual**
–	**Capital commitments approved and contracted**	–
	Non-cancellable operating commitments	
3,018	Accommodation lease	2,419
1,077	Other operating commitments	816
4,095	**Total operating commitments payable (as detailed below)**	3,235
Term classification for accommodation lease commitments		
532	Not later than one year	523
533	Later than one year and not later than two years	520
1,598	Later than two years and not later than five years	1,376
355	Later than five years	–
3,018	**Total lease commitments**	2,419
Term classification for other operating commitments		
190	Not later than one year	176
190	Later than one year and not later than two years	176
570	Later than two years and not later than five years	464
127	Later than five years	–
1,077	**Total other operating commitments**	816

These statements are to be read in conjunction with the Statement of Accounting Policies and Notes to the Financial Statements.

STATEMENT OF COMMITMENTS
AS AT 30 JUNE 2004 – Continued

The Crown had previously contracted with National Mutual Corporate Superannuation Services Limited, trading as AXA New Zealand (“AXA”) at $3.050 million per annum to administer the Government Superannuation Fund Schemes (“the Agreement”). In terms of section 23 of the Amendment Act the Authority was appointed to act as the Minister of Finance’s agent in relation to the Agreement. The Agreement expired on 28 February 2003.

In terms of section 19(1) of the Act the Authority has contracted with AXA at $3.050 million per annum to administer the GSF schemes for a term expiring on 30 April 2005.

2003 $000 Actual		**2004 $000 Actual**
	Non-cancellable contractual commitments	
3,050	Schemes administration not later than one year	2,542
2,542	Schemes administration later than one year and not later than two years	-
5,592	**Total non-cancellable contractual commitments payable**	**2,542**

On 3 November 2003 the Authority entered into a new agreement with Annuitas Management Limited, a joint venture company formed by the Authority and the Board of Trustees of the National Provident Fund, to provide secretarial and executive support to the Authority Board. This agreement, although cancellable on twelve months written notice, is for an initial term of four years.

Estimated commitments under this agreement are:

2003 $000 Actual		**2004 $000 Actual**
1,000	Management services not later than one year	1,000
1,000	Management services later than one year and not later than two years	1,000
250	Management services later than two years and not later than five years	1,333
2,250		**3,333**

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF CONTINGENT LIABILITIES
AS AT 30 JUNE 2004

The Authority has an obligation under contract to redecorate the Bowen space on 18 February 2005. In terms of section 15E (1) of the Act, the Authority's expenses are reimbursed by the Government Superannuation Fund which recovers them from the Crown, as provided for in section 95 of the Act, and other employers. Accordingly, the Authority's obligation does not constitute a liability of the Authority.

There were no contingent liabilities as at 30 June 2004.

These statements are to be read in conjunction with the Statement of Accounting Policies and Notes to the Financial Statements.

STATEMENT OF ACCOUNTING POLICIES

The following policies have been applied in the preparation of the financial statements

(i) Reporting entity and statutory base

The Government Superannuation Fund Authority ("the Authority") is a Crown entity in terms of the Public Finance Act 1989 and was established by section 15A of the Government Superannuation Fund Act 1956 ("the Act"). The core business of the Authority is to manage the assets and administer the schemes of the Government Superannuation Fund.

These financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989.

Separate financial statements have been prepared for the Government Superannuation Fund ("the Fund") in terms of section 93 of the Act.

(ii) Measurement base

The financial statements are prepared on the historical cost basis. The reporting currency is in New Zealand dollars.

(iii) Particular accounting policies

The following particular accounting policies, which materially affect the measurement of financial performance, financial position, and cash flows, have been consistently applied:

(a) Forecast figures

The forecast figures are those approved by the Authority Board at the beginning of the period and presented in the Authority's Statement of Intent.

The forecast figures have been prepared in accordance with generally accepted accounting practice, and are consistent with the accounting policies adopted by the Authority Board for the preparation of the financial statements.

(b) Goods and services tax ("GST")

The Authority makes principally exempt supplies for GST purposes as it manages superannuation schemes. Apart from GST on transactions relating to the lease of levels 3 and 4 of 33 Bowen Street, Wellington ("the Bowen space"), which are recoverable as input tax, GST is included in expenditure.

(c) Taxation

As a public authority in terms of the Income Tax Act 1994 the Authority is exempt from income tax.

(d) Statement of cash flows

The statement of cash flows has been prepared using the direct approach.

- *Cash and cash equivalents*

Cash and cash equivalents consist of current accounts in banks, used in the day-to-day cash management of the activities of the Authority, and are unconditionally convertible to cash within two working days.

- *Operating activities*

Operating activities include all receipts of revenues and investment income, and payments of expenses.

- *Investing activities*

Investing activities relate to the acquisition, holding, and disposal of fixed assets.

- *Financing activities*

Financing activities relate to changes in equity capital structure.

(e) Operating leases

Section 22 of the Government Superannuation Fund Amendment Act 2001, ("the Amendment Act") vested in the Authority the Bowen space. The lease of the Bowen space is classified as an operating lease. Payments under the lease are recognised as expenses in the periods in which they are incurred.

(f) Financial instruments

The Authority is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, debtors, and creditors. All financial instruments are recognised in the Statement of Financial Position. All revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

All financial instruments are shown at their estimated fair values.

(g) Accounting for Joint Ventures

On 28 September 2001, the Authority and the Board of Trustees of the National Provident Fund ("NPF") formed a joint venture company, Annuitas Management Limited ("Annuitas"), to provide secretarial and executive support under management services agreements with both organisations. The Authority has a 50% ownership in Annuitas, but does not equity account for Annuitas as this is deemed to be immaterial.

(iv) Reporting period

The reporting period is the year ended 30 June 2004. Comparative figures are for the year ended 30 June 2003.

(v) Changes in accounting policy

There were no changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1 Transfer from the Government Superannuation Fund

In terms of section 15E (1) of the Act, the administrative expenses of the Authority, including investment management and custody expenses, are reimbursed by the Government Superannuation Fund ("Fund"). Both the Crown and other employers reimburse the Fund under section 95 of the Act for the Authority's expenses. In the reporting period, as certified by the Government Actuary:

- the Crown contributed 95% of the Authority's investment management and custody expenses reimbursed by the Fund, and other employers contributed the balance of 5%.
- the Crown contributed 78% of the Authority's other operating expenses reimbursed by the Fund, and other employers contributed the balance of 22%.

2 Investment management and custody

2003 $000		**2004 $000**
3,547	Investment management expenses	**5,347**
615	Custodian expenses	**761**
4,162	Total	**6,108**

3 Operating expenses

2003 $000	Operating expenses include:	**2004 $000**
120	Audit	**120**
–	Other assurance fees paid to Auditor	**14**
163	Board fees and expenses	**172**
723	Gross rental and outgoings – Bowen space	**707**

4 Receivables and prepayments

2003 $000		2004 $000
	Receivables:	
1,345	Government Superannuation Fund	**1,784**
10	Other receivables	**197**
	Prepayments:	
23	Annuitas Management Limited	**-**
1,378	Total receivables and prepayments	**1,981**

5 Payables

2003 $000		2004 $000
1,128	Investment management	**1,514**
299	Professional services	**353**
60	Trade creditors	**17**
245	Other creditors	**246**
–	Annuitas Management Limited	**57**
1,732	Total payables	**2,187**

6 Financial instruments

(a) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Authority, causing the Authority to incur a financial loss. Financial instruments, which potentially subject the Authority to credit risk, consist principally of cash and receivables.

The Authority has a minimal credit risk in its holdings of cash, bank deposits, and receivables.

The Authority does not require any collateral or security to support financial instruments.

There is no significant concentration of credit risk other than in the Government Superannuation Fund.

The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

(b) Currency risks

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Authority has no exposure to currency risk.

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Authority has no significant interest rate risk.

(d) Fair values

The fair values of financial instruments are equivalent to the carrying amounts disclosed on the Statement of Financial Position.

7 Employee remuneration

The Authority has no employees.

Annuitas Management Limited ("Annuitas"), a joint venture company formed by the Authority and the Board of Trustees of the National Provident Fund ("NPF"), provides staff who act in management and secretarial roles for both organisations.

8 Board fees

Board members were paid the following fees during the period.

2003 $		2004 $
	Chairman	
33,996	Basil Logan	37,400
	Deputy Chairman	
21,250	David May	23,376
	Members	
17,000	Colin Blair	18,700
17,000	Helen Bowie	18,700
17,000	Tim McGuinness	18,700
17,000	Ralph Stockdill	18,700
17,000	Susie Weaver	18,700

The Authority also met Board members' travel expenses, where applicable, to attend Board meetings, and for travel on matters directly related to the business of the Authority.

9 Related party information

The Authority is a Crown entity.

Section 23 of the Amendment Act appointed the Authority to be the Minister's agent in relation to the agreement between the Crown and National Mutual Corporate Superannuation Services Limited, trading as AXA New Zealand, ("AXA") for AXA to be the administration manager of the GSF schemes ("the Agreement"). The Agreement expired on 28 February 2003.

The Authority has entered into various transactions with Government Departments, and Crown organisations on an arm's length basis in the normal course of business. These transactions are not considered to be related party transactions

In a joint initiative, the Authority and the Guardians of the New Zealand Superannuation Fund have appointed specialist screening organisations to assist with the implementation of policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community. A cost – sharing agreement has been agreed. David May (Deputy Chairman) is Chairman of the Guardians of New Zealand Superannuation.

Colin Blair (Board member) was a member of the Board of Trustees of the National Provident Fund until 31 July 2004.

During the reporting period, the Authority paid Annuitas $923,000 for executive and secretarial services.

10 Repayment of public equity

As the Authority is able to recover all its expenses from the Fund and does not, therefore, need any equity, the Board resolved to repay the public equity to the Crown. Payment was made on 8 August 2002.

11 Actual versus forecast

The transition programme towards the strategic asset allocation has proceeded more slowly than planned resulting in lower investment management and custody expenses.

Operating expenses are greater than forecast, as the forecast assumed the Authority would have no exposure to the Bowen space lease from 1 July 2003. The Bowen space landlord declined to proceed with a settlement proposal negotiated by the Authority. The subsequent increase in operating expenses is offset by rental received, which was also not forecast.

REPORT OF THE AUDITOR-GENERAL
TO THE READERS OF THE FINANCIAL STATEMENTS OF
THE GOVERNMENT SUPERANNUATION FUND AUTHORITY
FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of Government Superannuation Fund Authority (the Authority). The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Authority, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion:

- The financial statements of the Authority on pages 14 to 26:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Authority's financial position as at 30 June 2004;
    - the results of its operations and cash flows for the year ended on that date; and
    - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 7 September, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Government Superannuation Fund Authority Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;

Deloitte.

- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Government Superannuation Fund Authority Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Authority as at 30 June 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of reviewing tender processes and reviewing process and data documentation, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Authority.

Michael Wilkes
DELOITTE
On behalf of the Auditor-General
WELLINGTON, New Zealand

DIRECTORY

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Solicitors:
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Crown Law
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Banker:
Bank of New Zealand

Auditor:
Michael Wilkes
Deloitte
on behalf of
The Auditor-General
PO Box 1990
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GOVERNMENT SUPERANNUATION FUND

AUTHORITY’ S REPORT

On behalf of the Government Superannuation Fund Authority (“the Authority”) I have pleasure in presenting this report on the Government Superannuation Fund (“the Fund or GSF”) for the year ended 30 June 2004. The report is made in accordance with section 93B of the Government Superannuation Fund Act 1956 (“the Act”).

The Government Superannuation Fund Amendment Act 2001 (“the Amendment Act”) made major changes to the governance arrangements for the Fund, and to the basis on which the Fund’s investments are made.

Governance

The Authority was established as a Crown Entity by section 15A of the Act. The business of the Authority is to manage the assets and administer the GSF Schemes in accordance with the Act.

Section 15G of the Act specifies the Government Superannuation Fund Authority Board (“the Authority Board”) is responsible for the business of the Authority.

The Minister of Finance (“the Minister”) has appointed seven members to the Authority Board.

Basil Logan, Chairman
David May, Deputy Chairman
Colin Blair, OBE
Helen Bowie
Tim McGuinness
Ralph Stockdill
Susie Weaver

The Authority assumed responsibility for the management of the Fund on 2 October 2001. The Authority and the Board of Trustees of the National Provident Fund have established a joint venture company, Annuitas Management Limited (“Annuitas”), which provides staff who act in managerial and secretarial roles on behalf of both organisations.

The Authority is responsible for interpreting the provisions of the Act relating to the GSF Schemes, and exercising discretionary provisions relating to the GSF Schemes. Staff employed by Annuitas carry out these functions under delegation from the Authority Board. The published Statement of Provisions, Policies and Procedures (“the Policies”), under which these functions are carried out, remain unchanged during the year. In the event any changes to the Policies are called for, the Authority is required to consult with interested parties, and then republish the Policies.

Schemes’ administration

In terms of Section 23 of the Amendment Act, the Authority was appointed to act as the Minister of Finance’s agent with respect to the Agreement between National Mutual Corporate Superannuation Services Limited, trading as AXA New Zealand, (“AXA”) and the Crown to administer the GSF Schemes (“the Agreement”). This Agreement expired on 28 February 2003.

Although satisfied with the current arrangements and the performance of AXA the Authority wished to ensure the future administration of the GSF Schemes was sustainable for the long term. To assist in this process, the Authority contracted with AXA to administer the GSF schemes until 30 April 2005 with the intention of using this period to put in place arrangements to meet the long-term objective.

During the current year, two key initiatives were undertaken by the Authority:

1. The GSF Schemes' administration computer hardware and operating system were upgraded. The upgrades extended the effective life of the hardware and operating system beyond 2010 and provided for ongoing support by the suppliers. Both of these benefits were seen as key to ensuring long-term sustainability of the computer hardware and operating system.
2. The Authority carried out a tender for the role of administrator of the GSF Schemes.

   The tender process commenced with a wide range of organisations being invited to express interest in the role and present their credentials. Only organisations which demonstrated capability to meet the high standards set by the Authority were invited to tender.

   During the tender, AXA decided to withdraw, advising that its strategic focus is on continuing to grow its own superannuation and funds management schemes.

Following a detailed and comprehensive review of the remaining tenderers the Authority resolved to appoint Datacom Employer Services, a subsidiary of Datacom Group, as the new administrator. All parties are working towards achieving a seamless transition on or before 30 April 2005 with the objective of ensuring contributors, annuitants and employers notice no change in service. The transition will be assisted by Datacom offering employment to the GSF team currently employed by AXA.

Investments

The Act requires the Authority to invest the Fund on a prudent commercial basis. In doing so, it must manage and administer the Fund in a manner consistent with best-practice portfolio management and maximising returns without undue risk to the Fund as a whole. The Authority Board is implementing an investment strategy and asset allocation which reflects these requirements. Details of the strategic asset allocation and progress in its implementation, and investment results for the year are included in the Investment Commentary of this report on page 37.

In April 2004, the Authority Board reviewed its Statement of Investment Policies, Standards, and Procedures ("SIPSP"), as required under section 15L of the Act.

The SIPSP is an operational document which is subject to amendment as circumstances change, for example a new asset class is added to the strategic asset allocation for the Fund. The annual review is intended to examine the SIPSP in total to determine whether it remains an appropriate and relevant framework for the Authority's investment strategy going forward. No significant changes were made to the SIPSP as a result of the review.

Quite separately, the Authority completed its research into alternative growth assets, commenced following the 2003 review of the SIPSP, and concluded that the allocation to this asset class should be initially invested in listed and unlisted property .

The investment objective adopted by the Authority Board for the Fund remains unchanged as:

"The risk and return for the overall Fund is balanced with a strategic portfolio that meets the Authority Board's investment objective for the Fund of:

- *achieving an average rate of return of 2.5% per annum over the returns on a portfolio of New Zealand Government Stock (after tax) measured over rolling ten year periods. This is expected to generate improved investment performance (*from October 2001*) over the remaining life of the Fund of a net present value of approximately $1.2 billion, relative to a portfolio invested entirely in New Zealand Government Stock.*
- *having no more than a 1 in 10 chance in any one year of a loss in the total Fund being greater than $100 million (after tax)."*

The transition to the strategic asset allocation is largely complete. The only asset class yet to be funded is property and this is expected to be completed by the end of the next financial year.

For the year the Fund's pre-tax return, on average net assets available to pay benefits, was 12.62% and after-tax 10.16%. The after-tax return compares with the after-tax return of the median superannuation scheme, in the Watson Wyatt Investment Performance Survey (covering 86 superannuation schemes) for the year ended 30 June 2004, of 9.66%.

The Fund's asset classes performed in line with their respective benchmarks and all asset classes showed positive returns. The overall Fund return was heavily influenced by the performance of New Zealand and international equity markets (see Investment Commentary).

The Authority Board takes a long-term view of its investment strategy. It remains confident that in the long-run the effects of volatility will be minimised and the long-term objective of outperforming a portfolio invested entirely in New Zealand Government stock will be achieved.

The Authority Board will regularly review its investment strategy and the asset allocation for the Fund to ensure they remain appropriate and consistent with legislative requirements.

Membership

Although the GSF Schemes were closed to new members in June 1992, and the Pacific Island sub schemes closed on 22 October 1995, the GSF Schemes will continue to have a very substantial membership for many years. As at 30 June 2004, there were 23,719 contributors to the GSF Schemes and 47,695 annuitants, a total of 71,414 members. Further details are set out in the Membership Commentary – see page 41.

Mortgage finance

No new mortgages are being granted.

The GSF mortgage portfolio, as at 30 June 2004, was 20 mortgages totalling $0.3 million (30 June 2003: 28 mortgages totalling $0.6 million), with an average earning rate of 5.25 % for the year (30 June 2003: 5.78 %) after-tax and mortgage administration charges.

Basil Logan
Chairman
Government Superannuation Authority Board

REGULATORY STATEMENT

In accordance with the Superannuation Schemes Act 1989 the Authority states that to the best of its knowledge and belief, for the financial year ended 30 June 2004,

i all contributions required to be made to the Fund, under the Government Superannuation Fund Act 1956, ("the Act") have been made or accrued.

ii all benefits required to be paid from the Fund under the Act have been paid.

iii due to the partially funded nature of the Government Superannuation Fund Schemes, the market value of assets did not match the accrued benefit liability of the Fund by $10,167 million (2003: $10,674 million). The deficiency is covered by Section 95 of the Act, which requires the Minister of Finance to appropriate funds from public money to meet the annual deficiency in payments from the Fund.

iv all employer contributions paid were in accordance with the most recent recommendations of the Government Actuary.

Basil Logan
On behalf of the Government Superannuation Fund Authority

7 September 2004

STATEMENT OF RESPONSIBILITY

The financial statements of the Government Superannuation Fund ("the Fund") for the year ended 30 June 2004 have been prepared in accordance with Section 93 of the Government Superannuation Fund Act 1956.

The Government Superannuation Fund Authority ("the Authority") is responsible for the preparation of the financial statements and the judgments made in the process of producing those statements.

The Authority confirms that:

- internal control systems have been established and maintained during the year to assure reasonable reliability and integrity of these financial statements.

- the investment policies, standards, and procedures for the Fund, commencing on page 62, have been complied with.

In our opinion, the attached financial statements and reports fairly reflect the net assets, as at 30 June 2004, and the changes in net assets and the cash flows of the Fund, for the year ended 30 June 2004.

Basil Logan
On behalf of the Government Superannuation Fund Authority

Alan Langford
Chief Executive

7 September 2004

INVESTMENT COMMENTARY

During the year the transition toward the Fund's long-term strategic asset allocation target was largely completed apart from the investment in property.

The following table illustrates transition progress over the year.

Asset Class	Actual at 30 June 2003		Actual at 30 June 2004		Strategic Asset Allocation Target
	$000	**%**	**$000**	**%**	**%**
NZ Fixed Interest	535,269	16.9	473,128	14.0	14.0
International Fixed Interest	185,290	5.8	760,156	22.6	21.0
NZ Equities	483,035	15.2	550,442	16.4	15.0
International Equities	1,157,006	36.5	1,338,940	39.8	42.5
Alternative growth assets – property	–	–	–	–	7.5
Cash and short term investments	812,547	25.6	242,251	7.2	–
	3,173,147	**100.0**	**3,364,917**	**100.0**	**100.0**

NOTE: This table is based on the investment numbers set out on page 45 in the Statement of Net Assets for the Fund ("the Statement"). In the Statement short-term investments, included in the assets being managed by the investment managers appointed by the Authority Board, have been separated from each asset class to comply with accounting standards. Short-term investments are added back to each asset class when comparing the actual asset allocation with the strategic asset allocation target for the Fund – see page 10.

Investment performance

The Fund's after-tax return for the year was 10.16%.

In the long term, the performance of the Fund will be assessed by comparing the Fund's return (after tax) with the NZX New Zealand Government Stock Gross Return Index (after tax) plus 2.5% per annum over rolling ten year periods. As the new strategic asset allocation for the Fund has not been fully implemented, it is too early make a valid assessment of the performance against this objective.

For the current year the actual return of 10.16% (after tax) can be compared with the return from the NZX New Zealand Government Stock Gross Return Index (after tax), plus 2.5% per annum, of 3.63%.

The table below compares the investment returns by asset class for the financial years ended 30 June 2003 and 2004.

Asset Class	Year ended 30 June	
	2003	**2004**
	%	%
NZ Fixed Interest	11.53	2.05
International Fixed Interest	3.56	6.86
NZ Equities	14.02	21.13
International Equities	-4.99	20.87
Cash and short term investments	5.90	5.48
Total Fund (after tax)	1.03	10.16

The return from international equities of 20.87% in the current year can be compared with the return from that asset class in the year ended 30 June 2003 of –4.99%. In contrast, the return from NZ fixed interest declined from 11.53% in 2003 to 2.05% in 2004. Within the fixed interest sectors international investments outperformed NZ based investments, the reverse of the 2003 experience

The volatility of returns and the range of results across sectors confirm the benefits of investing in a diversified portfolio and the need to assess the investment performance of the Fund over the longer term.

An analysis of, and commentary on, the returns from each asset class against the benchmark index for the current financial year follows.

New Zealand Cash 5.48%
The NZX 90 day Bank Bill Index (previously the CSFB 90 day Bank Bill Index) return was 5.46% for the same period.

Short-term interest rates in New Zealand are largely guided by the Reserve Bank (RBNZ) Official Cash Rate (OCR). The RBNZ uses the OCR as a tool to manage the inflation rate within its 1-3% target range.

The RBNZ continued on from where it had left off in June 2003, reducing the OCR by a further 0.25% in July. For much of the year, the RBNZ contended with the contrasting pressures of a buoyant domestic economy, particularly in the housing market, and an external sector dealing with the appreciation in the New Zealand dollar. In a move that somewhat surprised the market at the time, the OCR was increased from 5.0% to 5.25% in late January 2004. With economic growth continuing above expectations and some moderating in the level of the currency, the RBNZ announced additional 0.25% increases in the OCR in each of April and June 2004.

Cash has been held in the transition period, more lately to fund the planned investment in property, rather than as part of the long-term strategic asset allocation of the Fund. For this reason a return close to that of the index is seen by the Authority Board as an acceptable result.

New Zealand Fixed Interest 2.05%
The NZX Government Stock Gross Return Index (previously the CSFB Government Stock Gross Return Index) return was 1.68% for the same period.

Returns from fixed interest investments are a combination of interest income and capital gains or losses as market yields fall (generating gains) or rise (generating losses). New Zealand yields are influenced by both domestic and global factors.

As a result of the strong rebound in international share markets and a broad-based economic upturn, bond yields moved higher across all markets over the year resulting in capital losses. The only period of respite occurred in the March 2004 quarter as investors speculated that the recovery might falter as data, at that time, showed low employment growth in the United States. However, this proved temporary as subsequent information revealed a surge in job creation. The increase in the OCR over the year added to the upward pressure on domestic fixed interest rates with the NZ 10-year Government Stock yield rising from 5.33% to 6.35% during the same period.

During the year both of the New Zealand fixed interest managers exceeded the benchmark index.

International Fixed Interest 6.86%
The Lehman Brothers Global Aggregate Index (hedged in New Zealand dollars), return was 6.11% for the same period.

In the key US market, the Government 10-year yield rose from 3.51% in July 2003 to 4.58% in June 2004. Movements in the other major markets were of a similar magnitude with the exception of the Euro zone where the increase was approximately 0.50%. In Japan's case, the significance of the rise (in terms of capital loss) was more pronounced given the particularly low starting point for the 10-year Government bond of 0.85%.

During the year the appointment of one of the original international fixed interest managers, Fischer Frances Trees and Watts, was terminated by the Authority and Wellington Management Company was appointed as the replacement manager. Each of the three international fixed interest managers in place at 30 June 2004 outperformed its benchmark index for the full or part year. The international fixed interest portfolio is 100% hedged to the New Zealand dollar. .

New Zealand Equities 21.13%
The Russell/JB Were Index return was 21.11%.

The New Zealand share market posted a strong gain over the year. The market's buoyant showing can be attributed to both the significant recovery in global shares and robust corporate earnings growth for most New Zealand companies. Both TrustPower and Natural Gas Corporation more than doubled in value, while, at the other end of the spectrum, Air New Zealand fell 25%, one of only a handful of stocks to generate negative returns. The return from Telecom marginally underperformed the index return.

During the year, the appointment of one of the original New Zealand equities managers, BT Funds Management, was terminated by the Authority and Alliance Capital Management was appointed as the replacement manager.

Tower Asset Management outperformed the index during the year. Alliance Capital Management was only appointed on 23 April 2004 so it is too early to assess its performance.

International Equities 20.87%
The index is the weighted average return of the modified 'grey list' countries, as defined in part A of schedule 3 in the Income Tax Act 1994, 75% hedged in New Zealand dollars. The return for this index was 20.98% for the year.

International share markets rose over the year on the back of generally favourable economic news, strong growth in corporate earnings and improved investor sentiment. In local currency terms (i.e. US dollar, euro, yen etc.), international shares rose by 21% on average, with the Japanese market's 31% return leading the way. Further appreciation of the New Zealand dollar, specifically against the US dollar, reduced the gains when expressed in New Zealand dollars. The Authority's policy to hedge 75% of the foreign currency exposure removed much of this negative exchange rate effect.

As the Fund's investments in international shares and the hedging programme are passively managed a return in line with the index is the anticipated outcome.

MEMBERSHIP COMMENTARY

The movement in contributors during the past five years was:

Year ended 30 June	Total Contributors	Decrease	% Change
2000	31,245	(2,445)	(7.26)
2001	29,094	(2,151)	(6.88)
2002	26,990	(2,104)	(7.23)
2003	25,253	(1,737)	(6.44)
2004	23,719	(1,534)	(6.07)

Contributors by schemes were:

Number 2003	GSF Scheme	Number 2004	% of Total
20,364	General Scheme	19,244	81.12
2,069	Armed Forces	1,847	7.79
2,527	Police	2,359	9.95
205	Prison Officers	187	0.79
64	Judges	59	0.25
24	Parliamentarians	23	0.10
25,253	Total contributors at end of year	**23,719**	**100.00**

The movement in the number of contributors during the year was:

Number 2003		Number 2004
26,990	Contributors at beginning of year	25,253
4	Contributors reinstated	13
(1,167)	Retirements	(1,077)
(45)	Withdrawals from the Fund	(40)
(25)	Death before retirement	(45)
(372)	Cessation of employment before retirement	(302)
(132)	Transfer to other funds	(83)
25,253	Total contributors at end of year	**23,719**

The movement in the number of annuitants during the past five years was:

Year ended 30 June	Total Contributors	Decrease	% Change
2000	47,323	3	0.01
2001	47,347	24	0.05
2002	47,474	127	0.27
2003	47,779	305	0.69
2004	47,695	(84)	0.18

The movement in number of annuitants during the year was

Number 2003		Number 2004
47,474	Annuitants at beginning of year	47,779
1,241	New retiring allowances	1,040
1,114	New allowances to spouses	860
(181)	Allowances deferred	(81)
(1,869)	Discontinued allowances	(1,903)
47,779	Total annuitants at end of year	**47,695**

There were 5,778 deferred pensions at 30 June 2004 (included under contributors) (2003: 5,697)

The movement in total number of members during the past five years was

Year ended 30 June	Total Contributors	Total Annuitants	Total Members	Decrease During Year
2000	31,245	47,323	78,568	(2,442)
2001	29,094	47,347	76,441	(2,127)
2002	26,990	47,474	74,464	(1,977)
2003	25,253	47,779	73,032	(1,432)
2004	23,719	47,695	71,414	(1,618)

From 1996 the number of annuitants has exceeded the number of contributors. The present ratios are:

	2003	%	2004	%
Contributors	25,253	35	23,719	33
Annuitants	47,779	65	47,695	67
	73,032	100	71,414	100

Granting a charge over contributions

In the year to 30 June 2004, 130 charges (2003: 190) were registered by the Fund in favour of chargeholders as security over individual contributor's contributions.

GOVERNMENT SUPERANNUATION FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000 Actual		Notes	**2004 $000 Actual**	2004 $000 Forecast
	Increase in assets from:			
	Investing activities			
	Investment revenue			
69,729	Interest, dividend and other income	1	**78,367**	64,026
82,267	Changes in net market values of investment assets	2	**315,353**	173,684
151,996			**393,720**	237,710
	Operating activities			
	Operating revenue	3		
8,377	Crown		**9,993**	10,959
931	Other employers		**1,487**	1,218
9,308			**11,480**	12,177
	Operating expenses	3		
(4,162)	Investment management and custody		**(6,108)**	(6,758)
(5,146)	Administration		**(5,372)**	(5,419)
(9,308)			**(11,480)**	(12,177)
151,996	Surplus before tax and membership activities		**393,720**	237,710
(118,835)	Income tax expense	4	**(76,822)**	(44,055)
33,161	Surplus after tax and before membership activities		**316,898**	193,655
	Membership activities			
	Contributions			
486,466	Government	5	**502,194**	521,252
86,517	Members		**83,254**	73,824
25,429	Other entities		**16,920**	16,528
598,412			**602,368**	611,604
(737,223)	**Benefits paid**	6	**(727,179)**	(753,295)
(138,811)	**Net benefits paid**		**(124,811)**	(141,691)
(105,650)	**Net increase (decrease) in net assets**		**192,087**	51,964
3,287,268	Opening net assets available to pay benefits		**3,181,618**	3,094,006
3,181,618	**Net assets available to pay benefits**		**3,373,705**	3,145,970

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2004

2003 $000 Actual		Notes	**2004 $000 Actual**	2004 $000 Forecast
	Investments			
	Fixed interest – New Zealand			
475,384	NZ Government stock		**347,853**	314,619
25,409	State, Crown owned/Govt guaranteed securities		**25,742**	32,000
31,751	Other bonds and securities		**38,885**	94,000
2,725	Local authority bonds		**2,592**	2,472
185,290	**Fixed interest – International**		**643,130**	654,817
	Equities			
483,035	New Zealand		**522,069**	469,777
1,157,006	International		**1,269,413**	1,338,528
	Others			
595	Mortgages	7	**354**	400
811,952	Short-term investments		**572,891**	235,350
3,173,147	**Total investments**		**3,422,929**	3,141,963
	Current assets			
23,553	Cash at bank		**12,268**	7,000
38,506	Receivables and prepayments	8	**104,496**	56,342
4,698	Other receivables	9	**4,383**	2,500
9,826	Income tax receivables		**10,760**	4,945
76,583	**Total current assets**		**131,907**	70,787
3,249,730	**Total assets**		**3,554,836**	3,212,750
	Less liabilities			
15,186	Deferred tax liability	4	**28,942**	
47,211	Other payables	12	**148,317**	63,376
5,715	Benefits accrued		**3,872**	3,404
68,112	**Total liabilities**		**181,131**	66,780
3,181,618	**Net assets available to pay benefits**		**3,373,705**	3,145,970

The Financial Statements were approved by the Government Superannuation Fund Authority Board on 7 September 2004.

Basil Logan
Colin Blair
Chairman   Chairman
Government Superannuation Fund Authority BoardAudit and Risk Review Committee

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000 Actual		Notes	**2004 $000 Actual**	2004 $000 Forecast
	Cash flows from operating activities			
	Cash was provided from:			
505,551	Government contributions		**546,677**	564,637
82,226	Members' contributions		**80,345**	74,460
25,679	Other entities		**19,336**	17,914
83,798	Interest and dividends		**73,295**	52,691
5,148	Other		**4,978**	847
	Cash was disbursed to:			
(736,024)	Benefit payments		**(773,097)**	(796,377)
(123,000)	Income tax		**(64,000)**	(45,000)
(9,583)	Operating expenses		**(11,201)**	(12,140)
(166,205)	**Net cash out flows from operating activities**		**(123,667)**	(142,968)
	Cash flows from investing activities			
	Cash was provided from:			
12,023,819	Maturities and sales of investment assets		**7,662,007**	20,450,528
366	Mortgage repayments		**308**	242
	Cash was disbursed to:			
(11,848,481)	Purchase of investment assets		**(7,549,933)**	(20,307,802)
175,704	**Net cash in flows from investing activities**		**112,382**	142,968
9,499	Net increase/(decrease) in cash held		**(11,285)**	–
14,054	Opening cash brought forward		**23,553**	7,000
23,553	**Closing cash balance**		**12,268**	7,000

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Reconciliation of net change in net assets to net operating cash flows

2003 $000		2004 $000
(105,650)	Net increase (decrease) in net assets	192,087
	Non-cash items	
15,186	Increase in deferred tax liability	13,756
1,431	Decrease in deferred tax assets	-
(67)	Capitalised interest	(40)
10	Mortgage management expense	7
16,560		13,723
	Add: Movements in working capital items	
11,904	(Increase) decrease in receivables and prepayments	(39,929)
(17,263)	(Increase) in investment receivables	(26,061)
(716)	(Increase) decrease in other receivables	315
(9,826)	(Increase) in tax receivable	(934)
–	Increase in Crown contributions received in advance	32,052
(122,950)	Increase (decrease) in investment payables	68,968
1,393	Increase in other creditors	86
(10,955)	(Decrease) in tax payable	-
(330)	(Decrease) in benefits accrued	(1,843)
(148,743)		32,654
	Add: Items classified as investing activities	
13,682	(Increase) decrease in accrued interest portion of bonds	(3,871)
(82,267)	Net (gains) on investments	(315,353)
17,263	Increase in investment settlement receivables	26,061
122,950	(Increase) decrease in investment settlement payables	(68,968)
71,628		(362,131)
(166,205)	**Net cash out flows from operating activities**	**(123,667)**

The following statements are made as at 30 June 2004

2003 $000		Note	2004 $000
Nil	Contingent liabilities		Nil
10,674,000	Unfunded liability	11	10,167,000
Nil	Trust Money		Nil

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

JUDGES SUPERANNUATION ACCOUNT
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000		2004 $000
	Income from operations *	
9,566	Government contributions	9,222
932	Members contributions	755
10,498		9,977
	Expenditure *	
	Allowances:	
7,013	Retirements	7,559
2,355	Allowances capitalised	1,207
1,130	Spouses and children	1,211
10,498		9,977
–	Net changes	-

PARLIAMENTARY SUPERANNUATION ACCOUNT
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2004

2003 $000		2004 $000
	Income from operations *	
3,352	Government contributions	2,914
219	Members contributions	235
3,571		3,149
	Expenditure *	
	Allowances:	
2, 504	Retirements	2,593
418	Allowances capitalised	-
455	Spouses and children	556
194	Refunds	-
3,571		3,149
–	Net changes	-

* These figures are incorporated in the Government Superannuation Fund Statement of Changes in Net Assets.

These statements are to be read in conjunction with the Statement of Accounting Policies and Notes to the Financial Statements.

STATEMENT OF ACCOUNTING POLICIES

The following policies have been applied in the preparation of the financial statements:

(i) Reporting entity and statutory base

The financial statements of the Government Superannuation Fund ("GSF or the Fund") are prepared pursuant to section 93B(1) of the Government Superannuation Fund Act 1956 ("the Act").

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes as prescribed in the Act. Pursuant to section 19H of the Act, the schemes are registered under the Superannuation Schemes Act 1989.

(ii) Measurement base

The financial statements are prepared on a going concern basis. The following general accounting policies have been adopted in the preparation of these statements:

(a) assets are measured at net market values; and

(b) the reporting currency is New Zealand dollars.

(iii) Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position, and cash flows, have been applied:

Reporting requirements

The financial statements have been drawn up in accordance with Financial Reporting Standard FRS-32: *Financial Reporting by Superannuation Schemes*, and with the provisions of relevant legislative requirements.

Reporting period

The reporting period is the year ended 30 June 2004. Comparative figures are for the year ended 30 June 2003.

Valuation of investments

Investment assets are valued as follows:

Type	Method
NZ Government Stock	Net market value
Equities	Net market value
Other bonds and debt securities	Net market value
Local Authority bonds	Net market value
Mortgages	Realisable value

Valuation of interest rate contracts

Cross currency and interest rate swaps are stated at net market value.

Financial instruments

The following methods have been used to estimate the fair value of each major class of financial instrument:

Financial instrument	**Method**
Cash and call deposits	Realisable value
Short term investments	Net market value
Investments	Net market value
Mortgages	Realisable value
Receivables and prepayments	Realisable value
Creditors	Realisable value

Off balance sheet financial instruments

In the normal course of business, and if appropriate, the investment managers, appointed by the Government Superannuation Fund Authority, enter into transactions involving off balance sheet financial instruments in order to manage the Fund's exposure to risk. These include foreign exchange contracts, swaps, financial options and futures. Investments not taken up as hedging transactions are valued at market rates prevailing at the reporting date. The resulting gains and losses are recognised in the Statement of Changes in Net Assets.

Investment income

Dividend income is recorded on the ex-dividend date. Interest and other investment income are accounted for on an accrual basis. Certain investment expenses are directly charged against investment income. Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses at the end of the year are included in the Statement of Changes in Net Assets.

Taxation

Income tax expense is recognised on the surplus before tax and membership activities, adjusted for permanent differences between taxable and accounting income. The income tax expense, charged to the Statement of Changes in Net Assets, includes both the current year liability and the deferred tax on the movement in timing differences, after allowing for non-assessable income and non-deductible expenses.

The liability method of accounting for income taxation is applied on a comprehensive basis. The tax effect of all timing differences, between taxable and accounting income, is recognised in the Statement of Net Assets as a future tax benefit, or a deferred tax liability. The future tax benefit, or deferred tax liability, is stated at the income tax rate prevailing at balance date. The future tax benefit is not recognised until the realisation of the benefit is virtually certain.

Foreign currency transactions
Transactions in foreign currencies are translated to New Zealand currency at the exchange rates in effect at the transaction date. Assets and liabilities denominated in foreign currencies, including forward exchange contracts, are translated at the closing rates of exchange at the balance date. The resulting gains or losses are recognised in the Statement of Changes in Net Assets.

Repurchase agreements (REPOs)
Securities sold under agreements to repurchase are retained within the investments and accounted for accordingly. Liability accounts are used to record the obligation to repurchase.

Statement of cash flows
- *Basis of preparation*
The statement of cash flows has been prepared using the direct approach.

- *Cash and cash equivalents*
Cash and cash equivalents consist of current accounts in banks, used in the day-to-day cash management of the Fund, and are unconditionally convertible to cash within two working days.

- *Operating activities*
Operating activities include all receipts of contributions and investment income, and payments of benefits and expenses.

- *Investing activities*
Investing activities relate to the acquisition, holding, and disposal of investments. Investments can include securities not falling within the definition of cash.

Consolidation
The Fund's financial statements include the Judges Superannuation Account and the Parliamentary Superannuation Account.

(iv) *Changes in accounting policies*
There were no significant changes in accounting policies during the year. Certain comparative figures have been reclassified and restated to ensure consistency with the current year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1 Interest, dividends, and other income

2003 $000		2004 $000
45,466	NZ Government stock	26,695
1,662	State, Crown owned/Government guaranteed securities	3,345
133	Local Authority bonds	623
1,359	Other bonds and securities	2,307
4,562	International fixed interest	19,972
337	Short term and call deposits, including treasury bills	2,628
15,187	Dividends	21,519
67	Mortgages to members	40
956	Other sources	1,238
69,729	Total	**78,367**

2 Changes in net market values of investment assets

2003 $000		2004 $000
38,541	NZ Government stock	(21,167)
(85)	State, Crown owned/Government guaranteed securities	(1,868)
178	Local Authority bonds	(214)
1,008	Other bonds and securities	(1,658)
3,089	International fixed interest (including hedging gains)	13,788
39,650	Short term investments	16,584
41,667	New Zealand equities	72,255
(41,781)	International equities (including hedging gains)	237,633
82,267	Total	**315,353**

3 Operating revenue and expenses

In terms of section 15E (1) of the Act, the administrative expenses of the Government Superannuation Fund Authority ("the Authority"), including investment management and custody expenses, are reimbursed by the Fund. Both the Crown and other employers reimburse the Fund under section 95 of the Act for the Authority's expenses. In the reporting period, as certified by the Government Actuary:

- the Crown contributed 95% of the Authority's investment management and custody expenses reimbursed by the Fund, and other employers contributed the balance of 5%.
- the Crown contributed 78% of the Authority's other operating expenses reimbursed by the Fund, and other employers contributed the balance of 22%.

4 Income tax expense

2003 $000		2004 $000
151,996	Surplus before tax and membership activities	393,720
	Plus taxation effect of permanent differences:	
219,299	Non-assessable/deductible investment (gains)/ losses	(139,410)
6,199	Imputation credits	9,550
377,494		263,860
124,573	Income tax @ 33%	87,074
(6,199)	Less imputation credits	(9,550)
461	Prior year adjustment	(702)
118,835	Tax expense	**76,822**
	The taxation charge is represented by:	
102,213	Current tax	63,226
16,161	Deferred tax	14,298
461	Prior year adjustment	(702)
118,835		76,822
	Movement in deferred taxation	
1,431	Opening balance	(15,186)
(16,161)	Deferred portion of current period tax expense	(14,298)
(456)	Prior year adjustment	542
(15,186)	Deferred tax liability	**(28,942)**

5 Government contributions

2003 $000		2004 $000
473,548	Public Service superannuation benefits	490,058
9,566	Judges superannuation benefits	9,222
3,352	Parliamentarians superannuation benefits	2,914
486,466	Total	**502,194**

Funding arrangements:

There is no requirement on the Crown to fully fund the GSF Schemes. The basis of funding to meet benefits is partly from contributors' contributions, as set out below, and the surplus after tax, the balance being the contributions from the Government and non-departmental employers. Reliance is placed on the provisions in the Act for the Crown to ensure that sufficient funds are available, or will be available, to pay benefits as they fall due.

Members Contribution %	GSF Scheme	Employer Contribution %
	General Scheme	
6.5	Non-funding	6
6.5	Funding except Islands*	Between 6 and 10
6.5	Islands	6
	Special Schemes	
7.6	Armed Forces	15.4
7.5	Police	16.1
8.5	Prison Officers	Nil

*As the employer contribution rate is subject to age and gender of contributors, it is different from one employer to another.

6 Benefits paid

2003 $000		2004 $000
515,318	Pension entitlements	531,172
75,472	Allowances capitalised	57,548
84,992	Spouses and children	85,492
	Refunds:	
35,926	Cessation of employment	29,168
13,305	Transfers to other schemes	11,379
11,433	Cessation of membership	11,292
777	Death	1,128
737,223		**727,179**

7 Mortgages

The Housing New Zealand Corporation manages mortgages previously granted to members of the Fund.

8 Receivables and prepayments

2003 $000		2004 $000
	Receivables:	
2,438	Net Government contributions	-
2,587	Members' contributions	649
2,219	Other entities' contributions	1,282
1,015	Interest and dividends	2,183
26,735	Investment settlements receivable	52,796
	Prepayments:	
3,512	Benefits	47,586
38,506	Total	**104,496**

9 Other receivables

2003 $000		2004 $000
4,558	Past service contributions	4,256
140	Pension entitlements	127
4,698	Total	**4,383**

10 Actuarial review

Section 94 of the GSF Act 1956 requires that, at least every 3 years or at shorter intervals as directed by the Minister of Finance, the Government Actuary shall examine the financial position of the Fund. On 22 August 1999, the Minister directed an annual valuation to be carried out. The latest published examination was made at 30 June 2003, and the report, dated 30 November 2003, was tabled in Parliament on 19 March 2004.

11 Liability for accrued benefits

The Government Actuary valued the accrued benefits of the Fund, as at 30 June 2004, to calculate the unfunded past service liability (UPSL) for inclusion in the Crown's Financial Statements for the year ended 30 June 2004. The Government Actuary's report is dated 24 July 2004.

The projected aggregate funding method, based on balance date membership data, was used in the valuation. This method requires the benefits payable from the Fund, relating to service up to the valuation date, to be estimated, and then discounted to the valuation date. The valuation is carried out in accordance with generally accepted accounting practice (GAAP), as considered appropriate by the Crown for the determination of the UPSL. In particular, it requires the liability in respect of the projected benefit payments to be discounted at appropriate after-tax rates derived from Government Stock market prices, as at valuation date.

Significant assumptions, used in the valuation of accrued benefits for inclusion in the Crown Financial Statements were:

2003 %		2004 %
	After-tax discount rates	
3.3	– year 1	4.1
3.3	– year 2	4.0
3.4	– year 3	4.2
3.5	– year 4	4.3
3.6	– year 5	4.3
3.6	– year 6 to year 7	4.4
3.9	– year 8	4.4
3.9	– year 9	4.4
3.9	– year 10	4.4
4.0	– year 11 and thereafter	4.4
	CPI	
2.0	– year 1	2.0
2.0	– year 2 to year 7	2.0
2.0	– year 8	2.0
2.0	– year 9	2.0
2.0	– year 10 and thereafter	2.0
	Annual salary increase excluding promotional effects	
3.0	– year 1	3.0
3.0	– year 2 to year 7	3.0
3.0	– year 8	3.0
3.0	– year 9	3.0
3.0	– year10 and thereafter	3.0

Rates of mortality, morbidity and withdrawal are based on scheme experience, that experience being used to adjust standard published tables where available.

UPSL

2003 $000		2004 $000
13,856,000	Total accrued benefits as at end of year	13,541,000
3,182,000	*less* Net assets available to pay benefits	3,374,000
10,674,000	Total UPSL as at end of year	**10,167,000**

Vested benefits

Vested benefits are benefits payable to members as a whole under the conditions of the GSF Schemes, if they ceased being members on balance date.

Under the terms of the GSF Schemes, the total liability for accrued benefits vested with members, as at 30 June 2004, is $13,343 million (30 June 2003: $13,596 million).

Purchase of additional benefits

Additional payments of $4.502 million (2002: $5.691 million), to acquire further benefits, were made during the year by members with pre-entry service, or on early retirement.

12 Other payables

2003 $000		2004 $000
56	Crown receipts	48
886	Use of money interest payable	886
397	Unallocated contributions	52
1,345	Government Superannuation Fund Authority	1,784
–	Crown contributions in advance - benefits	30,151
–	Crown contributions in advance - operating	1,901
44,527	Investment settlements payable	113,495
47,211	Total	**148,317**

13 Financial instruments

(a) Credit risk

In the normal course of its business the Fund incurs credit risk with the New Zealand Government, state owned enterprises, local authorities, financial institutions and other debtors.

The Fund invests in New Zealand dollar denominated fixed interest securities, equities, secured mortgages, and foreign currency denominated fixed interest securities and equities in accordance with the Statement of Investment Policies, Standards and Procedures (“SIPSP”).

The SIPSP contains credit and exposure policies to limit credit risks from the Fund’s investments.

(b) Foreign currency risks

The Fund is exposed to foreign currency risk by investing in foreign currency denominated fixed interest securities and equities. From April 2002, international equities have been 75% hedged into New Zealand dollars by foreign exchange contracts. From March 2003 international fixed interest securities have been hedged in the range 90 – 110% to United States dollars, and fully hedged from United States dollars to New Zealand dollars, by foreign exchange contracts.

The face value of the foreign currency contracts, with respect to foreign currency exposure at the end of the year, is as follows:

2003 $000		2004 $000
888,082	Foreign currency contracts for international equities	948,328
198,823	Foreign currency contracts for international fixed interest securities	763,372
1,086,905	Total	**1,711,700**

Foreign currency transactions are translated to New Zealand dollars at exchange rates in effect at the date of the transactions.

(c) Interest rate risk

Weighted Average effective interest rates and maturity periods are: -

	Effective Interest Rate	0-6 Months $000	6-12 Months $000	12-24 Months $000	24-60 Months s$000	Over 60 Months $000	Total $000
Monetary Assets							
NZ Government stock	6.16%	–	96,836	33,020	6,015	211,982	347,853
State, Crown/Govt guaranteed	6.30%	3,193	–	14,485	5,890	2,174	25,742
Other bonds and securities	7.15%	–	–	(162)	26,305	12,742	38,885
Local authority bonds	6.76%	–	–	–	2,592	–	2,592
International fixed interest	3.93%	4,151	2,003	23,119	139,753	474,104	643,130
Mortgages	5.25%	354	–	–	–	–	354
Cash at bank	5.77%	12,268	–	–	–	–	12,268
Short-term investments	4.53%	572,891	–	–	–	–	572,891

(d) Interest rate exposures

The Fund's SIPSP provides the investment managers the ability to use interest rate hedging instruments, within specified limits, to hedge interest rate exposures.

There were no interest rate hedging instruments outstanding as at 30 June 2004 (2003: Nil).

(e) Fair values

The carrying values of the Fund's assets and liabilities are equivalent to their fair values.

14 Related parties

In terms of sections 81W(2), 88(2) and 95(1) of the Act, the Minister of Finance pays into the Fund out of public money any deficiency in benefits payable to contributors and annuitants.

The Fund has business transactions with the Crown, Government Departments, Crown Entities, and State Owned Enterprises together with a number of other public sector entities on an arm's length basis. These transactions are not considered related party transactions except for the following:

The Fund has invested a significant proportion of its assets in New Zealand Government Stock. The Fund's interests are disclosed in the Statement of Net Assets.

The Authority managed the Fund's assets and administered the GSF Schemes. For the year ended 30 June 2004, the Fund paid the Authority $11.480 million (2003: $9.308 million) for operating expenses, as detailed in the Statement of Changes in Net Assets. In turn, the Fund was reimbursed by the Crown and other employers, as set out in Note 3.

15 Actual versus forecasts

- Investment revenues are subject to the volatile nature of investment markets, this being the principal reason for the variance between the forecast and actual changes in net market values of investment assets.

- The transition programme towards the strategic asset allocation has proceeded more slowly than planned resulting in lower investment management and custody expenses. As a result, the operating revenue from the Crown and other employers was also lower than forecast.

- The forecast benefit payments are actuarially estimated and cannot be projected with accuracy as actual payments are dependent on factors beyond the Authority's control, such as early retirements, redundancies, or unexpected salary changes.

Deloitte.

REPORT OF THE AUDITOR-GENERAL TO THE READERS OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT SUPERANNUATION FUND FOR THE YEAR ENDED 30 JUNE 2004

The Auditor-General is the auditor of Government Superannuation Fund (the Fund). The Auditor-General has appointed me, Michael Wilkes, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Fund, on his behalf, for the year ended 30 June 2004.

Unqualified Opinion

In our opinion:

- The financial statements of the Fund on pages 44 to 59:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Fund's net assets as at 30 June 2004; and
    - the changes in net assets and cash flows for the year ended on that date.

The audit was completed on 7 September 2004, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Government Superannuation Fund Authority Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

Our audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Government Superannuation Fund Authority Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the net assets of the Fund as at 30 June 2004. They must also give a true and fair view of the changes in net assets and cash flows for the year ended on that date. The Board's responsibilities arise from the Government Superannuation Fund Act 1956.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 93A of the Government Superannuation Fund Act 1956.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Fund.

Michael Wilkes
DELOITTE
On behalf of the Auditor-General
WELLINGTON, New Zealand

STATEMENT OF INVESTMENT POLICIES, STANDARDS, AND PROCEDURES

DATED 6 September 2004

No liability

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INTRODUCTION

This document is dated 6 September 2004 . It replaces the previous document dated 7 July 2004. The amendments to the 7 July 2004 document (and previous amendments) are recorded in the version control document called "SIPSP Amendments."

This document is intended to assist the governance and management of the investment of the Fund

The first part of the document sets out the investment policies, standards and procedures required under the Government Superannuation Fund Act 1956 (the GSF Act). The second part describes the current investment structure and the specific investment parameters currently applied to the investment of the Fund.

Government Superannuation Fund Act 1956

The GSF Act requires that the GSF Authority must:

> *"… invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with -*
>
> *(a) best-practice portfolio management; and*
>
> *(b) maximising return without undue risk to the Fund as a whole; and*
>
> *(c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community."*
>
> [Section 15J(2) of the GSF Act]

Section 15L of the GSF Act requires that:

> *"(1) The Authority must establish, and adhere to, investment policies, standards, and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with section 15J.*
>
> *(2) The Authority must review those investment policies, standards, and procedures for the Fund at least annually."*

Section 15M sets out 11 items that must be covered, as a minimum, in the statement of investment policies, standards, and procedures. Section 15M is reproduced in full as Appendix 1.

PART 1: MATTERS REQUIRED UNDER THE GSF ACT

(Section references are to sections of the GSF Act)

1 THE CLASSES OF INVESTMENTS IN WHICH THE FUND IS TO BE INVESTED AND THE SELECTION CRITERIA FOR INVESTMENTS WITHIN THOSE CLASSES (SECTION 15M (A))

The GSF Authority Board has determined that the Fund shall be invested in the following general asset classes:

International equities;
New Zealand equities;
Property;
New Zealand fixed interest;
International fixed interest; and
New Zealand cash and short-term securities

Currency hedging and derivative instruments will form part of the Fund's investment strategy.

The Fund may be invested in other asset classes or in specific sub-categories of the asset classes listed above in the future.

The selection criteria for investments within the current asset classes are:

1.1 International equities

1.1.1 the international equity securities that comprise the broad-based passively managed international equity products that have current IRD binding rulings enabling gains to be accumulated free of taxation in New Zealand;

1.2 New Zealand equities

1.2.1 the equity securities and securities convertible into equity securities of companies that are either:

1.2.1.1 listed on the New Zealand Stock Exchange and resident in New Zealand for tax purposes; or

1.2.1.2 are included in the NZSX50 Index.

1.3 New Zealand fixed interest

1.3.1 debt instruments issued or guaranteed by the New Zealand Government or agency of the New Zealand Government;

1.3.2 New Zealand dollar denominated debt instruments issued by New Zealand entities that have debt ratings, as rated by a recognised international rating agency, satisfactory* to the GSF Authority Board;

1.4 International fixed interest

1.4.1 debt instruments denominated in foreign currencies that are issued or guaranteed by foreign governments or government agencies that are satisfactory* to the GSF Authority Board;

1.4.2 corporate credit and asset-backed or collateralised instruments denominated in foreign currencies that are issued or guaranteed by entities that are satisfactory* to the GSF Authority Board;

1.5 Cash

1.5.1 New Zealand dollars and, as specifically provided for in the relevant investment management contracts, foreign currencies;

1.5.2 short-term instruments or short-term investments with high liquidity and low risk (such as a treasury note or Bank accepted bill of exchange) and readily determined market values;

1.5.3 fixed interest securities with a short-term debt rating, as rated by a recognised international rating agency, satisfactory* to the GSF Authority Board.

1.6 Currency Management

International Equities

1.6.1 foreign exchange hedging contracts relating to the currencies of the "grey list" countries (Australia, Canada, Germany, Japan, United Kingdom and the United States of America) and New Zealand.

1.6.2 foreign exchange hedging contracts where the counterparties have an appropriate* short-term credit rating measured by a recognised international rating agency.

International fixed interest

1.6.3 foreign exchange hedging contracts relating to the currencies in which the securities that comprise international fixed interest portfolio are denominated.

1.6.4 foreign exchange hedging contracts where the counterparties have an appropriate* short-term credit rating measured by a recognised international rating agency.

1.7 Derivatives

Managers are permitted to use derivative instruments. The policies, standards and procedures with respect to derivative instruments are presented under number 7 below.

**Details of the GSF Authority Board's current debt and credit rating criteria are presented in Part II: Current Investment Structure of the Fund.*

2 THE DETERMINATION OF BENCHMARKS OR STANDARDS AGAINST WHICH THE PERFORMANCE OF THE FUND AS A WHOLE, CLASSES OF INVESTMENT, AND INDIVIDUAL INVESTMENTS WILL BE ASSESSED. (SECTION 15M(B))

2.1 Determination of Benchmarks

The benchmarks for the Fund as a whole and for individual asset classes are selected to be consistent with the risk and return assumptions that underpinned determination of the strategic asset allocation for the Fund*.

2.2 Assessment of Performance

The GSF Authority Board recognises that investment performance objectives are expected to be met over the medium term. From year to year, investment returns may not meet those medium term objectives.

Investment performance is measured:

2.2.1 before the deduction of any fees due to the investment managers; and

2.2.2 after transaction costs have been deducted (but before custodian costs are deducted).

<u>Performance of the Fund as a whole</u>

The performance of the Fund as a whole will be assessed by comparing the Fund return (after tax) with the NZX New Zealand Government Stock Gross Index return (after tax) plus 2.5% per annum over rolling ten-year periods. This performance measure will be monitored at least annually.

<u>Classes of investment</u>

The performance of classes of investment will be assessed by comparing the actual performance of the investment managers for that asset class with the benchmark for that asset class plus any return value-added component the GSF Authority Board has decided is appropriate*. Investment managers' performances are generally considered over rolling three-year periods and managers are required to meet mandate compliance criteria.

Investment managers are also to be compared to other managers in the same asset class.

**Details of the GSF Authority Board's current benchmarks and value-added requirements are presented in Part2I: Current Investment Structure of the Fund.*

3 STANDARDS FOR REPORTING THE INVESTMENT PERFORMANCE OF THE FUND (SECTION 15M(C))

The investment management mandates should contain such reporting provisions to enable the GSF Authority Board to determine the managers' compliance with the investment contract and success in meeting the GSF Authority Board's investment objectives.

The periodic reports should cover:

3.1 Reporting by the Investment Manager

3.1.1 reviews of the portfolio managed by the particular investment manager for the GSF Authority Board ('the Portfolio') including performance reporting and Portfolio valuations;

3.1.2 certification that the terms of the investment contract have been met including certification that the Portfolio has not been leveraged;

3.1.3 reconciliation of Portfolio accounts with those of the custodian;

3.1.4 a statement of any voting right issues.

The GSF Authority Board will review the managers' investment performance quarterly and investment managers will be required to meet with the GSF Authority Board on an annual basis.

3.2 Reporting by the Custodian

In respect of each investment manager, the custodian is to provide the reports required by the GSF Authority to enable monitoring and review of managers' performance.

Those reports should include:

3.2.1 The overdraft position of each Portfolio;

3.2.2 Accounting matters including Portfolio valuation;

3.2.3 Reconciliation of Portfolio values and cash flows with the investment managers;

3.2.4 Investment performance measurement and analysis;

3.2.5 Taxation matters; and

3.2.6 Reports of compliance with mandate specific restrictions.

4 ETHICAL INVESTMENT, INCLUDING POLICIES, STANDARDS, OR PROCEDURES FOR AVOIDING PREJUDICE TO NEW ZEALAND'S REPUTATION AS A RESPONSIBLE MEMBER OF THE WORLD COMMUNITY (SECTION 15M(D))

4.1 Policies

In formulating Standards relating to managing and administering the Fund consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community, the Board is conscious of:

4.1.1 the requirements of the Act. For example, the Board recognises that the manner in which the management and administration of the Fund is organised through its governance and management processes is one important aspect of the Standards and Procedures developed under the Act's mandate;

4.1.2 the public nature of the Fund and of the identity of the Fund's key stakeholders (namely the Crown, public service employers, contributors and pensioners). The pensioners and contributors of the GSF comprise a large group of retired, and currently working, New Zealand public servants whose GSF membership provides Crown underwritten benefits in retirement. These pensioners and contributors represent a cross-section of the past and present New Zealand public service.

In order to be workable, the Standards that are formulated need to be:

4.1.3 based to the extent possible on objective criteria; and

4.1.4 capable of practical implementation.

4.2 Standards

<u>Active Investments</u>

4.2.1 The GSF Authority's obligations to manage and administer active investments of the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community apply in relation to the investment in:

4.2.2 fixed interest securities (other than public debt) issued by, and equity in, corporate entities (together "corporate securities"). This definition may be updated from time to time to include other asset classes; and

4.2.3 fixed interest securities issued by central governments, entities guaranteed by central governments, local authorities and quasi-government organisations (together "public debt").

<u>Corporate Securities</u>

4.2.3.1 In establishing and reviewing whether an active investment in a security of a corporate entity gives rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community, the GSF Authority will have regard to (amongst other considerations):

i. information obtainable from the public domain on reasonable enquiry on whether the corporate entity has, in the last three years, been judged by a court or tribunal of competent jurisdiction to have materially breached domestic laws of any State relating to:

- human rights;
- labour and employment;
- the environment;
- arms trading; or
- transnational organised crime and countering terrorism;
- and such judgment (or if more than one in the past three years, all of them) relates to a material part of or is materially significant to the corporate entity's business; and

ii. information and advice received by the GSF Authority that the corporate entity is on the basis of credible evidence widely regarded in the world community as having participated in:

- serious infringements of relevant international standards in relation to human rights, labour or the environment; or
- other reprehensible conduct;

of such a nature that prejudice may be caused to the reputation of an investor in the securities of that corporate entity; and

4.2.3.2 any economic or other sanctions that New Zealand applies.

4.2.4 The reputation risk may be eliminated where:

4.2.4.1 the corporate entity has rectified its business practices and publicly demonstrated compliance over a reasonable period with any relevant laws or international standards previously breached; or

4.2.4.2 the relevant economic or other sanctions are lifted.

<u>Public Debt</u>

4.2.4.3 Active investment in public debt by the GSF Authority will give rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community where information (which is reasonably obtainable from the public domain on reasonable enquiry) establishes that the country of domicile of the issuing entity:

i. is a country which the Board considers gives rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community should the GSF Authority invest in public debt of that country.

4.2.4.4 In establishing and reviewing whether a country falls within 4.2.4.3 above, the GSF Authority Board will have regard to (amongst other considerations):

i. information and advice received by the Board that indicates that a country is on the basis of credible evidence widely regarded in the world community as having participated in:

- serious infringements of international standards in relation to human rights, labour, or the environment, or
- other reprehensible conduct;

of such a nature that prejudice may be caused to the reputation of an investor in the public debt of that country; and

ii. information received by the Board indicates that the country has been subject to international censure (including the imposition of sanctions) by New Zealand and the wider world community in relation to matters referred to in paragraph 4.2.4.4

4.2.4.5 The reputation risk may be eliminated where advice received by the Board indicates that the country has rectified its practices and is no longer subject to international censure.

Passive Investments

4.2.5 It is anticipated that, in determining whether a passive or index equity investment product gives rise to prejudice to New Zealand's reputation in the world community, the Board will assess the index which the product tracks, and whether investment in the product per se gives rise to a risk of such prejudice.

4.2.6 The Board envisages that some of the passive or index international equity investment products it will consider investing in will include close to 1,000 underlying securities. The Board's view is that in these cases it is the overall index (and not each underlying security) which must be examined to determine whether there is a risk to New Zealand's reputation in investing in such a product.

4.2.7 The Board will review its assessment under 4.2.4 and 4.2.5 above, should there be a material change in the passive product, including the composition and/or weighting of the underlying securities of the passive product.

Procedures

4.2.8 The GSF Authority will engage external experts and advisors (including screening and research agencies) to supply advice to the Board to enable it to formulate and monitor the Standards in accordance with the requirements of the Act.

4.2.9 For the purposes of applying 4.2.3.3 above in an efficient manner, the GSF Authority may, in consultation with the external experts and advisors it has engaged:

4.2.9.1 consider only the countries in which the Board is invested or intends to invest; and

4.2.9.2 out of those countries, establish a list of countries which the Board considers do not give rise to risk of prejudice to New Zealand's reputation should the GSF Authority invest in public debt of that country.

4.2.10 The Board shall review any such list under 4.2.8.2 at no less than six monthly intervals, and more frequently should;

4.2.10.1 it receive advice at any time that a more frequent review is appropriate;

4.2.10.2 the list of countries under 4.2.8.1 above changes. In this case, only the additional country or countries shall be reviewed.

4.2.11 The Board will ensure that all of the investment managers of the Fund are aware of these Policies, Standards and Procedures. The Board will require the investment managers to draw to its attention any issues of which they are reasonably aware relating to investments that may need consideration in light of these Policies, Standards and Procedures.

4.2.12 If the Board determines, based on advice from its external experts, advisors or managers, that an investment under an active mandate does not meet the Standards, the Board will refrain from making the investment. If an existing investment under an active mandate fails to meet the Standards, the following procedures will apply:

4.2.12.1 a strategy will be developed to exit the investment in a manner that has regard to 15J(2)(a) and (b) and is approved by the Board, in consultation with the relevant investment manager(s);

4.2.12.2 the exit process will be monitored by the Board;

4.2.12.3 the relevant investment manager(s) will be notified if and when the investment in the corporate security or public debt no longer contravenes the Standards.

4.3 Other Ethical investment policies, standards and procedures

4.3.1 It is the view of the Board, from its initial research, that widespread application of ethical standards is relatively new. Where ethical standards have been applied, there is considerable variety in the method, breadth, and application of those standards.

4.3.2 It is also the view of the Board that there are developing views on the extent to which an ethical policy resulting in the narrowing of investment options could compromise investment criteria the same as or similar to those of section 15J(2). The Board's policies, standards and procedures for ethical investment must be consistent with all of the requirements under section 15J(2).

It is recognised that the Policies, Standards, and *Procedures* for avoiding prejudice to New Zealand's reputation as a responsible member of the world community covers matters associated with ethical investment. The Board will use the experience that it gains in implementing these Policies, Standards and Procedures for avoiding prejudice to New Zealand's reputation to inform itself with respect to any further development of ethical investment policies, standards and procedures.

4.4 Review of policies standards and procedures

4.4.1 The policies, standards and procedures set out in 4.1.1 to 4.3.2 above shall be reviewed periodically and in any event at no less than 12 monthly intervals.

5 THE BALANCE BETWEEN RISK AND RETURN IN THE OVERALL FUND PORTFOLIO (SECTION 15M(E))

Risk and return for the overall Fund is balanced with a strategic portfolio that meets the GSF Authority Board's investment objective for the Fund of:

5.1 achieving an average rate of return (after tax) at least equal to the NZX New Zealand Government Stock Gross Index return (after tax) plus 2.5% per annum measured over rolling ten year periods [Note1].

5.2 having no more than a 1 in 10 chance in any one year of a loss in the total Fund being greater than $100 million (after tax).

Note 1 This is expected to generate improved investment performance over the life of the Fund of approximately $1,200m.

6 THE FUND MANAGEMENT STRUCTURE (SECTION 15M(F))

6.1 Policy

The GSF Authority Board has determined that the following components of the Fund management structure should be out-sourced:

6.1.1 advisory services – legal, tax advisory, actuarial, investment advisory and audit services;

6.1.2 investment management;

6.1.3 custodian / investment back office; and

6.1.4 secretariat and management services.

6.2 Procedures

Selection of managers for these roles will take into account, among other criteria specific to the role:

6.2.1 best-practice portfolio management;

6.2.2 the skills and experience the manager brings to the role;

6.2.3 the substance and viability of the manager;

6.2.4 the costs that can be expected to be incurred;

6.2.5 the potential for cost savings and other efficiency gains; and

6.2.6 the existence of appropriate risk management structures.

Generally, unless specific circumstances require a different approach, the selection of managers will be a contestable process conducted through a request for proposal and interview process.

Investment management mandates and guidelines shall be prescribed in a manner to best achieve the investment objective of the GSF Authority Board. In particular, mandates shall include: eligible investments, performance measurements, constraints and exposure limits including country and issue exposures, use of derivatives, and reporting requirements.

Managers will be regularly reviewed against the criteria above to determine their suitability for their role.

6.3 Governance

The GSF Authority Board is charged with overall governance responsibilities for the investment of the Fund, among other functions. The GSF Authority Board has appointed a board Investment Committee to address specific investment issues. The investment committee is provided with authority from the GSF Authority Board in each instance to make particular decisions on those issues.

The GSF Authority Board itself retains the power of appointment of managers and custodians within the Fund management structure.

The current management structure for the Fund is presented in Part 2: Current Investment Structure of the Fund.

7 THE USE OF OPTIONS, FUTURES, AND OTHER DERIVATIVE FINANCIAL INSTRUMENTS (SECTION 15M(G))

Section 15C of the GSF Act requires the prior approval of the Minister of Finance to be sought where the GSF Authority intends to "hold any financial instrument that places or may place a contingent liability on the Authority, the Fund or the Crown."

In accordance with this provision, the GSF Authority Board sought and received the approval of the Minister of Finance (see letter date 17 October 2001) to use derivative financial instruments subject to certain conditions.

7.1 Statement of Investment Policies, Standards, and Procedures - derivative instruments.

Derivative financial instruments (derivatives) are financial contracts whose value depends on, or is derived from underlying assets, and includes futures contracts, forward currency contracts, forward interest rate contracts and options.

In relation to derivatives, "effective exposure" means the exposure to the underlying asset or liability that arises from holding the derivative. For futures and forward contracts, the effective exposure is the value of the underlying asset or liability at current market rates. For options contracts, determination of the effective exposure takes accounts of the 'delta' of the option (the sensitivity of the option value to changes in the value of the underlying asset or liability).

<u>DERIVATIVES (EXCLUDING FORWARD FOREIGN EXCHANGE CONTRACTS)</u>

7.2 Policy

7.2.1 Derivatives may only be used for the purposes of managing, lessening, hedging or protecting against movements in interest rates, discount rates, values or prices in relation to permitted investments;

7.2.2 When undertaking a hedge, changes in that portion of the value of the physical asset hedged and changes in the value of the derivative must be expected to reasonably offset each other. The hedge must be in the form of a derivative over the same asset class as the physical position;

7.2.3 Derivatives are not to be used to leverage the portfolio;

7.2.4 The holding of derivatives must be fully supported by cash, short-term debt instruments readily convertible to cash or permitted investments (but excluding derivatives) under the relevant mandate when measured on an effective exposure basis;

7.2.5 At all times, the value of all derivative positions measured on an effective exposure basis must not result in portfolio liabilities exceeding portfolio assets;

7.2.6 The effective duration of any derivatives, shall be taken into account for the purposes of determining compliance with the duration limits of the New Zealand fixed interest portfolio;

7.2.7 The determination of the exposure to any company, security or market shall take into account the exposure resulting from derivatives for the purposes of determining compliance with portfolio exposure limits;

7.2.8 The amount of derivatives in a portfolio may be limited by limiting exposure to individual counter-parties or limited by specifying the total exposure to derivatives in the portfolio.

7.3 Procedures

<u>Valuation</u>

7.3.1 The value of all derivative contracts held in any individual portfolio open at any one time will be limited as a percentage of the net asset value of that portfolio, where:

7.3.1.1 the value of derivatives, which comprise futures and options contracts, are measured on an effective exposure basis;

7.3.1.2 the value of other derivatives are measured by a best practice market model determined and used by the Custodian.

7.3.2 revaluations of derivatives will be undertaken on at least a weekly basis.

<u>Instruments</u>

Derivative instruments traded on recognised exchanges may be entered into.

Over-the-counter options, interest rate swaps, forward rate agreements may also be entered into or held in the portfolio subject to each counterparty having an appropriate credit rating as measured by a recognised rating agency for counter party risk and appropriate contractual arrangements (for example, an ISDA agreement) being in place between the manager and each counter party.

The GSF Authority Board recognises that, where it invests in pooled products offered by investment managers, it may be indirectly investing in derivatives. All investment managers are required to provide the GSF Authority Board with a copy of their policies relating to derivatives securities trading risk and to manage their derivative exposures in accordance with those policies.

DERIVATIVES – FOREIGN EXCHANGE CONTRACTS

7.4 Policy

Derivatives relating to foreign exchange may be used for the purposes of managing and hedging currency exposures held within the Fund and for the purposes of purchasing or selling foreign currencies required for the settlement of foreign exchange transactions.

The net exposure to foreign currencies (after taking into account hedging positions) in the relevant portfolios are to be in accordance with the GSF Authority Board's hedging policy for that asset class

No cross-currency hedging is permitted i.e. currency exposures must be hedged directly as opposed to hedging with a highly correlated third currency to reduce the primary exposure - for example using a United States dollar hedge to reduce a Canadian dollar exposure.

7.5 Procedures

Foreign exchange hedging contracts may be entered into only with counterparties that have credit ratings approved by the GSF Authority board and measured by a recognised rating agency for counterparty risk.

Contractual arrangements (for example, an ISDA agreement) must be in place between the manager and each counterparty in a form suitable to the GSF Authority Board.

Appropriate operational ranges* will be established with managers around the determined hedge ratio to avoid excessive costs of continually adjusting the hedge to the precise hedge ratio

Each fund manager and the transition manager must have risk management policies and procedures in place that address counterparty risks suitable to the GSF Authority Board.

**Details of the GSF Authority Board's operational ranges for currency hedging are presented in Part 2: Current Investment Structure of the Fund.*

8 THE MANAGEMENT OF CREDIT, LIQUIDITY, OPERATIONAL, CURRENCY, MARKET, AND OTHER FINANCIAL RISKS (SECTION 15M(H))

8.1 Credit risk

Credit risk (or counterparty risk) is the risk of default by the counterparty to a particular transaction.

Credit risk is managed by requiring that:

8.1.1 Managers of New Zealand fixed interest investments are only permitted to invest:

8.1.1.1 in New Zealand fixed interest securities issued by:

i. the New Zealand Government or agency of the New Zealand Government;

ii. entities guaranteed by the New Zealand Government; or

8.1.1.2 in entities with an appropriate* long-term debt rating as measured by a recognised rating agency;

8.1.1.3 a specified maximum of the Portfolio in fixed interest securities not issued or guaranteed by the New Zealand Government or agency of the New Zealand Government.

8.1.2 Managers of New Zealand fixed interest investments must ensure the maximum exposure to any single issuer other than the New Zealand Government is within specified bounds.

8.1.3 Managers of international fixed interest investments are only permitted to invest:

8.1.3.1 in debt instruments denominated in foreign currencies issued or guaranteed by:

i. foreign governments or agencies; or

ii. entities guaranteed by foreign governments; or

8.1.3.2 entities with an appropriate* long-term debt rating as measured by a recognised rating agency;

8.1.3.3 a specified maximum of the Portfolio in debt securities not issued or guaranteed by foreign governments or agencies.

8.1.4 Managers of international fixed interest investments must ensure the maximum exposure to any single issuer other than foreign governments or agencies is within specified bounds.

8.1.5 In respect of foreign currency management

8.1.5.1 Any forward contracts entered into must be with entities that have an appropriate* minimum credit rating as determined by an international credit rating agency for counter-party risk; and

8.1.5.2 appropriate contractual arrangements (for example, an ISDA Agreement) must be in place between the currency manager and the counterparty.

8.1.6 In respect of cash and short-term fixed interest securities

8.1.6.1 any cash balances must be held in an interest bearing account with the custodian;

8.1.6.2 any short-term securities must have an appropriate* short-term debt rating as measured by a recognised rating agency.

8.2 Liquidity Risk

Liquidity risk is the risk that a security cannot be sold when required or that the price achieved is significantly different from the quoted price.

Liquidity risk is managed by:

8.2.1 requiring, except as specifically authorised by the Board, managers to only invest in securities traded on recognised exchanges;

8.2.2 where investment in securities that are not traded on recognised markets are authorised by the Board, controlling exposure to those securities;

8.2.3 requiring managers, within the terms of their individual contracts, to hold diversified portfolios;

limiting the credit rating* of the fixed interest and cash investments to minimum levels .

8.3 Operational Risk

Operational risk is the risk of financial loss due to mismanagement, error, fraud or unauthorised use of techniques and/ or financial products.

Operational risk is managed by:

8.3.1 engaging an independent global custodian to separate the investing function (undertaken by the investment managers) from the transaction settlement, recording and reporting of investment activities (as undertaken by the global custodian).

8.3.2 requiring investment managers and the custodian to:

8.3.2.1 provide the GSF Authority Board with third party covenants or assurances against these events;

8.3.2.2 have in place insurance arrangements to cover claims in those events; and

8.3.2.3 have in place and regularly confirm the existence and efficiency of internal policies and controls to address those risk; and

8.3.3 compliance reporting by investment managers, the custodian and the external auditors.

8.4 Currency Risk

Currency risk is the risk that the foreign currency denominated assets will lose value due to the effect of an adverse exchange rate movement.

Currency risk is managed by:

8.4.1 engaging a currency manager to manage the international equities currency exposure in accordance with the hedging ratio for that asset class;

8.4.2 specifying the bounds within which the international fixed interest managers may take on currency exposures relative to a benchmark that is fully hedged to United States dollars; and

8.4.3 engaging a currency manager to implement a passive hedge to New Zealand dollars for the international fixed interest portfolio's value in United States dollars.

The instruments that managers may use and the credit worthiness of the counterparties are detailed in the investment management contract with respective managers.

8.5 Market Risk

Market risk is the risk that the value of an asset is adversely affected by general price movements in the market for that asset.

Market risk is managed by:

8.5.1 requiring investment managers to manage their portfolios within defined market exposure limits. Those limits include:

8.5.1.1 New Zealand fixed interest.

i. duration limits relative to the duration of the benchmark;

ii. maximum limits on non-Government investments.

8.5.1.2 New Zealand equities.

The Investment Mandates for active management are to contain exposure limitation criteria to control market risk. Those criteria may include:

i. Limits on the percentage weight of any individual company in the portfolio relative to its benchmark weight;

ii. Limits on investment in companies not represented in the benchmark;

iii. Limits on investment in any individual company not represented in the benchmark; and

iv. Limits on the maximum investment in any individual company.

8.5.1.3 International Equities

i. the investments are to be passively managed at benchmark weights.

8.5.1.4 International Fixed Interest

i. duration limits relative to the duration of the benchmark;

ii. maximum limits on non-Government investments;

iii. maximum limits on exposure to single entities (excluding governments).

8.5.1.5 Currencies

i. For international equities, a passive hedge approach to management of the hedge ratio relative to the currency exposures of the benchmark.

ii. For international fixed interest, hedging the currency exposure of the portfolio back into the United States dollar while allowing positions to be held in individual currencies within specified risk control bounds. The United States dollar value of the international fixed interest portfolio is fully hedged to New Zealand dollars under a passive hedge approach.

**See Part 2: Current Investment Structure of the Fund for details*

9 THE RETENTION, EXERCISE OR DELEGATION OF VOTING RIGHTS ACQUIRED THROUGH INVESTMENTS (SECTION 15M(I))

9.1 Active Management

Policy

Investment managers are required to give full consideration to all voting opportunities and shall vote on all substantive issues affecting the Authority's portfolio.

Investment managers must vote on those issues in the best interests of the Fund and in accordance with the managers' voting guidelines and having regard to the Authority's statutory requirements of section 15J(2) of the Government Superannuation Fund Act 1956 (as amended).

Any conflicts or inconsistencies between the best interests of the Fund, investment managers' guidelines, the Government Superannuation Fund Act 1956 (as amended) or the Crown shall be referred to the Authority.

Standards

A 'substantive issue' is one which has the potential to materially affect the value of the Authority's investment in that entity in the near future.

Investment managers are required to establish and adhere to voting guidelines.

Each year the investment manager must update those guidelines and provide a copy to the Authority.

Material changes to the voting guidelines must be advised in writing to the Authority.

Procedures

Investment managers are required to report all voting decisions to the Authority quarterly (at the end of March, June, September and December).

Investment managers must brief the Authority on substantive issues prior to voting and provide reasons for voting decisions as required by the Authority.

When an investment manager refers a voting proposal to the Authority, Management will prepare a report outlining the voting situation and recommending a voting course of action. On limited occasions this may involve receiving an independent report.

If the voting proposal involves the Crown, Management will consider application for a waiver from the New Zealand Stock Exchange associated persons rules to enable investment managers to vote either for or against the proposal as they determine.

9.2 Passive Management

The GSF Authority Board recognises that, consistent with the IRD binding rulings on those products, it is not able to exercise the voting rights attached to the underlying investments.

10 THE METHOD OF, AND BASIS FOR, VALUATION OF INVESTMENTS THAT ARE NOT REGULARLY TRADED AT A PUBLIC EXCHANGE. (SECTION 15(J))

Generally, the investments of the GSF Authority Board are to be regularly traded on recognised exchanges.

Where investments are held that are not regularly traded on recognised exchanges, those investments will be valued by the GSF Authority Board's custodian.

11 PROHIBITED OR RESTRICTED INVESTMENTS OR ANY INVESTMENT CONSTRAINTS OR LIMITS. (SECTION 15M(K))

Prohibited or Restricted Investments

Except as required to control risks (as set out under section 8 above) and in accordance with the GSF Authority Board's ethical investment policy there are no specifically prohibited or restricted investments. However each investment management contract specifies those investments that constitute permitted investments and managers may not invest other than in those permitted investments.
Specific written authorisation from the GSF Authority Board is required to invest outside of the prescribed permitted investments. The GSF Authority Board will consider such investments as they arise on application from the investment manager

Investment Constraints and Limits

The GSF Authority Board has developed constraints and limits in respect of each investment class to control risks (see section 8 above). It has also determined limits to the exposure to each investment class to ensure the investment objective of the Fund is not compromised by excessive deviation from the Fund's strategic asset allocation.
The GSF Authority is precluded from controlling any other entity or from holding such a percentage of the voting rights of another entity that would require it to seek control of that entity. See section 15K of the GSF Act. Limits on the maximum holding that can be held in each issuer address this.

APPENDIX 1 SECTION 15M OF THE GSF ACT

15M CONTENTS OF STATEMENTS OF INVESTMENT POLICIES, STANDARDS, AND PROCEDURES

A statement of investment policies, standards, and procedures must cover (but is not limited to)-

(a) the class of investments in which the Fund is to be invested and the selection criteria for investments within those classes; and

(b) the determination of benchmarks or standards against which the performance of the Fund as a whole, classes of investment, and individual investments will be assessed; and

(c) standards for reporting the investment performance of the Fund; and

(d) ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community; and

(e) the balance between risk and return in the overall Fund portfolio; and

(f) the Fund management structure; and

(g) the use of options, futures, and other derivative financial instruments; and

(h) the management of credit, liquidity, operational, currency, market, and other financial risks; and

(i) the retention, exercise or delegation of voting rights acquired through investments; and

(j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and

(k) prohibited or restricted investments or any investment constraints or limits.

PART 2: CURRENT INVESTMENT STRUCTURE OF THE FUND

As at 6 September 2004

1 ASSET CLASSES

The Fund shall be invested in the following general asset classes:

International equities;
New Zealand equities;
Property assets;
International fixed interest;
New Zealand fixed interest;
New Zealand cash and short-term securities

In addition the currency exposure associated with international investing will be managed and exposures to the asset classes will be constrained around their strategic benchmark

1.1 International Equities

1.1.1 the strategic benchmark allocation is to be 42.5% of the total Fund assets

1.1.2 the strategic benchmark for monitoring purposes will be the modified MSCI grey list* index expressed in New Zealand dollars;

1.1.3 international equities are to be managed passively in broad based international equities products which have binding IRD rulings exempting them from New Zealand taxation on capital gains; and

1.1.4 two passive managers are to be appointed.

*comprising Australia, Canada, Germany, Japan, United Kingdom and the United States of America.

1.2 New Zealand Equities

1.2.1 the strategic benchmark allocation is to be 15.0% of total Fund assets;

1.2.2 the universe of permitted investments is to be equity securities of companies either:

1.2.2.1 listed on the New Zealand Stock exchange and resident in New Zealand for tax purposes; or

1.2.2.2 included in the NZSX50 Index;

1.2.3 permitted investments also include certain convertible debt instruments and options provided the equities to which they relate satisfy the permitted investment criteria stated above;

1.2.4 the benchmark index for monitoring purposes is to be the Russell / J B Were Tradeable Index; and

1.2.5 at least two active managers with complementary investment styles are to be appointed.

1.3 Property Assets

1.3.1 the strategic benchmark allocation is to be 7.5% of total Fund assets;

[Note: section to be added prior to investment in this asset class]

1.4 International Fixed Interest

1.4.1 the strategic benchmark allocation is to be 21% of total Fund assets ;

1.4.2 up to 70% of the international fixed interest portfolio may be allocated to non-sovereign issues;

1.4.3 the benchmark index for monitoring purposes is to be a modified version of the Lehman Brothers Global Aggregate Bond Index hedged to New Zealand dollars;

1.4.4 at least two active managers are to be appointed.

1.5 New Zealand Fixed Interest

1.5.1 the strategic benchmark allocation to New Zealand fixed interest investments is to be 14% of total Fund assets ;

1.5.2 up to 12.5% the New Zealand fixed interest portfolio may be allocated to non-sovereign issues;

1.5.3 the benchmark index for monitoring purposes is to be the NZX New Zealand Government Stock Gross Return Index;

1.5.4 at least two active managers are to be appointed.

1.6 Cash

1.6.1 there is to be no cash allocation in the strategic benchmark allocation;

1.6.2 managers appointed to manage the asset classes are to be permitted to hold up to 5% of their portfolios in cash for liquidity and operational purposes.

1.7 Asset Allocation and Rebalancing

1.7.1 asset allocation is to be managed passively that is, no attempt will be made to add value by deliberately and actively over-weighting particular asset classes at the expense of others. However, developments in tactical asset allocation or strategic tilting will be actively monitored with respect to their applicability to the Fund;

1.7.2 each month the Fund’s actual asset allocation will be checked against the rebalancing ranges. Asset allocations will be allowed to fluctuate within their permitted rebalancing ranges and taking known cash flows for the next month into account, transactions will be undertaken to ensure compliance with those rebalancing ranges;

1.7.3 the permitted ranges relative to the strategic benchmark allocations within which the actual allocation may vary before rebalancing is required are:

1.7.3.1 Subject to total growth assets (equities plus property assets) being between 62% and 68% of total Fund assets:

i. international equities between 39% and 46% of total Fund assets;

ii. New Zealand equities between 12% and 18% of total Fund assets; and

iii. Property assets between 4% and 11% of total Fund assets.

1.7.3.2 Subject to total income assets (fixed interest assets) being between 32% and 38% of total Fund assets:

i. international fixed interest being between 19% and 23% of total Fund assets; and

ii. New Zealand fixed interest being between 12% and 16% of total Fund assets.

1.7.4 where an asset class is outside of its rebalancing range, it is rebalanced to the point half-way between the strategic asset allocation for that asset class and the breached rebalancing range.

1.8 Currency Management

International Fixed Interest

1.8.1 the international fixed interest portfolio currency hedging benchmark will be to be fully hedged to the New Zealand dollar;

1.8.2 the currency management will be implemented by:

1.8.2.1 having the United States dollar as the base currency of the portfolio and permitting the investment managers to manage currency exposures to between 70% and 130% on the net asset value of the portfolio in United States dollar terms; and

1.8.2.2 engaging a currency manager to implement a passive hedge of 100% of the United States dollar value of the portfolio to New Zealand dollars.

International Equities

1.8.3 the hedge ratio will be 50% hedged on an after tax basis (75% hedged before tax);

1.8.4 the hedge ratio will be permitted to vary between 85% and 65% (before tax) before being required to be re-balanced to be within that range;

1.8.5 the hedge will be implemented by taking currency hedging position only in currencies represented in the international equities benchmark index; and

the currency exposure will be managed passively by a specialist currency manager.

1.9 Summary

The Fund and asset class features are summarised in the following tables.

Table 1: Strategic Benchmark and Asset Class Rebalancing Ranges

Asset class	Weight	Rebalancing Range
International equities	42.5%	39% to 46%
New Zealand equities	15.0%	12% to 18%
Property assets	7.5%	4% to 11%
Total growth assets	***65%***	***62% to 68%***[1]
International fixed interest	21%	19% to 23%
New Zealand fixed interest	14%	12%to 16%
Total fixed interest	***35%***	***32% to 38%***[1]
International equities pre-tax hedge ratio	75%	65% to 85%
International fixed interest hedge ratio to US dollars	100%	70% to 130%
International fixed interest hedge ratio US to NZ dollars	100%	100%

[1] The rebalancing ranges for individual asset classes are subject to the total growth assets and total fixed interest assets rebalancing ranges.

Table 2: Asset Class Benchmarks and Return Performance Targets

Asset Class	Benchmark	Return Value Added Target
International equities	Modified ‘grey list’ MSCI Index (75% hedged)	Nil
New Zealand annum	Russell/J B Were Tradeable Index	3.0% per equities
Property	(to be developed)	
International fixed interest	Lehman Brothers Global Aggregate Index 100% hedged to United States dollars but excluding New Zealand Government securities	1.0% per annum
New Zealand fixed interest	NZX New Zealand Government Stock Gross Return Index	0.6% per annum
Currency international equities	– Currency weights of modified ‘grey list’ MSCI Index (75% hedged to NZD before tax)	Nil
Currency international fixed interest	– 100% hedged to New Zealand dollars according to a pre-determined pricing formula	Nil

2 RISK CONTROL

To control risk the following constraints are applied to the Fund's investments

2.1 International Equities

2.1.1 The investments are passively managed at benchmark weights;

2.1.2 The tracking error of the passive product to its benchmark will be monitored.

2.2 New Zealand Equities

2.2.1 The maximum investment (including the effect of any derivatives) in any individual company must not exceed 5% of the issued capital of that company;

2.2.2 The investment in any individual company must not vary from its benchmark weight by more than the following limits (subject to a minimum of zero):

The greater of plus or minus:

2.2.2.1 5% of its benchmark weight; and

2.2.2.2 half its benchmark weight.

Provided that:

2.2.2.3 no more than 20% of the Portfolio may be invested in companies not in the benchmark; and

2.2.2.4 no more than 5% of the Portfolio may be invested in any single company not in the benchmark.

2.2.3 Underwriting or sub-underwriting of share issues is permitted up to a maximum of 5% of the net asset value of the Portfolio;

2.2.4 The use of derivatives must not exceed 20% of the net asset value of the portfolio measured on an effective exposure basis;

2.2.5 Up to 5% of the net asset value of the portfolio may be held in cash and short-term securities that meet the criteria for cash and short-term securities below.

2.2.6 The tracking error of the portfolio relative to the benchmark is expected to be below 5%.

2.3 International Fixed Interest

2.3.1 Permitted investments are debt securities that are:

2.3.1.1 Denominated in the currencies represented in the benchmark; and

2.3.1.2 Either are included in the benchmark or have a long-term credit rating of at least AA- as rated by Standard & Poor's;

2.3.2 The average market value-weighted quality of the portfolio must be no lower than A-;

2.3.3 The maximum exposure to non-Government securities is 70% of the net asset value of the portfolio;

2.3.4 The maximum exposure to any non-Government single entity is 5% of the net asset value of the portfolio;

2.3.5 Where a maximum exposure to derivative securities is prescribed it is 30% of the net asset value of the portfolio. If no maximum is prescribed the maximum exposure to a single counter-party is 5% of the net asset value of the portfolio;

2.3.6 The following duration limits apply:

2.3.6.1 The duration of the portfolio must be within 2.5 years of the duration of the benchmark at all times;

2.3.6.2 The duration of the dollar bloc portion of the portfolio must be within 2 years of the benchmark duration of that portion;

2.3.6.3 The duration of the Euro bloc portion of the portfolio must be within 2 years of the benchmark duration of that portion;

2.3.6.4 The duration of the Japanese portion of the portfolio must be within 2 years of the benchmark duration of that portion.

The tracking error of the portfolio measured over rolling three-year periods is expected not to exceed 2.5%

2.4 New Zealand Fixed Interest

2.4.1 Permitted investments are New Zealand fixed interest securities issued by:

2.4.1.1 The New Zealand Government or agency of the New Zealand Government;

2.4.1.2 New Zealand Entities guaranteed by the New Zealand Government; or

2.4.1.3 New Zealand Entities with a long term (in excess of 180 days) debt rating of not less than A3 as rated by Moody’s Investor Service or A- as rated by Standard & Poor’s;

2.4.2 The maximum exposure to any single issuer other than the New Zealand Government or agency of the New Zealand Government or entities guaranteed by the New Zealand Government is 5% of the net asset value of the Portfolio;

2.4.3 The duration of the portfolio must be within plus or minus 1.5 years of the duration of the benchmark;

2.4.4 Managers of the New Zealand fixed interest portfolio are permitted to enter into repurchase agreements relating to New Zealand government debt instruments. Provided that:

2.4.4.1 Where no derivatives are held in the portfolio, the total face value of all repurchase agreements must not exceed 40% of the net asset value of the portfolio; and

2.4.4.2 Where derivatives are held in the portfolio, the combined total value of all derivatives plus the total value of all repurchase agreements must not exceed 50% of the net asset value of the portfolio; and

2.4.4.3 The value of derivatives alone must not exceed 20% of the net asset value of the portfolio.

2.5 Cash and Short-term Fixed Interest

2.5.1 The maturity of the investments is not to exceed 180-days;

2.5.2 Any short-term securities must have a short-term (not exceeding 180 days) debt rating of not less than Prime -1 as rated by Moody's Investor Services or A1 as rated by Standard & Poor's.

2.5.3 Any cash balances must be held in an interest bearing account with the custodian;

2.6 Foreign currency management

International equities

2.6.1 Only forward contracts relating to currencies of countries represented in the underlying international equity portfolio are permitted (those countries are: Australia, Canada, Germany, Japan, United States and United Kingdom);

2.6.2 At all times the currency exposure of any country in the currency management portfolio plus the currency exposure of that country in the GSF Authority's International Equity portfolio must be within 10 percentage points of the currency exposure of that country in the currency benchmark but may not be less than 0%.

2.6.3 The overall New Zealand dollar currency exposure of the currency management portfolio plus New Zealand dollar currency exposure of the GSF Authority's International Equity Portfolio shall remain in the range 65% to 85%.

2.6.4 Any forward contracts entered into must be with entities that have a short-term credit rating of A1 or higher as determined by Standard & Poor's (or as an alternative rating agency is used a rating of equivalent standing);

2.6.5 Appropriate contractual arrangements (for example, an ISDA Agreement) must be in place between the currency manager and the counterparty;

2.6.6 Currencies are passively managed within bounds around benchmark weights (as shown in Table 2 above);

2.6.7 The effect of the currency management portfolio is to result in the tracking error of the currency component of the GSF Authority's international equity portfolio relative to the currency benchmark to be within 0.20%;

2.6.8 No single counter-party may hold derivatives that expose that counter-party to more than 25% of the currency management portfolio;

2.6.9 The value of all derivative securities when measured on a market equivalent basis, held in the currency management portfolio open at any one time must not exceed 100% of the net asset value of the currency management portfolio.

2.7 International fixed interest

The performance of the international fixed interest managers is measured relative to the benchmark 100% hedged to United States dollars. Managers are permitted to deviate from the 100% hedged position within the following constraints:

2.7.1 Exposure to authorised currencies must remain within 10% of their exposure in the benchmark;

2.7.2 The cumulative currency exposure of the portfolio must not exceed 30% of the net asset value of the portfolio.

2.7.3 An ISDA Agreement must be in place between the managers and any counterparty.

The New Zealand dollar / United States dollar currency exposure of the portfolio is 100% hedged to New Zealand dollars and passively managed according to an agreed pricing formula by a contracted currency manager.

3 CURRENT MANAGEMENT STRUCTURE

The GSF Authority Board has determined and implemented the following investment management structure for the Fund:

3.1 appointment of a global custodian to provide the appropriate separation of functions between the investing function (undertaken by the investment managers) and the transaction settlement, recording and reporting of investment activities (under taken by the global custodian).

3.2 all GSF assets, apart from cash holding required for operational liquidity purposes, are to be held under custody unless specifically authorised otherwise by the GSF Authority Board.

3.3 engagement of arm's-length services secretariat to arrange and manage contracts on behalf of the GSF Authority Board, report to the GSF Authority Board and provide a manager coordination and monitoring role;

3.4 cash required for operational liquidity purposes is managed by the GSF Authority's secretariat;

3.5 contracted investment managers:

3.5.1 at least two international equities managers products to mitigate manager and product risk;

3.5.2 two New Zealand equities managers with complementary styles to mitigate manager and style risk;

3.5.3 three international fixed interest managers with complementary styles to mitigate manager and style risk;

3.5.4 two New Zealand fixed interest managers with complementary styles to mitigate manager and style risk;

3.5.5 a specialist currency manager to manage the currency hedging exposure associated with the international equities investment.

TABLE OF CURRENT INVESTMENT MANAGERS AND CUSTODIAN

Asset Class	**Investment Managers**
International equities	AMP Capital Investors New Zealand Limited
	BNZ Investment Management Limited
New Zealand equities	Alliance Capital Management New Zealand Limited
	TOWER Asset Management Limited
Property	(to be appointed)
International fixed interest	Goldman Sachs Asset Management International
	Pacific Investment Management Company LLC
	Wellington Management Company LLP
New Zealand fixed interest	Alliance Capital Management New Zealand Limited
	AMP Capital Investors New Zealand Limited
Residual portfolio	AMP Capital Investors New Zealand Limited
Currency	ANZ National Bank Limited
	State Street Global Advisors Australia Limited
Custodian	J P Morgan-Chase Bank

3.6 Joint Venture with Board of Trustees of the National Provident Fund. The Authority, in a joint venture with the Board of Trustees of the National Provident Fund, has established Annuitas Management Limited to provide management services to the GSF Authority Board. The prime function of Annuitas is to provide staff who act in management roles on behalf of the Authority. Management is responsible for :

3.6.1 administration and board secretarial;

3.6.2 financial and accounting;

3.6.3 management of external advisors;

3.6.4 management of contracted services including investment management services;

3.6.5 contract compliance monitoring;

3.6.6 liaison with Crown agencies;

3.6.7 reporting to the GSF Authority Board.

DIRECTORY

Government Superannuation Fund Authority Board
Basil Logan (Chairman)
David May (Deputy Chairman)
Colin Blair
Helen Bowie
Tim McGuinness
Susie Weaver
Ralph Stockdill

Executive Office:
Level 12, The Todd Building
95 Customhouse Quay
PO Box 3390
Wellington

Schemes Administrator:
AXA New Zealand
(Government Superannuation Fund Schemes Administration)
80 The Terrace
PO Box 3614
Wellington

Custodian:
JP Morgan Chase & Co.
AAP Centre
259 George Street
Sydney NSW 2000
Australia

Investment adviser:
Russell Investment Group Limited
135 Albert Street
PO Box 105-191
Auckland

Tax adviser:
PricewaterhouseCoopers
113-119 The Terrace
PO Box 243
Wellington

Actuary:
Government Actuary
PO Box 10 867
The Terrace

Auditor:
Michael Wilkes
Deloitte
on behalf of
The Auditor-General
PO Box 1990
Wellington

Bankers:
National Bank of New Zealand Limited

Solicitors:
Phillips Fox
50-64 Customhouse Quay
PO Box 2791
Wellington

Crown Law
45 Pipitea Street
PO Box 5012
Wellington

All correspondence relating to the Government Superannuation Fund Schemes should be addressed to:
AXA New Zealand
(Government Superannuation Fund Schemes Administration)
80 The Terrace
PO Box 3614
Wellington
Or
The Chief Executive
Government Superannuation Fund Authority
PO Box 3390
Wellington

INVESTMENT MANAGERS:

New Zealand fixed interest
AMP Capital Investors (New Zealand) Limited
(previously AMP Henderson Global Investors
(New Zealand) Limited)
Alliance Capital Management New Zealand Limited

International fixed interest

Pacific Investment Management Company LLC	
Fischer, Francis, Trees and Watts, (Inc) (USA)	to 26 April 2004
Goldman Sachs Asset Management	from 11 August 2003
Wellington Management Company LLP	from 26 April 2004

New Zealand equities

Alliance Capital Management New Zealand Limited	from 23 April 2004
BT Funds Management (NZ) Limited	to 23 April 2004
Tower Asset Management Limited	

International equities
AMP Capital Investors (New Zealand) Limited
(previously AMP Henderson Global Investors
(New Zealand) Limited)
Bank of New Zealand Investment Management Limited

Currency management

State Street Global Advisors, Australia, Limited	International Equities
National Bank of New Zealand, now ANZ National Bank Limited	International Fixed Interest