REPORTS OF THE

GOVERNMENT SUPERANNUATION FUND AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2008

2008

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

FOR THE YEAR ENDED
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Reports presented to the House of Representatives pursuant to Section 150(3) of the Crown Entities Act 2004.

GOVERNMENT SUPERANNUATION FUND AUTHORITY

CHAIRMAN'S REPORT

On behalf of the Government Superannuation Fund Authority Board (**the Board**), I am pleased to present the annual report of the Government Superannuation Fund Authority (**the Authority**) for the year ended 30 June 2008.

A separate annual report has been prepared by the Authority for the Government Superannuation Fund (**GSF** or **the Fund**), commencing on page 45.

The Authority was established as a Crown entity by section 15A of the Government Superannuation Fund Act 1956 (**the GSF Act**) and became an autonomous Crown entity under the Crown Entities Act 2004 (**the Crown Entities Act**).

The Authority's mission is to use best practice to manage the Fund and administer the GSF Schemes, in accordance with the GSF Act, with the prime objectives of enabling:

- returns to be maximised without undue risk,
- the Crown's contribution to GSF to be minimised, and
- the needs and reasonable expectations of stakeholders to be met.

The Authority is responsible for interpreting the provisions of the GSF Act relating to the GSF Schemes and exercising discretionary provisions. Management carries out these functions under delegation from the Board.

Features of the 2008 Year

- Investment performance impacted by the global credit crunch and rising inflation.
- Shift from passive to active management of international equities.
- Outstanding return from collateralised commodities futures.
- Introduction to the Fund of a multi-asset class, incorporating investments in listed equities, private equity, real estate and hedge funds, and a global tactical asset allocation strategy.
- Exclusion of direct investment by the Fund in companies involved in the manufacture of tobacco and anti-personnel mines, in terms of the Authority's Responsible Investment Policies.
- Scoping of the schemes administration system as the first step in developing a new more sustainable system.

Investments

The performance of the Fund during the financial year was severely impacted by a number of factors. These include the financial crisis in the United States which turned into the global credit crunch, rapidly rising inflation around the world, caused by surging food and energy prices, and high interest rates in New Zealand.

These, in turn, led to nervousness among investors, a sharp slowdown in global economies, double digit falls in stock markets and much weaker real estate markets.

In New Zealand, the NZX 50 Index fell 23% from its peak level as investors retreated from the market, house prices weakened and companies faced rising costs. In addition, the collapse of a number of finance companies, with the accompanying loss of funds, combined with the freezing of other funds and assets, led to increasing nervousness and further retreat by investors to the safety of larger banks.

Changes made by the Authority have been helpful in responding to these adverse events. There has been a move from passive to active management of international equities, a reduction in the allocation to New Zealand equities and the introduction to the Fund of a multi-asset class, incorporating listed equities, private equity, real estate and hedge funds, and a global tactical asset allocation strategy. Despite these changes, the Fund has experienced a negative return for the year. It is not alone in this position; many other comparable funds have been similarly affected.

Another factor which has had an adverse impact on the results for the year is the new offshore tax regime which came into force for the Fund last October. Even though the Fund made a loss on its international equities portfolio, tax was still payable at the rate of 5% of the opening market value on 1 October. Under the previous regime, tax was payable only on dividends. Now, tax is paid even if there are no dividends and the share price falls. Also, under the new tax rules, losses on Australasian equities and listed New Zealand real estate securities are no longer deductible for tax.

The Board remains confident that, over the long term, the investment strategy is soundly based. Volatility is a feature of equity and real estate markets worldwide and their values will increase again at some future point. The performance of the Fund is best assessed over the long term and not in any one year in isolation.

Investing in a wide range of assets globally is prudent and responsible and the Board remains committed to that approach. Diversification and active management of investments should enhance investment performance over time.

The Fund's deficit after tax for the year of $260.9 million represents a return of -6.7% of average net assets. The negative return was caused primarily on the sharp decline in international and New Zealand equities over the year.

The table below compares the Fund's investment returns against the Investment Performance Measure (**IPM**) (see page 4) and the after tax returns from the NZX New Zealand Government Stock Gross Index over 1, 3 and 5 year periods ended 30 June 2008.

	1 year %	3 years Annualised %	5 years Annualised %
Fund	-6.7	5.1	6.5
IPM	8.8	6.1	6.0
NZX New Zealand Government Stock Gross Index (after tax)	6.3	3.6	3.5

The table demonstrates the need to assess the investment performance of the Fund over the long term.

The Risk Parameter set for the Fund (see page 4) is to have no more than 1 in 10 chance in any one year of a loss greater than 6.0% of the total Fund (after tax). As the Fund is now into its eighth year of a diversified investment strategy, a deficit greater than the Risk Parameter is not unexpected, although it is unwelcome.

Full details of the Fund's Investment Strategy, Strategic Asset Allocation and investment returns can be found in the Investment Commentary on page 4.

Schemes

A tender for the development of a new and more sustainable schemes administration system will be carried out in the next financial year. Key tasks for the Board will be to consider the tenders received and decide whether to proceed with the development.

Further comment on GSF Schemes' activity can be found on page 12 of this report.

Website

The Authority's website – *www.gsfa.govt.nz* – continues to be an important part of our communications strategy and contains comprehensive information on both the Authority and the Fund. The content explains how the Authority operates and gives all members and interested parties immediate access to our latest quarterly investment results, as well as any changes the Authority makes to its policies, Investment Strategy and personnel.

The website provides an easy way to keep up to date with the operations of the Authority and the Fund.

Tributes

The previous Chairman, Basil Logan, retired when his term of appointment ended on 31 May 2008. Mr Logan was the inaugural Chairman of the Authority Board, appointed when the Authority took over responsibility for managing the Fund and administering the GSF Schemes in 2001. He was previously Chairman of the GSF Establishment Board.

As Chairman, Mr Logan directed the transition of the Fund's investment assets from fixed interest to a fully diversified investment portfolio in line with best practice. He also oversaw the successful and seamless change of the scheme administrator from AXA to Datacom with entitlements continuing to be calculated accurately and paid on time.

Board member Colin Blair also retired on 31 May 2008. Mr Blair was first appointed in 2001 and during his terms he was the Chairman of the Board's Audit and Risk Review Committee. The Authority and the Fund benefited from Mr Blair's wide experience in accounting, audit and tax matters.

The Board expresses its appreciation and thanks for the significant contributions made by Mr Logan and Mr Blair and wishes them well for the future.

Conclusion

The Board thanks the Minister of Finance and Government officials for their support during the year, and the Management team for their high level of work and commitment to meeting the Authority's objectives.

I also thank my fellow Board members for their expertise and commitment during the year.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

INVESTMENT COMMENTARY

Investment Strategy

The Authority is required to invest the Fund on a prudent commercial basis. In so doing, it must manage and administer the Fund in a manner consistent with best practice portfolio management, maximising returns without undue risk to the Fund as a whole.

Key features of the Investment Strategy set for the Fund are the Investment Objective, Investment Performance Measure and Risk Parameter, as set out below:

Investment Objective

To minimise the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term, without undue risk, and within a best practice framework.

Investment Performance Measure

The performance of the Fund will be assessed by comparing the after tax return with the NZX New Zealand Government Stock Gross Index return (after tax) plus 2.5% per annum measured over rolling 10 year periods.

Risk Parameter

Having no more than 1 in 10 chance in any one year of a loss greater than 6.0% of the total Fund (after tax).

The IPM and Risk Parameter are reviewed at least annually, taking into account the investment and tax environment in which the Authority operates. No change was seen as necessary to the IPM and Risk Parameter following the last annual review.

Strategic Asset Allocation

Over the year, the Fund's Strategic Asset Allocation (**SAA**) has been refined as set out in Table 1 on the next page. Also included in the table is the SAA, effective 1 October 2007, which was set when the tax of equities changed. A new SAA was put in place at that time to maintain the IPM, given that the tax changes had altered the balance of risk and return in the Fund.

Table 1

Asset Class	Strategic Asset Allocation at 30 June 2007 %	Strategic Asset Allocation Effective 1 October 2007 %	Strategic Asset Allocation at 30 June 2008 %
New Zealand fixed interest	5.0	4.0	
International fixed interest	27.0	20.5	
Fixed interest			23.0
New Zealand equities	15.0	13.0	10.0
International equities	42.5	52.0	47.0
Real estate	7.5	7.5	7.0
Collateralised commodity futures (**CCFs**)	3.0	3.0	3.0
Multi-asset*			7.0
Global tactical asset allocation			3.0
TOTAL	**100.0**	**100.0**	**100.0**

*Multi-asset class is a diversified portfolio comprising listed equities, private equity, real estate and hedge funds.

All asset classes were within their rebalancing tolerances at 30 June 2008 and, with the exception of CCFs, were maintained within the rebalancing tolerances during the year.

Table 2 below compares the actual asset allocations, as at 30 June 2007, and 30 June 2008, with the SAA.

Table 2

Asset Class	Investment Assets Actual at 30 June 2007		Investment Assets Actual at 30 June 2008		Strategic Asset Allocation at 30 June 2008
	$000	**%**	**$000**	**%**	**%**
Fixed interest	1,222,898	30.4	812,653	23.0	23.0
New Zealand equities	651,514	16.2	334,304	9.5	10.0
International equities	1,710,484	42.6	1,641,913	46.5	47.0
Real estate	297,043	7.4	232,190	6.6	7.0
Collateralised commodity futures	135,715	3.4	140,944	4.0	3.0
Multi-asset	–	–	250,660	7.1	7.0
Global tactical asset allocation	–	–	116,661	3.3	3.0
TOTAL	**4,017,654**	**100.0**	**3,529,325**	**100.0**	**100.0**

The numbers in the table are based on the assets managed by the investment managers for each asset class. They differ from the investments numbers set out in the Statement of Net Assets for the Fund (see page 51) because of differing disclosure requirements for financial reporting purposes.

The Authority regularly reviews the SAA of the Fund to ensure it remains appropriate and consistent with legislative requirements and best practice.

Asset Management

The report for the year ended 30 June 2007 advised that a review was being undertaken of the composition and structure of the international equities portfolio to take into account the amendments to the way international shares would be taxed. The review was completed and the resulting changes to the Fund implemented from 1 October 2007, when the tax amendments came into effect.

The international equities portfolio is now actively managed and the Authority has appointed a number of experienced investment managers to implement the strategy. The new managers were allocated funds progressively during the year. The Authority believes it has identified managers capable of adding value and that the cost of active management will be more than offset by higher returns over time. The managers appointed by the Authority are listed in the Directory on page 41.

The New Zealand equities portfolio has been restructured to allow Australian shares to be included, but remains benchmarked against the NZX50 Index. The Authority has also appointed a multi-asset class manager (which invests in a diversified portfolio of listed equities, private equity, real estate and hedge fund assets), and a global tactical asset allocation manager.

Investment Returns

The Fund's deficit after tax for the year represents a return of -6.7% on average net assets. The deficit pre tax represents a return of -5.4% on average net assets.

Investment returns were ahead of the IPM for the period from 2 October 2001, when the Authority took over responsibility for the management of the Fund, to 30 June 2007. The negative investment return for the last financial year means returns are now below the IPM since inception, and the Fund has exceeded the Risk Parameter for the first time in eight years.

Table 3 below compares the Fund's investment returns against the IPM and the after tax return from the NZX New Zealand Government Stock Gross Index over 1, 3 and 5 years ended 30 June 2008.

Table 3

	1 year %	3 years Annualised %	5 years Annualised %
Fund Return	-6.7	5.1	6.5
IPM	8.8	6.1	6.0
NZX New Zealand Government Stock Gross Index (after tax)	6.3	3.6	3.5

Although the Fund made a deficit before taxation, taxation was still payable. This illustrates the impact of the Fair Dividend Rate (**FDR**) tax regime, implemented for the Fund from 1 October 2007. Under the FDR regime each year international equities (excluding some Australian equities) are taxed each year on 5% of their opening market value, regardless of what is actually earned from dividends and capital gains on those equities.

Tax changes also impacted on the returns from Australasian equities and New Zealand listed real estate. Under new tax rules losses made by these assets are no longer deductible for tax, effectively increasing the Fund's deficit after tax this year.

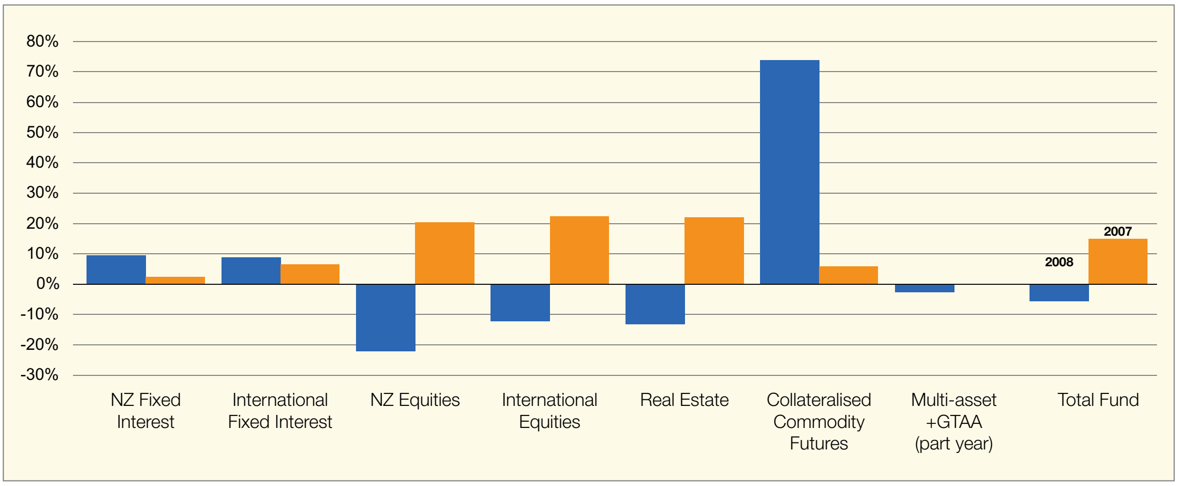
It is important to take a long term view of investment returns, as the Fund is expected to exist and pay pensions for another 60 years. To earn an average 2.5% after tax, above the after tax returns from Government stock over the long term, means there is a risk of occasional loss and the Risk Parameter recognises this. Any losses are expected to be more than offset over time by occasional years of high returns. The loss experienced this year and the cumulative returns since the inception of the diversified Investment Strategy in 2001 are within the tolerances underpinning the strategy. Nevertheless, the Authority continues to refine the strategy to improve the trade off between risk and return, in particular by diversifying the SAA into variable sources of return above that from Government stock. The Board is confident that the effects of volatility will be minimised and the IPM achieved, in the long run, by investing in a diversified portfolio.

Returns by Asset Class

The Fund's negative return in 2008 reflects the unusually sharp decline in New Zealand and international equities, including listed real estate. New Zealand equities returned - 22.1% and international equities -12.3%. Real estate returned -13.2%. In contrast, collateralised commodity futures returned an outstanding 73.8%, New Zealand fixed interest returned 9.5% and international fixed interest returned 8.9%.

Table 4 below compares the pre tax investment returns for each asset class, and for the total Fund, for the financial years ended 30 June 2008 and 2007.

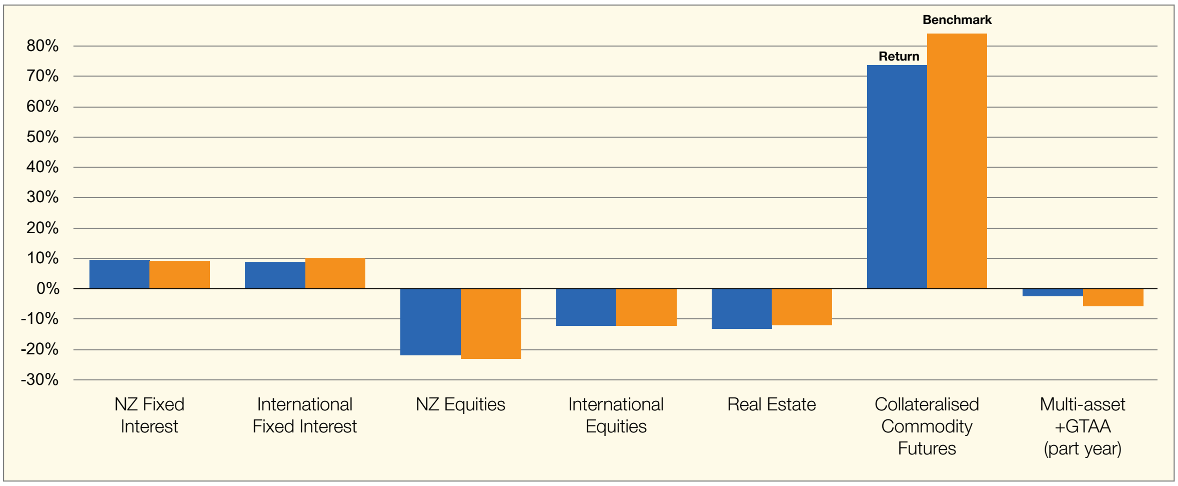
Table 4 - Pre Tax Investment Returns for each Asset Class and for the Fund, for 2008 and 2007



GSFA

Table 5 below compares the pre tax investment returns for each asset class with its benchmark index.

Table 5 - Pre Tax Investment Returns v Benchmark, year ended 30 June 2008



The volatility of investment 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.

Set out below is commentary on the return from each asset class against its benchmark index for the year.

New Zealand fixed interest 9.50%

NZX New Zealand Government Stock Gross Index 9.05%

Returns from fixed interest investments (such as Government stock and corporate bonds) are a combination of interest income and capital gains or losses as market yields fall (generating gains) or rise (generating losses).

Falls in yields increased the return from New Zealand fixed interest to over 9% for the year. The Reserve Bank of New Zealand (**RBNZ**) held the Official Cash Rate (**OCR**) at 8.25% for most of the year to 30 June 2008 as it focused on controlling inflationary pressures. The RBNZ lessened its firm stance on interest rates in June 2008, however, indicating there was room to cut the OCR in the second half of 2008. The RBNZ acknowledged that, despite short term price pressures, the economy was slowing far more rapidly than it previously expected. New Zealand bond yields moved lower over the year. While the 10 year Government stock rate fell 0.37% to 6.34%, falls in short and medium dated rates were more substantial, especially over the second half of the year, as expectations of an easing in monetary policy gathered momentum. For example, the five year rate fell 0.80% to 6.32%, despite moving sideways until December 2007.

International fixed interest 8.85%

Lehman Brothers Global Aggregate Index (hedged to New Zealand dollars) 9.92%

International fixed interest markets were volatile over the year as investors grappled with conflicting risks surrounding the global credit crunch and inflationary shocks. For example, the yield of the 10 year US Treasury bond fell from an opening level of 5.02% to a low point of 3.31% before ending the year at 3.97%. Government bonds were in demand as the financial crisis in the US turned into the global credit crunch and investors feared a US-led recession. The flip side to this was the poor performance of non-government securities regardless of their credit worthiness. Toward year end on 30 June, however, central banks became more concerned with inflationary pressures than weak growth as food and energy prices surged. The West Texas intermediate oil price climbed almost 40% between April and June 2008. While the UK and Japanese 10 year yields followed the same pattern as those in the US, German and Australian yields ended the year slightly higher than opening levels because of ongoing inflation concerns.

In this volatile environment and difficult market conditions, investment managers struggled to add value.

New Zealand equities -22.09%

Russell JB Were Tradeable Index -23.12%

Many commentators define a bear market as a fall of 20% from a peak – an outcome that occurred in the year to 30 June 2008 with the NZX50 Index falling 23% from its peak level. New Zealand shares underperformed most global markets, despite many also recording double digit falls. This reflected the sharp slowdown in economic activity in the face of a weaker housing market, firm monetary policy and pressure on corporate profit margins from rising input prices. Moreover, investor nervousness and the lack of compelling value led to offshore selling. Housing and consumer-related stocks were particularly hard hit with Pumpkin Patch and Fletcher Building returning -55% and -45% respectively. Over 40 stocks in the index declined. Gains were confined largely to food and energy related businesses, led by NZ Oil and Gas which returned 71.3%.

International equities -12.31%

MSCI All Countries World Index 91% hedged (after tax) to New Zealand dollars -12.27%

International markets performed poorly against the backdrop of a financial crisis and slowing economic growth, coupled with inflationary impulses from surging food and energy prices. The latter discouraged some central banks from lowering interest rates to support global growth. The US (S&P 500) and UK (FTSE 100) markets both fell 15%, while the German (Dax) and Japanese (Topix) markets were down 20% and 26% respectively. Notably, record high oil prices contributed to the US market recording its worst June month since the 1930s and its largest fall in any month since September 2002. By year end, market heavyweight General Motors stood just above its lowest level since 1954 as losses mounted because of reduced car sales.

The Authority's policy to hedge most of its foreign currency exposure did not improve the overall return this year as the New Zealand dollar fell 9.7% on a trade-weighted basis.

Real estate -13.23%

UBS Warburg Global Real Estate Investors Only Total Return Index, hedged in New Zealand dollars -12.02%

The performance of the real estate sector is influenced by factors such as economic growth, business confidence, interest rates and vacancy levels.

Global listed real estate securities were not immune from the broad fall in share markets. Concerns about the global economic slowdown and higher funding costs combined with sharply reduced access to credit weighed heavily on the market after several strong years. Real estate values came under pressure as the year progressed. Some leveraged real estate funds became distressed, notably in Australia. Underlying performance of real estate is yet to be markedly affected but lower equity valuations anticipate tougher conditions ahead.

Collateralised commodity futures 73.79%

Goldman Sachs Commodities Index Total Return Swap in New Zealand dollars 84.05%

The Fund has 3% invested in a collateralised commodity futures index swap, earning a return of 73.8% over the year versus the index of 84.1%. The difference reflects the drag from much lower returns on New Zealand dollar cash balances held to collateralise the swap position. Commodity futures returns have been exceptional, driven by strong demand for oil, agricultural products and precious metals, especially in emerging economies.

Multi-asset (part year) -3.42%

Composite made up of 70% of the MSCI All Countries World Index and 30% of the Lehman Brothers Global Aggregate Index -6.36% for the part year

7% of the Fund is invested in a United States endowment fund strategy. In addition to public equity and bond market investments the endowment fund invests in listed equities, private equity, real estate, and hedge funds. The multi-asset class aims to earn equity-like returns over the long term with about half the volatility of equities.

Global tactical asset allocation (part year) 5.14%

USD 3 month LIBOR plus 6% p.a. 3.59% for the part year

3% of the Fund is invested in a global tactical asset allocation strategy. The manager invests tactically in a range of liquid public market securities including developed and emerging market equities, bonds, currencies and commodities. It aims to earn 6% per annum above cash, hedged into New Zealand dollars.

Responsible Investing

The GSF Act requires the Authority to manage and administer the Fund in a manner consistent with (among other requirements) avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The Authority's Statement of Investment Policies, Standards and Procedures (**SIPSP**) is required to cover ethical investment, including policies, standards and procedures for avoiding prejudice.

In addition to the references to these matters in the SIPSP, the Authority has developed Responsible Investment Policies, Standards and Procedures (**RI Policies**), which cover:

- Ethical investment, including avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- Environmental, social and governance considerations.
- The retention, exercise or delegation of voting policies.

The RI Policies can be viewed on the Authority's website *www.gsfa.govt.nz*.

In terms of the RI Policies the Authority has resolved to exclude direct investment in the securities issued by a number of companies understood to be involved in the manufacture of tobacco and anti-personnel mines. This decision was made on the basis that their activities are inconsistent with the RI Policies and with international conventions to which New Zealand is a party.

Background on this decision and a list of the companies excluded from certain direct investments can be viewed on the Authority's website.

The Authority also invests in a number of collective investment vehicles (**CIVs**), which are a practical and cost effective way of achieving exposure to some markets and managers. The Authority has little or no influence or control over the structure of the CIVs, the corporate securities held or individual voting decisions. In such cases, the managers of the CIVs have been made aware of the Authority's RI Policies and its decisions with respect to its RI Policies, and encouraged to consider whether these are appropriate for the CIVs.

SCHEMES COMMENTARY

The Authority commenced work last year on fully scoping the operations and functions of the business system, used in the administration of the GSF Schemes. This was the first step in determining the specification for a new and more sustainable administration system.

The scoping work was completed in July 2008. The next step was to invite expressions of interest to undertake the development using the Government Electronic Tenders Service. Organisations needed to demonstrate they had the resources, experience and capability to undertake the work. A short list of interested parties has been developed and these parties will be invited to tender.

Key tasks for the Board next year will be to consider the tenders received and decide whether to proceed with the development. If the Authority decides to proceed, the development of the new system could take up to two years.

During the year 344 GSF Police Scheme members elected to transfer to the Police Superannuation Scheme. This brought the total number of transfers since August 2005 to 1388 and the total amount transferred to Police Superannuation Scheme to $522 million. The transfer facility ended on 1 August 2008.

The high number of Police transfers and staff shortages put pressure on the scheme administrator, Datacom, resulting in some slippage against performance standards. The Authority and Datacom have developed and put in place plans to bring administration performance up to required levels.

In the Budget 2008 the Government announced that the minimum cost of living adjustment for GSF annuities will be increased from 90% of the increase in the consumer price index to 100% from 2009. The Authority will work with the scheme administrator, to ensure the increase can be implemented on the due date.

STATEMENT OF GOVERNANCE AND ACCOUNTABILITY

The Authority was established as a Crown entity by section 15A of the GSF Act and became an autonomous Crown entity under the Crown Entities Act. The business of the Authority is to manage the assets, and administer the schemes of the Fund in accordance with the GSF Act.

Section 15G of the GSF Act specifies that the Board is responsible for the business of the Authority.

Government Superannuation Fund Authority Board - as at 3 September 2008

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

Tim McGuinness. Chairman. Appointed as a Board member in 2001, reappointed 2004 and again in 2007. Appointed as Chairman in 2008. Mr McGuinness is a trustee of the Police Superannuation Scheme, NZ Fire Service Scheme, Globus NZ Pension Plan and the NZ Qualifications Authority Superannuation Scheme, Chairman of trustees of the Dairy Industry Superannuation Scheme and the Fonterra Superannuation Scheme, and a director of Whai Rawa Fund Limited. He previously held senior investment management positions at Royal & Sun Alliance and Norwich Union Investment Management.

David May. Deputy Chairman. Appointed in 2001, reappointed 2004 and in 2007. Mr May 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.

Helen Bowie. Appointed in 2001, reappointed 2003 and in 2006. Ms Bowie is a partner of Chapman Tripp Sheffield Young.

Steve Napier. Appointed in 2008. Mr Napier is principal of Whakatane based sharebrokers, Steve Napier Ltd. He previously held senior investment management positions with Colonial First State Investments.

Ralph Stockdill. ONZM. Appointed in 2002 and reappointed 2005. Mr 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. Appointed in 2001 and reappointed 2002 and in 2005. Ms Weaver is a principal of Weaver Consulting Ltd and former General Manager of Investments at Armstrong Jones, now ING (NZ).

Keith Taylor. Appointed in 2008. Mr Taylor is a Board member of the Earthquake Commission, Takeovers Panel and New Zealand Qualifications Authority. He is a Director of Gough, Gough and Hamer Limited and Butlands Management Services Limited. He was previously Group Managing Director and Chief Executive Officer of Tower Limited and prior to that held a number of senior management roles in Tower and its predecessor, Government Life.

Retired Board Members

Basil Logan (Chairman) and Colin Blair (Board member) retired from the Authority Board when their terms of appointment ended on 31 May 2008.

Remuneration of Board Members

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

Responsibilities and Operations of the Board

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

The Board has established four committees with specific responsibilities for Audit and Risk Review, Investments, Schemes and Responsible Investing. The Chairman is an ex officio member of all committees.

As required by the GSF 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 scheme administration managers, investment managers, other service providers, and custodians.

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

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 (Management) who act in managerial and secretarial roles on behalf of the Authority and NPF. The MSA between Annuitas and the Authority contains delegations of authority to enable Management to carry out the day to day management of the Authority's investment, custody and scheme 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 Provisions, Policies and Procedures of the Government Superannuation Fund, subject to appropriate consultation with the Board. The Management team is:

- Alan Langford — Chief Executive
- Euan Wright — Chief Financial Officer
- Philippa Drury — General Manager, Schemes
- Paul Bevin — General Manager, Investments
- Nicky Rumsey — Manager, Investments
- Peter McCaffrey — Manager, Special Projects
- Denise Healey — Manager, Governance and Investment Policy
- Janet Shirley — Manager, Schemes

Indemnity

In 2006, the Authority:

- provided indemnities to each Board member under Deeds of Indemnity whereby the Authority agreed to indemnify each Board member (subject to certain exceptions) for certain costs and liabilities in respect of certain acts and omissions (being acts and omissions in good faith and in performance or intended performance of the Authority's functions) to the maximum extent permitted by the Crown Entities Act, and
- entered into Deeds of Indemnity with members of the Management team, who exercise delegations on behalf of the Board in terms of the MSA, whereby it agreed to indemnify the members of the Management team (subject to certain exceptions) for certain costs and liabilities in respect of certain acts and omissions (being acts and omissions in good faith and in performance or intended performance of the Authority's functions) to the maximum extent permitted by the Crown Entities Act.

The indemnities provided by the Authority to Board members and the members of the Management team do not protect the Board member, or the member of the Management team, against any liability, claim or proceeding of any kind for any dishonesty or fraud or anything else that either:

- as a matter of public policy cannot be indemnified at law, or
- which is criminal liability that the Authority has determined, in its absolute discretion, should be excluded from the indemnity.

The Authority has determined that all criminal liability, other than strict liability offences, should be excluded from the scope of the indemnity. Broadly speaking, strict liability offences are those for which no intent needs to be established.

Insurance

During the financial year, the Authority continued Directors and Officers' insurance cover for Board members and members of the Management team in respect of potential liabilities and costs incurred through acts and omissions made in the performance or intended performance of the functions of the Authority. Insurance is not provided for an act or omission that is in bad faith.

The Authority also continued Company Reimbursement insurance cover in respect of any claims made by Board members, or members of the Management team, under the indemnities described above.

The scope of the Directors and Officers' insurance cover and the Company Reimbursement insurance cover is consistent with the limitations imposed by the Crown Entities Act.

STATEMENT OF SERVICE PERFORMANCE

Output Class O1 – Management of the Government Superannuation Fund

This output class provides investment and scheme management for the Fund.

Outputs in this class are:

- management of the GSF assets (the Fund),
- management of the GSF Schemes, including the agreement between the Authority and the scheme administrator, and
- interpretation of the provisions of the GSF Act and exercising discretionary powers (as set out in the GSF Act).

The performance targets are set out in the Authority's Statement of Intent for the year commencing 1 July 2007.

INVESTMENT MANAGEMENT	
FORECAST Service Performance	**PERFORMANCE Achieved**
Develop and implement a shift from passive to active management of international equities taking into account the change in SAA, as determined by the Board in May 2007 in response to the new taxation legislation.	Two enhanced index and five active international equities managers were appointed. The Authority continues to refine the international equities investment strategy.
Continue to investigate alternative asset classes and active management strategies that, when combined with existing asset classes and strategies, improve the diversification, efficiency or management of the investment portfolio (by increasing returns or reducing risk).	The Board has approved a 15% allocation to "alternative asset classes". 3% was invested in collateralised commodities futures in 2007. In December 2007 6% of the Fund was invested in a diversified global multi-asset portfolio comprising listed equities, private equity, real estate and hedge funds. A further 3% was invested with a global tactical asset allocation manager in March 2008. Each of these new asset classes is intended to improve the diversification, efficiency and management of the investment portfolio. Detailed investigations continued during the year to evaluate various hedge fund programmes.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

INVESTMENT MANAGEMENT	
FORECAST Service Performance	**PERFORMANCE Achieved**
Commence a review of the structure and investment arrangements for fixed interest and real estate to identify enhancements to diversification, efficiency or management of the Fund (through increasing returns or reducing risk).	A review of real estate investment was completed but no changes were identified that could improve the diversification or structure of the real estate portfolio, although several alternative managers were identified. Later, a separate decision was made to request redemption of the Authority's investment in an unlisted US real estate fund. The review of fixed interest commenced in 2008 is continuing.
Undertake a benchmark review of the custodial management for the Fund's assets to ensure the arrangements reflect best practice and remain competitive.	A detailed comparison was carried out by Mercer against a number of other custodians. The report recommended maintaining the same custodian with some minor changes which were implemented. These included reductions in some custody and transaction charges and modifications to performance reports. The Board is satisfied the custodial arrangements reflect best practice and remain competitive.
Maintain the safe custody of the Fund's assets, and monitor the custodian's performance in accordance with the requirements of the custody agreement to ensure that the quality of service and the accuracy and timeliness of reports on the Fund are maintained. Key performance standards for the custodian are set out below:	Quarterly meetings were held with the Custodian to review its performance under the Service Level Agreement. The reviews focused on the quality of services and the accuracy and timeliness on reports of the Fund.
• Safekeeping and settlement of transactions and registration of assets for all GSF transactions in non-pooled investment management arrangements;	All non-pooled assets were registered with the custodian and over 10,000 transactions were settled, with less than 1% failing to settle on due date.
• Preparation of monthly accounting reports by the 7th business day following the end of the month, in compliance with New Zealand Financial Reporting Standards (**NZFRS**);	Delivery of monthly accounting reports by due date in compliance with standards occurred in most months of the year. Monthly financial statements were completed in time for Board meetings. The reports complied with NZFRS, which comply with NZIFRS.
• Preparation of investment manager reconciliation reports by the 10th business day following the end of the month; and	Initial delivery of reports occurred generally within the required time frame. Further analysis was sometimes required in order to reconcile returns to managers.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

INVESTMENT MANAGEMENT	
FORECAST Service Performance	**PERFORMANCE Achieved**
• Preparation of independent investment performance reports by the 14th business day following the end of the month.	All monthly reports were received by the 14th business day, unless there was an agreement for later delivery. Amendments were sometimes required to the reports.
Monitor investment managers' capabilities through robust monitoring and assessment against performance requirements, as specified in investment management agreements.	Management held regular meetings with the incumbent and prospective investment managers at which their current capabilities were assessed and checks carried out to ensure they have the resources and ability to meet performance requirements over the long term. Quantitative analysis of results and attribution of returns of incumbent managers was undertaken at least quarterly. Management also obtained regular assessments of managers from external specialist advisors.
Keep under review the key investment and taxation assumptions used in developing the SAA, the Investment Performance Measure and the Risk Parameter to ensure the SAA remains efficient and able to meet the Investment Objective and IPM.	The Investment Strategy is reviewed annually, or when there is a significant external event such as tax changes, that could impact on the key assumptions. A new SAA was implemented from 1 October 2007 in response to changes in the Board's Risk Parameter arising from the new tax rules applying to international and New Zealand equities. Investment assumptions are updated six monthly and performance against the IPM and Risk Parameter is reviewed quarterly. The Authority is satisfied that the Investment Strategy meets the requirements of the GSF Act and is consistent with the Authority's Investment Beliefs (included in the Statement of Investment Policies, Standards and Procedures (SIPSP)), and the Investment Objective.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

INVESTMENT MANAGEMENT	
FORECAST Service Performance	**PERFORMANCE Achieved**
Develop and implement strategies that will contribute to meeting the aspirational principles of the United Nations Principles for Responsible Investment in a cost effective way and where supported by a robust investment case.	The Authority reviewed its RI Policies during the year. The Authority may divest or exclude a certain security, groups of securities or countries that do not meet its RI Policies. Actions may also include engagement or voting. During the year the Authority extended the voting programme to its active international equities mandates. The active (and directly held) investments were reviewed through screening and monitoring programmes.
Review the Authority's active (and directly held) investments against policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community through regular (at least annual) screening and monitoring programmes.	At the end of the year the Board resolved to exclude direct investment in tobacco companies. While legal, investing in tobacco is inconsistent with the World Health Organisation Framework Convention to which New Zealand is a party. The Board also resolved to exclude direct investments in companies understood to be actively involved in the production of anti-personnel mines, which is incompatible with the 1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and their destruction. The Authority also invests in a number of CIVs, which are a practical and cost effective way of achieving exposure to some markets and managers. The Authority has little or no influence or control over the structure of the CIVs, the corporate securities held or individual voting decisions. In such cases the managers of the CIVs have been made aware of the Authority's RI Policies and the decisions made by the Authority with respect to its RI Policies, and encouraged to consider whether these are appropriate for the CIVs.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

INVESTMENT MANAGEMENT	
FORECAST Service Performance	**PERFORMANCE Achieved**
	The Authority continues to work in collaboration with other Crown Financial Institutions on responsible investment programmes. Further analysis is being undertaken on companies engaged in supply of nuclear weapons and cluster bombs in particular. In the case of public debt, a list of approved countries is maintained and communicated to the Authority's investment managers.
Ensure the Authority adheres to its SIPSP, and records all amendments to its policies, standards and procedures in this document. This will be achieved through continual review of investment mandates and monitoring of the Authority's practices and policies in relation to investments.	The Authority adhered to its SIPSP during the year and recorded in the document all changes to its policies, standards and procedures as they relate to investment. The SIPSP was substantially revised in September 2008 and is published on page 81 of this report.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

SCHEMES ADMINISTRATION	
FORECAST Service Performance	**PERFORMANCE Achieved**
Fully scope the operations and functions of the business system, used for administering the GSF Schemes, as the first step in determining the specification for a new administration system.	Work on fully scoping the operations and functions of the business system is now complete. This was the first step in developing a new and more sustainable administration system.
Provide sufficient funding to Datacom to ensure all entitlement payments are able to be made as they become due.	Sufficient funding was provided to Datacom to ensure all authorised entitlement payments were accepted and processed through the GSF Schemes' bank account.
Respond to member correspondence, in accordance with the GSF Act and the Policies, within five working days.	175 submissions were received from the scheme administrator, Datacom. Responses were given to all submissions and correspondence from members within 5 working days.
Respond to appeals by members, against decisions made by or on behalf of the Authority, in accordance with the GSF Act. The Authority's reports to the Appeals Board will be provided at least 14 days before each scheduled hearing date.	There were no appeals against decisions made by or on behalf of the Authority during the year ended 30 June 2008.
Maintain a Business Continuity Plan (**BCP**) for schemes administration that is in accordance with best industry practice. The BCP is tested periodically and reviewed annually.	A BCP is maintained by Datacom for schemes administration. It is regularly reviewed and tested and, if appropriate, updated.
Maintain the Provisions, Policies and Procedures of the Government Superannuation Fund and, subject to consultation with interested parties, amend to record any policy changes made by the Authority.	No changes were required or made to the Provisions, Policies and Procedures of the Government Superannuation Fund, which was last updated as at 28 September 2001.
Provide actuarial data on the Fund, required for the Government's financial statements, in accordance with the timetable agreed with Treasury.	Actuarial data, required for the Government's financial statements, was provided in accordance with the timetable agreed with Treasury.
Communicate annually with contributors, annuitants, and employers regarding the activities of the Authority and the performance of the Fund.	A message from the Chairman was sent out to all contributors and annuitants in October 2007 covering the activities of the Authority and the performance of the Fund. Communications were also sent to employers covering schemes administration issues.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

SCHEMES ADMINISTRATION	
FORECAST Service Performance	**PERFORMANCE Achieved**
Monitor the schemes administrator's performance in accordance with the performance standards included in the schemes administration management agreement between the Authority and Datacom, including sustainability of service, service levels to contributors, annuitants, and employers and other key performance standards, within an overall framework of seeking continual improvement. Key performance standards have been established and are used by the Authority for monitoring and measurement of the schemes administrator's performance. The key performance standards for the schemes administrator are set out below:	The schemes administrators' performance was monitored in accordance with the performance standards. During the year the performance was impacted by staff shortages and the additional workload caused by the high number of Police transfers. The performance standards are currently being reviewed to ensure they remain appropriate, relevant and in accordance with industry standards.
• 70% of all correspondence (except for requests for entitlement quotes, or entitlement calculations or recalculations) to be responded to within 3 working days of receipt.	Correspondence received by the scheme administrator is classified into cases (for example 3 pieces of correspondence may relate to one case). As at 30 June 2008, 56% of all cases (that did not relate to requests for entitlement quotes, or entitlement calculations or recalculations) were completed within 3 working days.
• 70% of all requests for entitlement quotes, entitlement calculations or entitlement recalculations, to be responded to within 5 working days of receipt.	As at 30 June 2008, 56% of all cases that related to requests for entitlement quotes, or entitlement calculations or recalculations were completed within 5 working days.
• 100% of all annuities to be paid on due date.	100% of all annuities paid 4 weekly were paid on due date.
• 70% of all other payments to be paid within 3 working days of receipt of all requirements.	100% of all other payments were made within 3 working days of receipt of all required information.

STATEMENT OF SERVICE PERFORMANCE (CONTINUED)

SCHEMES ADMINISTRATION	
FORECAST Service Performance	**PERFORMANCE Achieved**
• All contributions to be banked on receipt, and allocated as soon as identified to the correct Scheme, to the correct employer where they are employer contributions, and to the correct member account once reconciled to contribution data.	Most contributions are received from employers by way of direct credit. Contributions were allocated as soon as identified to the correct Scheme, to the correct employer where there were employers contributions and to the correct member account once reconciled to contributions data.
• All transactions to be processed correctly.	Although all calculations are prepared and checked independently, internal audits have identified some processing errors. In addition to the errors being corrected, processes, training and checklists are continually reviewed and updated. During the quarter ended 30 June 2008, one payment error was identified and corrected.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF RESPONSIBILITY

The Financial Statements of the Authority, for the year ended 30 June 2008, have been prepared in accordance with section 154 of the Crown Entities Act.

The Board is responsible for the preparation of the Financial Statements and the Statement of Service Performance, and for the judgments made in them.

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

In our opinion, the attached Statement of Service Performance and Financial Statements for the financial year fairly reflect the financial position, as at 30 June 2008, and the operations of the Authority for the year ended 30 June 2008.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

David May
Deputy *Chairman*
Government Superannuation Fund Authority Board

3 September 2008

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
INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000 Actual		*Note*	*2008 $000 Actual*	*2008 $000 Forecast*
Revenue				
16	Interest received		14	11
686	Other revenue, including rental from the Bowen space		753	684
13,816	Transfer from the Government Superannuation Fund	1	19,760	25,247
14,518	**Total revenue**		20,527	25,942
Expenses				
2,199	Scheme administration		2,301	2,400
9,058	Investment management and custody	2	13,891	19,400
3,261	Operating	3	4,335	4,142
14,518	**Total expenses**		20,527	25,942
–	**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

BALANCE SHEET

AS AT 30 JUNE 2008

2007 $000 Actual		Note	2008 $000 Actual	2008 $000 Forecast
	Public equity			
–	General fund		–	–
–	Total public equity		–	–
	Represented by:			
	Current assets			
282	Cash and cash equivalents		56	170
2,307	Trade & other receivables	4	4,506	2,170
2,589	**Total current assets**		4,562	2,340
	Non-current assets			
–	Trade & other receivables	4	56	–
–	**Total non-current assets**		56	–
2,589	Total assets		4,618	2,340
	Current liabilities			
2,589	Trade & other payables	5	4,618	2,340
2,589	**Total current liabilities**		4,618	2,340
–	**Net assets**		–	–

The Financial Statements were approved by the Government Superannuation Fund Authority Board on 3 September 2008.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

David May
Deputy *Chairman*
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 2008

2007 $000 Actual		*Note*	*2008 $000 Actual*	*2008 $000 Forecast*
	Cash flows from operating activities			
	Cash was provided from:			
13,956	Government Superannuation Fund	1	17,430	25,122
16	Interest		14	11
770	Other		686	684
14,742			18,130	25,817
	Cash was disbursed to:			
(14,727)	Operating expenses		(18,356)	(25,777)
(14,727)			(18,356)	(25,777)
15	**Net cash flows from operating activities**		(226)	40
15	Net increase/(decrease) in cash held		(226)	40
267	Opening cash and cash equivalents		282	130
282	**Closing cash and cash equivalents**		56	170

2007 $000 Actual		*Note*	*2008 $000 Actual*	*2008 $000 Forecast*
	Reconciliation of net operating result to net operating cash flows			
–	Net operating result		–	–
	Movements in working capital items:			
254	Receivables and prepayments		(2,255)	(125)
(239)	Payables		2,029	165
15	**Net cash flows from operating activities**		(226)	40

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 MOVEMENT IN PUBLIC EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000 Actual		2008 $000 Actual	2008 $000 Forecast
–	**Public equity at beginning of the period**	–	–
–	Net operating result	–	–
–	**Total recognised revenues and expenses for the period**	–	–
–	**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 2008

Section 22 of the Government Superannuation Fund Amendment Act 2001 (**the Amendment Act**) vested in the Government Superannuation Fund Authority (**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 rent was last reviewed in February 2006. The new rent, negotiated under the review, will apply until the termination of the Bowen space in February 2009.

The Authority has entered into subleases with the Ministry of Economic Development (**MED**) and Accident Compensation Corporation (**ACC**) for the Bowen space. The MED and ACC subleases are to 31 January 2009. The future commitments stated below are gross commitments at current rental rates, before netting off rental income from subleases.

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

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

2007 $000 Actual		*2008 $000 Actual*
Capital commitments approved and contracted		–
Non-cancellable operating commitments		
976	Accommodation lease	379
273	Other operating commitments	106
1,249	**Total operating commitments payable (as detailed below)**	485
Term classification for accommodation lease commitments		
597	Not later than one year	379
379	Later than one year and not later than two years	–
976	**Total lease commitments**	379
Term classification for other operating commitments		
167	Not later than one year	106
106	Later than one year and not later than two years	–
273	**Total other operating commitments**	106

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

STATEMENT OF COMMITMENTS (CONTINUED)

In terms of section 19(1) of the GSF Act the Authority has appointed Datacom Employer Services Limited to administer the GSF Schemes for a term of six years from 26 April 2005.

2007 $000 Actual		*2008 $000 Actual*
	Non-cancellable contractual commitments	
2,216	Scheme administration not later than one year	2,684
2,241	Scheme administration later than one year and not later than two years	2,660
4,187	Scheme administration later than two years and not later than five years	2,210
8,644	Total non-cancellable contractual commitments payable	7,554

The Authority is committed to expenditure of $608,000 to complete scoping of the operating and functions of the GSF business system used in the administration of the GSF Schemes.

The Authority is undertaking a request for proposal process for the development of a new schemes administration system. As at 30 June 2008 no financial commitment had been made.

On 1 December 2007 the Authority entered into a new MSA with Annuitas, a joint venture company formed by the Authority and the Board of Trustees of the NPF, to provide secretarial and executive support to the Board. This agreement, although cancellable on twelve months written notice, is for a term of four years.

Estimated commitments under the existing MSA under are:

2007 $000 Actual		*2008 $000 Actual*
477	Management services not later than one year	1,950
–	Management services later than one year and not later than two years	2,050
–	Management services later than two years and not later than five years	3,100
477		7,100

STATEMENT OF CONTINGENT LIABILITIES

AS AT 30 JUNE 2008

The Authority has an obligation under contract to redecorate the Bowen space on 17 February 2009. In terms of section 15E (1) of the GSF Act, the Authority's expenses are reimbursed by the Fund which recovers them from the Government, as provided for in section 95 of the GSF 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 2008.

GOVERNMENT SUPERANNUATION FUND AUTHORITY
STATEMENT OF ACCOUNTING POLICIES

The following policies have been applied in the preparation of the Financial Statements:

(i) Reporting entity, basis of preparation and statutory base

The Authority was established as a Crown entity by section 15A of the GSF Act and became an autonomous Crown entity under the Crown Entities Act. The core business of the Authority is to manage the Fund and administer the GSF Schemes. The Authority is an Autonomous Crown Entity for legislative purposes and a Public Benefit Entity for financial reporting purposes.

These Financial Statements have been prepared in accordance with section 154 of the Crown Entities Act.

Separate Financial Statements have been prepared for the Fund in terms of section 93 of the GSF Act.

(ii) Statement of compliance

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**), applying the New Zealand equivalents to International Financial Reporting Standards and its interpretations (**NZ IFRS**), as appropriate, for public benefit entities. These are the Authority's first NZ IFRS Financial Statements. The Authority is a public benefit entity, which is domiciled in New Zealand.

An explanation of how the transition to NZ IFRS has affected the reported financial position and financial performance of the Authority is provided in note 11.

The preparation of Financial Statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions made are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of the estimates and associated assumptions form the basis of making the judgements about carrying value of assets and liabilities, which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which an estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revisions affect both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and in preparing an opening NZ IFRS balance sheet at 1 July 2006 for the purposes of transition to NZ IFRS.

(iii) Measurement base

The measurement base adopted is that of historical cost.

(iv) Presentational and functional currency

The Financial Statements are presented in New Zealand dollars, rounded to thousands ($000), which is also the Authority's functional currency.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(v) 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 Board at the beginning of the period and presented in the Authority's Statement of Intent. The forecast figures were prepared in accordance with generally accepted accounting practice, and are consistent with the accounting policies adopted by the 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. GST is imposed on certain services supplied from outside New Zealand. The affected transactions for the Authority are mainly fees incurred in relation to the custody of assets and the provision of investment reports. Apart from GST on transactions relating to the lease of the Bowen space, which is recoverable as input tax, GST is included in expenditure.

(c) Tax

As a public authority, in terms of the Income Tax Act 2004, 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 in New Zealand, used in the day to day cash management of the activities of the Authority.

- *Operating activities*

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

- *Financing activities*

  Financing activities relate to changes in equity capital structure.

(e) Operating leases

Section 22 of the Amendment Act, vested in the Authority the Bowen space. The lease of the Bowen space is classified as an operating lease. Receipts and payments under the lease are recognised as revenue and expenses on a straight line basis over the lease term.

(f) Financial instruments

The categories of financial assets and financial liabilities comprise:

- financial assets that are classified as loans and receivables. These include various bank term deposits, receivables from related parties and other receivables.
- financial liabilities, that are not at fair value through profit or loss, are classified as other liabilities and measured at amortised cost. These include trade and other payables.

- *Recognition*

  The Authority recognises a financial asset or a financial liability on the date the Authority becomes a party to the contractual provisions of the instrument.

- *Measurement*

  Financial instruments are measured initially at fair value. Transaction costs are expensed immediately.

  Financial assets, classified as loans and receivables, and other financial liabilities are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

- *Fair Value Measurement Principles*

  The fair value of financial instruments is based on the calculated value, including accrued interest for term deposits at the balance sheet date, without any deduction for estimated future selling costs.

- *Impairment*

  Financial assets, that are stated at amortised cost, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Income Statement as the difference between the asset's carrying amount and the present value of estimated future cash flows.

- *Derecognition*

  The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the transfer qualifies for derecognition in accordance with NZ IAS 39 Financial Instruments. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(g) Revenue

Revenue is recognised on an accural basis. Interest income, on assets classified as loans and receivables, is accrued at balance date using the effective interest rate of the instrument.

(h) Expenses

All expenses are recognised in the Income Statement on an accrual basis.

(i) Accounting for Joint Ventures

The Authority has a 50% ownership in Annuitas, but does not equity account for Annuitas as this is deemed to be immaterial. The authorised, issued and paid up capital of Annuitas is $2. The net assets of Annuitas are $2.

(j) Standards issued but not yet effective

There are standards issued by the New Zealand Accounting Standards Review Board (**ASRB**) but they are not expected to have a material impact on the Authority.

(vi) Reporting period

The reporting period is the year ended 30 June 2008. Comparative figures are for the year ended 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1 Transfer from the Fund

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Both the Government and other employers reimburse the Fund under section 95 of the GSF Act for the Authority's expenses. In the reporting period, as certified by the Government Actuary,the Government contributed 78.9% of the Authority's administrative expenses, including investment management and custody expenses, reimbursed by the Fund, and other employers contributed the balance of 21.1%.

2 Investment management and custody

2007 $000		2008 $000
8,126	Investment management expenses	12,457
932	Custodian expenses	1,434
9,058	Total	13,891

3 Operating expenses

2007 $000	**Operating expenses include:**	2008 $000
139	Audit	143
65	Other assurance fees paid to Auditor - IFRS	25
–	Other assurance fees paid to Auditor - Probity	4
182	Board fees and expenses	196
750	Gross rental and outgoings - Bowen space	766
1,250	Annuitas Management Limited	1,501

4 Trade and other receivables

2007 $000		2008 $000
2,268	Government Superannuation Fund	4,435
11	Other receivables and prepayments	116
28	Annuitas Management Limited	11
2,307	Total trade and other receivables	4,562
2,307	Current	4,506
–	Non-current	56

5 Trade and other payables

2007 $000		2008 $000
1,899	Investment management	3,920
429	Professional services	501
261	Other creditors	197
2,589	Total trade and other payables	4,618

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 cash equivalents and receivables.

The Authority has a minimal credit risk in its holdings of cash, cash equivalents, 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 Fund, which is an obligation of the Government.

The maximum amount of credit risk for each class is the carrying amount in the Balance Sheet.

(b) *Currency risk*

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

Except for USD 1, 073,000 (2007: USD 429, 000) management fees payable at balance date to three international fixed interest and three international equity managers, 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 Balance Sheet.

7 Employee remuneration

The Authority has no employees.

Annuitas provides staff who act in management and secretarial roles for both the Authority and NPF.

During the year Annuitas employed 13 staff (2 part time) (2007: 11). Total remuneration was $1,982,705 (2007: $1,665,200) and the Authority reimbursed $1,130,000, or 57% (2007: $936,000, 56%) of the total.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Board fees

Board members were paid the following fees during the period.

2007 $		*2008* $
	Chairman	
37,400	Basil Logan (retired on 31 May 2008)	38,033
18,700	Tim McGuinness (Board member to 31 May 2008, Chairman from 1 June 2008)	22,883
	Deputy Chairman	
23,376	David May	26,187
	Members	
18,700	Colin Blair (retired on 31 May 2008)	19,017
18,700	Helen Bowie	20,950
18,700	Ralph Stockdill	20,950
18,700	Susie Weaver	20,950

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. Travel expenses totalled $5,849 in 2008 (2007: $8,424).

As noted in the Statement of Governance and Accountability, during the year the Authority continued with Directors' and Officers' insurance cover for Board members and members of the Management team, and Company Reimbursement insurance in respect of any claims made by Board members, or members of the Management team, under indemnities provided by the Authority. The total cost of the insurance was $19,125 (2007: $19,125) per annum.

9 Related party information

The Authority is an autonomous Crown entity.

In terms of section 19(1) of the GSF Act the Authority has appointed Datacom Employer Services Limited to administer the GSF Schemes for a term of six years from 26 April 2005.

The Authority has entered into various transactions with Government entities on an arm's length basis in the normal course of business. During the year the Authority entered into an agreement with the Guardians of New Zealand Superannuation (**the Guardians**) to share with the Guardians information gathered from the Authority's sovereign screening programme. David May (Deputy Chairman) is Chairman of the Guardians.

The Authority and the NPF have formed a joint venture company, Annuitas. Each organisation has entered into a management services agreement with Annuitas. The main function of Annuitas is to provide staff (**Management**) who act in management and secretarial roles on behalf of the Authority and the NPF. The Authority has appointed Board members, Tim McGuinness and David May, as directors of Annuitas. The costs of running Annuitas are shared between the Authority and the NPF on an equitable basis, as agreed between the two parties. The Authority paid fees for this service during the year amounting to $1,501,000 (2007 $1,250,000). The amount owing by Annuitas to the Authority at year end was $11,253.

The Authority, through Management, monitors the performance of the managers, appointed by the Authority to provide services to the Authority, and their adherence to the terms of their contracts, and co-ordinates actuarial, accounting, taxation, legal and communication services for the Authority.

There were no transactions between the Board members as individuals and the Authority, other than the payment of fees or expenses. There were no individual transactions with Management.

10 Actual versus forecast

Decreases in fair values of investments of the Fund and delays in appointing new investment managers resulted in lower investment management and custody expenses than the forecast set out in the Income Statement.

11 Adoption of New Zealand Equivalents to International Financial Reporting Standards

In December 2002 the ASRB announced that all New Zealand reporting entities will be required to comply with New Zealand equivalents to NZ IFRS for periods commencing on or after 1 January 2007, with the option to comply early for periods beginning on or after 1 January 2005.

The Authority decided to adopt the NZ IFRS for the year ended 30 June 2008, with 1 July 2006 being the transition date i.e. the start of the comparative period. These Financial Statements are the first prepared by the Authority under NZ IFRS.

As the Authority operates on zero sum equity and without investments, the change to NZ IFRS has no material impact on the Authority's Financial Statements.

Deloitte.

AUDIT REPORT

TO THE READERS OF THE GOVERNMENT SUPERANNUATION FUND AUTHORITY'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

For The Year Ended 30 June 2008

The Auditor-General is the auditor of the 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 on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Authority for the year ended 30 June 2008.

Unqualified Opinion

In our opinion the financial statements of the Authority on pages 25 to 38:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Authority's financial position as at 30 June 2008; and
  - the results of its operations and cash flows for the year ended on that date.

The statement of service performance of the Authority on pages 16 to 23:

- complies with generally accepted accounting practice in New Zealand; and
- fairly reflects for each class of outputs:
  - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
  - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 3 September 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the 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 the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance 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 and the statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. 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 and statement of service performance disclosures are adequate.

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

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

Responsibilities of the Government Superannuation Fund Authority Board and the Auditor

The Board is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Authority as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Authority's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

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

Other than the audit, and the provision of other assurance services, we have no relationship with or interests in the Authority.

Michael Wilkes
DELOITTE

On behalf of the Auditor-General
WELLINGTON, NEW ZEALAND

GOVERNMENT SUPERANNUATION FUND AUTHORITY
DIRECTORY

As at 3 September 2008

Government Superannuation Fund Authority Board
Tim McGuinness (Chairman)
David May (Deputy Chairman)
Helen Bowie
Steve Napier
Ralph Stockdill
Keith Taylor
Susie Weaver

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

Scheme administrator
Datacom Employer Services Limited
Level 6, New Zealand Post House
7-27 Waterloo Quay
PO Box 3614
Wellington

Custodian
JP Morgan Chase Bank NA

Investment adviser
Russell Investment Group Limited

Tax adviser
PricewaterhouseCoopers

Actuary
Government Actuary

Auditor
Michael Wilkes
Deloitte
on behalf of the Auditor-General

Bankers
Bank of New Zealand (Authority)
National Bank of New Zealand Limited (Fund)

Solicitors
DLA Phillips Fox
Crown Law

DIRECTORY (CONTINUED)

Investment managers

New Zealand fixed interest
AMP Capital Investors (New Zealand) Limited

International fixed interest
Pacific Investment Management Company LLC
Goldman Sachs Asset Management International
Wellington Management Company LLP

New Zealand equities
AllianceBernstein New Zealand Limited
ING (NZ) Limited (***from October 2007***)
Tower Asset Management Limited (***to February 2008***)

International equities
Altrinsic Global Advisers, LLC (***from November 2007***)
AMP Capital Investors (New Zealand) Limited (***to October 2007***)
Arrowstreet Capital limited Partnership (***from November 2007***)
Assure Funds Management Limited (***to October 2007***)
Barclays Global Investors Australia Limited (***from October 2007***)
Marathon Asset Management LLP (***from February 2008***)
PanAgora Asset Management, Inc (***from November 2007***)
State Street Global Advisors, Australia, Limited (***from October 2007***)
T. Rowe Price Global Investment Services Limited (***from December 2007***)

Real estate
AMP Capital Redding Investors Limited
LaSalle Investment Management (Securities) L.P.
RREEF America REIT II, Inc

Collateralised commodity futures
Commodities swap
Goldman Sachs International

New Zealand cash
AMP Capital Investors (New Zealand) Limited

Multi-asset
Makena Capital Management (Cayman), LLC (***from January 2008***)

Global tactical asset allocation
AQR Capital Management, LLC (***from April 2008***)

Currency management
International equities and real estate
State Street Global Advisors, Australia, Limited

International fixed interest
ANZ National Bank Limited

DIRECTORY (CONTINUED)

All correspondence relating to the GSF Schemes should be addressed to –
Datacom Employer Services Limited
Government Superannuation Fund
Scheme Administration
Level 6, New Zealand Post House
7-27 Waterloo Quay
PO Box 3614
Wellington

or

The Chief Executive
Government Superannuation Fund Authority
PO Box 3390
Wellington

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 (**GSF** or **the Fund**) for the year ended 30 June 2008. The report is made in accordance with section 93B of the Government Superannuation Fund Act 1956 (**the GSF Act**).

The Fund dates back to 1948 when it was established to provide a way for state sector employees to save for their retirement. Contributors make regular payments to the Fund and, in return on retirement, receive a defined level of income. Employers, who are not funded directly by the Government, pay contributions as set by the Government Actuary, at the amount necessary to fund the balance of their employees' entitlements. The Government has never paid employer contributions in respect of its own employees. Instead, it meets the balance of the costs of the employees' entitlements as they become payable. The Fund was largely closed to new members in 1992.

In 2001, the Authority was established to manage the Fund's assets and administer the GSF Schemes.

This annual report includes information on membership, the annual results of the Fund and other matters required by the GSF Act. Commentary on the investment performance of the Fund starts on page 4 of the Authority's Annual Report.

Information on the Authority can be found commencing on page 1.

Membership

Although the GSF Schemes were closed to new members in July 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.

Details of the membership of the GSF Schemes is set out on page 47.

Mortgage Finance

No new mortgages are being granted. The GSF mortgage portfolio, as at 30 June 2008, consisted of two mortgages totalling $14,000 (30 June 2007: three mortgages totalling $31,000), with an average earning rate of 5.37% for the year (30 June 2007: 6.06 %) after tax and mortgage administration charges.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

GOVERNMENT SUPERANNUATION FUND
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 2008:

(a) All contributions required to be made to the Fund, under the GSF Act, have been made or accrued.

(b) All benefits required to be paid from the Fund under the GSF Act have been paid.

(c) Due to the partially funded nature of the GSF Schemes, the market value of assets did not match the accrued benefit liability of the Fund by $8,380 million (2007: $8,556 million). The deficiency is covered by Section 95 of the GSF Act, which requires the Minister of Finance to appropriate funds from public money to meet the annual deficiency in payments from the Fund.

(d) All employer contributions paid were in accordance with the most recent recommendations of the Government Actuary.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

GOVERNMENT SUPERANNUATION FUND
MEMBERSHIP COMMENTARY

The movement in contributors during the past five years was:

Year ended 30 June	*Total Contributors*	*Change*	*% Change*
2004	23,719	(1,534)	(6.07)
2005	22,241	(1,478)	(6.23)
2006	20,240	(2,001)	(9.00)
2007	18,718	(1,522)	(7.52)
2008	17,031	(1,687)	(9.00)

Contributors by scheme were:

Number 2007	*GSF Scheme*	*Number 2008*	*% of Total*
16,384	General Scheme	15,370	90.25
1,080	Armed Forces	808	4.74
1,051	Police	682	4.00
148	Prisons Service	127	0.75
35	Judges and Solicitor-General	24	0.14
20	Parliamentary	20	0.12
18,718	**Total contributors at end of year**	17,031	100.00

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

Number 2007		*Number 2008*
20,240	Contributors at beginning of year	18,718
5	Reinstatements	–
(1,042)	Retirements	(1,196)
(13)	Withdrawals	(6)
(19)	Death before retirement	(16)
(102)	Cessation of employment before retirement	(83)
(351)	Transfer to other schemes	(386)
18,718	**Total contributors at end of year**	17,031

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

Year ended 30 June	*Total Annuitants*	*Change*	*% Change*
2004	47,695	(84)	(0.18)
2005	47,587	(108)	(0.23)
2006	47,523	(64)	(0.13)
2007	47,237	(286)	(0.60)
2008	47,158	(79)	(0.17)

MEMBERSHIP COMMENTARY (CONTINUED)

The movement in number of annuitants during the year was:

Number 2007		*Number 2008*
47,523	Annuitants at beginning of year	47,237
1,046	New retiring allowances	1,196
815	New allowances to spouses	758
(208)	Allowances deferred	(46)
(1,939)	Discontinued allowances	(1,987)
47,237	**Total annuitants at end of year**	47,158

There were 6,068 deferred pensions at 30 June 2008 (2007: 6,025)

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*
2004	23,719	47,695	71,414	(1,618)
2005	22,241	47,587	69,828	(1,586)
2006	20,240	47,523	67,763	(2,065)
2007	18,718	47,237	65,955	(1,808)
2008	17,031	47,158	64,189	(1,766)

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

	2007	*%*	*2008*	*%*
Contributors	18,718	28	17,031	26
Annuitants	47,237	72	47,158	74
	65,955	100	64,189	100

Granting a charge over contributions

In the year to 30 June 2008, 70 charges (2007: 67) were registered by the Fund in favour of chargeholders as security over individual contributor’s contributions.

GOVERNMENT SUPERANNUATION FUND
STATEMENT OF RESPONSIBILITY

The Financial Statements of the Fund for the year ended 30 June 2008 have been prepared in accordance with Section 93 of the GSF Act.

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, and
- the investment policies, standards, and procedures for the Fund, commencing on page 81, have been complied with.

In our opinion, the attached Financial Statements and reports fairly reflect the net assets, as at 30 June 2008, and the changes in net assets and the cash flows of the Fund, for the year ended 30 June 2008.

Tim McGuinness
Chairman
Government Superannuation Fund Authority Board

Alan Langford
Chief Executive

3 September 2008

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GOVERNMENT SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000 Actual		Note	2008 $000 Actual	2008 $000 Forecast
	Increase in assets from:			
	Investing activities			
	Investment revenue			
88,884	Interest, dividend and other income	1	105,972	135,360
464,978	Changes in fair values of investment assets	2	(316,096)	192,684
553,862			(210,124)	328,044
	Operating activities			
	Operating revenue	3		
11,255	Government		15,591	19,920
2,561	Other employers		4,169	5,327
13,816			19,760	25,247
	Operating expenses	3		
(13,816)	Funding for the Authority		(19,760)	(25,247)
553,862	Surplus/(deficit) before tax and membership activities		(210,124)	328,044
(198,567)	Income tax expense	4	(50,818)	(58,013)
355,295	Surplus/(deficit) after tax and before membership activities		(260,942)	270,031
	Membership activities			
	Contributions			
654,836	Government	5	691,057	577,895
73,020	Members		68,405	61,435
14,529	Other employers		14,559	15,310
742,385			774,021	654,640
(888,197)	**Benefits paid**	6	(947,333)	(796,085)
(145,812)	**Net benefits paid**		(173,312)	(141,445)
209,483	**Net increase/(decrease) in net assets**		(434,254)	128,586
3,798,923	Opening net assets available to pay promised retirement benefits		4,008,406	4,065,895
4,008,406	**Net assets available to pay promised retirement benefits**		3,574,152	4,194,481

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 2008

2007 $000 Actual		Note	2008 $000 Actual	2008 $000 Forecast
	Assets			
339,839	Cash and cash equivalents		289,834	10,000
261,603	Trade and other receivables	7	228,708	238,167
–	Income tax receivables		20,659	–
601,442			539,201	248,167
	Investments			
155,572	Fixed interest - New Zealand	8	61,744	205,137
939,932	Fixed interest - International		730,977	806,034
640,541	Equities - New Zealand		319,122	539,356
1,501,733	Equities - International		1,518,575	2,142,423
293,191	Real estate		228,930	312,705
–	Collateralised Commodity Futures		140,987	129,082
–	Multi-asset + GTAA		369,246	–
31	Mortgages	9	14	35
352,349	Derivative assets held for trading		134,055	–
147,425	Short term investments		8,030	–
4,030,774	**Total investments**		3,511,680	4,134,772
4,632,216	**Total assets**		4,050,881	4,382,939
	Less liabilities			
392,278	Trade and other payables	10	337,594	133,220
30,402	Income tax payable		–	15,149
4,860	Benefits payable		6,906	2,394
156,796	Derivative liabilities held for trading		120,287	–
–	Non-current tax payables	4	11,942	–
39,474	Deferred tax liability	4	–	37,695
623,810	**Total liabilities**		476,729	188,458
4,008,406	**Net assets available to pay promised retirement benefits**		3,574,152	4,194,481
	Promised retirement benefits			
12,564,406	Gross liability	11	11,954,152	12,148,000
8,556,000	Deficit		8,380,000	7,953,519
4,008,406	**Net assets available to pay promised retirement benefits**		3,574,152	4,194,481

The Financial Statements were approved by the Authority Board on 3 September 2008.

Tim McGuinness
Chairman

David May
Deputy Chairman

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

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GOVERNMENT SUPERANNUATION FUND
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000 Actual		*2008 $000 Actual*	*2008 $000 Forecast*
	Cash flows from operating activities		
	Cash was provided from:		
594,063	Government contributions	724,378	597,561
68,777	Members' contributions	64,939	60,694
17,845	Other employers' contributions	18,278	20,668
93,717	Interest and dividends	106,826	136,913
4,708	Other	3,798	866
	Cash was disbursed to:		
(885,635)	Benefit payments	(943,123)	(795,045)
(139,509)	Income tax	(132,903)	(60,000)
(14,314)	Operating expenses	(17,478)	(25,122)
(260,348)	**Net cash flows from operating activities**	(175,285)	(63,465)
	Cash flows from investing activities		
	Cash was provided from:		
7,327,083	Maturities and sales of investment assets	7,288,348	6,297,940
108	Mortgage repayments	17	24
	Cash was disbursed to:		
(7,083,417)	Purchase of investment assets	(7,163,085)	(6,234,699)
243,774	**Net cash flows from investing activities**	125,280	63,465
(16,574)	Net decrease in cash held	(50,005)	–
356,413	Opening cash and cash equivalents	339,839	10,000
339,839	**Closing cash and cash equivalents**	289,834	10,000

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

GOVERNMENT SUPERANNUATION FUND

RECONCILIATION OF NET CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS

2007 $000		2008 $000
209,483	Net increase/(decrease) in net assets	(434,254)
	Non-cash items	
1,779	Increase/(decrease) in deferred tax liability	(39,474)
–	Increase in non-current tax payables	11,942
(8)	Capitalised interest	(2)
2	Mortgage management expense	1
1,773		(27,533)
	Add: Movements in working capital items	
812	Receivables and prepayments	(1,476)
(88,309)	Investment receivables	33,814
(262)	Trade and other receivables	557
25,045	Income tax receivable	(20,659)
(71,037)	Government contributions received in advance	18,704
(68,447)	Investment payables	(71,575)
3,352	Trade and other payables	(1,812)
30,402	Income tax payable	(30,402)
2,576	Benefits payable	2,046
(165,868)		(70,803)
	Add: Items classified as investing activities	
2,486	Decrease in accrued interest portion of bonds	3,448
(464,978)	Change in fair value of investment assets	316,096
88,309	(Increase)/decrease in investment settlement receivables	(33,814)
68,447	Decrease in investment settlement payables	71,575
(305,736)		357,305
(260,348)	**Net cash out flows from operating activities**	(175,285)

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

GOVERNMENT SUPERANNUATION FUND
JUDGES AND SOLICITOR-GENERAL SUPERANNUATION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000		*2008 $000*
	Income from operations*	
12,905	Government contributions	15,469
173	Members contributions	109
13,078		15,578
	Expenditure*	
	Benefits paid:	
9,618	Retirements	10,442
2,028	Allowances capitalised	1,629
1,432	Spouses and children	3,507
13,078		15,578
–	Net changes	–

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

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

GOVERNMENT SUPERANNUATION FUND
PARLIAMENTARY SUPERANNUATION
STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2008

2007 $000		*2008 $000*
	Income from operations*	
3,186	Government contributions	3,194
244	Members contributions	244
3,430		3,438
	Expenditure*	
	Benefits paid:	
2,881	Retirements	2,908
549	Spouses and children	530
3,430		3,438
–	Net changes	–

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

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 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 (**the Fund**) are prepared pursuant to section 93 of the GSF Act and incorporate the Judges Superannuation Account and the Parliamentary Superannuation Account.

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

Reporting requirements

The Financial Statements have been drawn up in accordance under NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans, and with the provisions of relevant legislative requirements. They include the Judges Superannuation Account and the Parliamentary Superannuation Account.

The Fund is a profit-oriented entity domiciled in New Zealand

(ii) Statement of compliance

The Financial Statements have been prepared in accordance with generally accepted accounting practice in New Zealand (**NZ GAAP**), applying the New Zealand equivalents to International Financial Reporting Standards, and its interpretations (**NZ IFRS**), as appropriate for profit-oriented entities. These Financial Statements comply with International Financial Reporting Standards (**IFRS**).

This is the first set of Financial Statements prepared based on NZ IFRS and comparatives for the year ended 30 June 2007 have been restated accordingly. An explanation of how the transition to NZ IFRS has affected the reported financial position and changes in net assets of the Fund is provided in note 16.

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions model are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of the estimates and associated assumptions form the basis of making the judgements about the carrying value of assets and liabilities, which are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revisions affect both current and future periods.

Judgements are made in the application of NZ IFRS, that have a significant effect on the Financial Statements, and estimates with a significant risk of material adjustment in the next year are discussed in notes 11 and 12.

(iii) Measurement base

The measurement base adopted is that of historical cost except as noted in the following pages.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(iv) Presentation and functional currency

The Fund is located within New Zealand, and the performance of the Fund is measured and reported in New Zealand Dollars (**NZD**). Therefore, these Financial Statements are presented in NZD as that is the currency of the primary economic environment in which the Fund operates. NZD are the Fund's presentational and functional currency.

The rounding used in these Financial Statements is thousands of dollars.

(v) Accounting policies

The following particular accounting policies, which materially affect the measurement of changes in net assets, financial position and cash flows have been consistently applied in the preparation of the Financial Statements.

Reporting period

The reporting period is the year ended 30 June 2008.

Comparatives

Comparative figures are for the year ended 30 June 2007 with restatement of certain items to be consistent with the current year disclosure.

Investment income

Interest, dividends and distributions from investments are taken to income on a due and receivable basis.

Foreign currencies

Transactions in currencies, other than NZD, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities, that are denominated in foreign currencies, are retranslated at the rates prevailing on the balance date. Gains and losses arising on retranslation are included in the Statement of Changes in Net Assets for the period.

Expenses

All expenses recognised in the Statement of Changes in Net Assets are accounted for on an accruals basis.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax, as reported in the Statement of Changes in Net Assets, because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of the deferred tax asset is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be earned to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the Statement of Change in Net Assets.

Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Net Assets when the Fund becomes a party to the contractual provisions of the instruments. The Fund offsets financial assets and financial liabilities if the Fund has a legally enforceable right to set off the recognised amounts and interests, and intends to settle on a net basis.

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract, whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

Investments are designated at fair value through profit or loss. Transaction costs are expensed immediately. As the Fund's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated at fair value through profit or loss on initial recognition. Fair values are determined after taking into account accrued interest on all applicable securities.

Fair value is an estimate of the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable willing parties who are under no compulsion to act.

Financial assets, designated at fair value through profit or loss are measured at subsequent reporting dates at fair value, which is the bid price on the exchange on which the investment is quoted.

Investments in units of collective investment vehicles are valued at the closing price or value released by the relevant investment manager.

Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost. Trade and other receivables may include sales of securities and investments that are unsettled at reporting date and may also include dividends and interest. Dividends and distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment.

Trade and other payables

Trade and other payables are not interest-bearing and are intially stated at their fair value and subsequently at amortised cost. Any outstanding trades are recorded on trade date and are normally settled within three business days. Purchases of securities and investments, that are unsettled at reporting date, are included in payables.

Derivative financial instruments

The Fund's activities expose it to the financial risks of changes in foreign currency rates, commodity prices and interest rates. The Fund may use foreign exchange forward contracts, commodity swaps and interest rate swap contracts to hedge these exposures.

Derivative financial instruments are determined using either quoted sales prices or appropriate valuation techniques and are classified as fair value through profit or loss and any gains or losses are taken to the Statement of Changes in Net Assets in the period in which they occur.

The fair value of collateralised commodity futures swaps is determined using broker quotations.

The use of financial derivatives is governed by a Statement of Investment Policies, Standards and Procedures (**SIPSP**) approved by the Board, which includes written policies on the use of financial derivatives.

*Goods and Service Tax (**GST**)*

The Fund is not registered for GST. All components of the Financial Statements are stated inclusive of GST where appropriate.

Statement of Cash Flows

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

- Cash and cash equivalents – comprise cash balances held with banks in New Zealand and overseas that will mature within 90 days.
- Investing activities – comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.
- Operating activities – include any activities that are the result of normal business activities.

Standards issued but not yet effective

NZ IFRS 8: Operating Segments, effective 1 January 2009 and applicable for the year ending 30 June 2010, which will require disclosure of segmental information, has been issued by the New Zealand Accounting Standards Review Board (**ASRB**) but is not yet effective.

There are other standards and interpretations issued by the ASRB but they are not expected to have a material impact on the Fund.

(vi) Changes in accounting policies

There were no significant changes in accounting policies during the year other than the impact of adoption of NZ IFRS.

GOVERNMENT SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1 Interest, dividends, and other income

2007 $000		2008 $000
5,711	NZ Government Stock	1,717
1,108	NZ Government owned/guaranteed securities	897
51	Local Authority bonds	203
2,212	Other bonds and securities	1,705
38,213	International fixed interest	39,660
2,752	Short term and call deposits, including treasury bills	6,323
23,412	Dividends (New Zealand equities)	22,000
–	Dividends (International equities)	23,020
4,193	Dividends (International listed real estate securities)	3,913
8,295	Dividends (International unlisted real estate securities)	2,963
8	Mortgages to members	2
2,929	Other sources	3,569
88,884	**Total**	105,972

2 Changes in fair values of investment assets

2007 $000		2008 $000
(3,025)	NZ Government Stock	2,749
(446)	NZ Government owned/guaranteed securities	(36)
(8)	Local Authority bonds	(7)
(3,606)	Other bonds and securities	2,312
27,062	International fixed interest (including hedging gains)	50,298
4,155	Short term investments	1,616
76,495	New Zealand equities	(147,556)
314,274	International equities (including hedging gains)	(250,213)
37,015	International listed real estate securities (including hedging gains)	(53,382)
5,633	International unlisted real estate securities (including hedging gains)	6,118
7,429	Collateralised commodity futures	76,577
–	Multi-asset + GTAA	(4,572)
464,978	**Total**	(316,096)

3 Operating revenue and expenses

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Both the Government and other employers reimburse the Fund under section 95 of the GSF Act for the Authority's expenses. In the reporting period, as certified by the Government Actuary,the Government contributed 78.9% of the Authority's administrative expenses, including investment management and custody expenses, reimbursed by the Fund, and other employers contributed the balance of 21.1%.

4 Income tax

2007 $000		2008 $000
553,862	Surplus/(deficit) before tax and membership activities	(210,124)
8,442	Add imputation credits	8,676
218	Add withholding tax credits	–
562,522	Net taxable income/(loss)	(201,448)
(185,632)	Tax (expense)/credit @ 33%	66,478
	Tax effect:	
(21,595)	Non-assessable/deductible investment (losses)	(107,376)
–	Fair dividend rate (**FDR**) income	(20,910)
–	Other	112
8,442	Imputation credits	8,676
218	Withholding tax credits	2,202
(198,567)	Income tax expense	(50,818)
	Income tax expense comprises:	
(203,352)	Current tax	(54,465)
4,785	Deferred tax	3,647
(198,567)	Income tax expense	(50,818)
	Movement in deferred taxation	
(37,695)	Opening balance	(39,474)
4,785	Current year movement	3,647
(6,062)	PIE/FDR transition liability - transfer to current tax	23,885
–	- transfer to non-current tax	11,942
(502)	Prior year adjustment and rounding	–
(39,474)	Deferred tax liability	–
	Non-current tax payables	–
–	PIE/FDR transition liability - transfer from deferred taxation	(11,942)
–	Closing balance	(11,942)

With effect from 1 October 2007 the Fund qualified as, and elected to be a Portfolio Investment Entity (**PIE**) for taxation purposes. Under the PIE tax rules any gains or losses on New Zealand and certain Australian listed shares are non-taxable, whereas those gains or losses had previously been taxable or deductible to the Fund.

GOVERNMENT SUPERANNUATION FUND

5 Government contributions

2007 $000		2008 $000
638,745	Government service superannuation contributions	672,394
12,905	Judges and Solicitor-General superannuation contributions	15,469
3,186	Parliamentary superannuation contributions	3,194
654,836	**Total**	691,057

Funding arrangements:

There is no requirement on the Government 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 GSF Act for the Government to ensure that sufficient funds are available, or will be available, to pay benefits as they fall due.

Member Contribution %	GSF Scheme	Employer Contribution %
	General Scheme:	
6.5	Non-funding employers	6
6.5	Funding except Islands*	Between 6 and 10
6.5	Islands	6
7.6	Armed Forces	15.4
7.5	Police	16.1
8.5	Prisons Service	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

2007 $000		2008 $000
583,213	Pension entitlements	604,316
74,915	Allowances capitalised	94,935
94,440	Spouses and children	97,234
	Refunds:	
4,917	Cessation of employment	3,221
123,286	Transfers to other schemes	139,419
7,080	Cessation of membership	7,882
346	Death	326
888,197		947,333

7 Trade and other receivables

2007 $000		2008 $000
2,601	Government contributions - operating	3,575
671	Members' contributions	807
3,256	Other employers' contributions	3,914
1,301	Interest and dividends	3,097
202,033	Investment settlements receivable	168,219
47,062	Prepaid benefits	44,974
4,537	Past service contributions	3,826
142	Pension entitlements	296
261,603	**Total**	228,708
257,993	Current	225,648
3,610	Non-current	3,060
261,603		228,708

8 Fixed Interest - New Zealand

2007 $000		2008 $000
76,597	NZ Government Stock	15,389
14,000	NZ Government owned/guaranteed securities	10,075
64,975	Other bonds and securities	30,908
–	Local Authority bonds	5,372
155,572		61,744

9 Mortgages

The Housing New Zealand Corporation manages mortgages previously granted to members of the Fund. The mortgage portfolio consists of two mortgages (2007 three mortgages) at an average earning rate of 5.37% (2007 6.06%).

10 Trade and other payables

2007 $000		2008 $000
140	Government receipts	196
4,044	Use of money interest payable	-
53	Unallocated contributions	61
2,268	Government Superannuation Fund Authority	4,435
13,150	Government contributions in advance - benefits	31,854
372,623	Investment settlements payable	301,048
392,278	**Total**	337,594

11 Actuarial Valuation

Section 94 of the GSF Act 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 most recent valuation was undertaken as at 30 June 2008.

The latest published valuation was undertaken by the Government Actuary, Mr David Benison, B.Sc.(Econ), FIA, FNZSA, as at 30 June 2007, and the report, dated 21 November 2007 was tabled in Parliament on 20 February 2008.

In addition to the statutory valuation discussed above, the Government Actuary values the Promised Retirement Benefits in accordance with NZ IAS 26. The most recent valuation was undertaken as at 30 June 2008.

Significant assumptions, used in the 30 June 2008 valuation, were:

- Discount rate 6.25% per annum
- Consumer Price Index 2.50% per annum
- Salary increases 3.00% per annum

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

The results of the 30 June 2008 valuation were:

2007 $ million		*2008 $ million*
	Past Service Liabilities:	
260	Armed Forces contributors	187
3,119	General Scheme contributors (excluding Islands)	2,874
33	General Scheme contributors (Islands only)	31
417	Police contributors	289
34	Prisons Service contributors	29
42	Judges and Magistrates	32
13	Parliamentary	13
7,982	Pensioners	7,887
664	Deferred pensioners	612
12,564	**Total Past Service Liabilities**	**11,954**
4,008	Value of Fund Assets	3,574
8,556	**Unfunded Past Service Liability**	**8,380**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The vested benefit values are shown in the following table, where contributors include the inactive members. The ratio of vested benefits to past service liabilities is also shown.

2007 $ million	*Vested benefits*	*As a percentage of past service liability*	*2008 $ million*
	Contributors:		
82	Armed Forces	31%	59
3,462	General Scheme (excl Islands)	113%	3,257
36	Islands	109%	34
361	Police	90%	259
36	Prisons Service	104%	29
67	Judges and Magistrates	n/a	47
17	Parliamentary	n/a	17
4,061	Total Contributors	108%	3,703
	Pensioners:		
7,982	Pensioners	100%	7,887
664	Deferred Pensioners	100%	611
8,645	Total Pensioners	100%	8,498
12,706	**Grand total**		**12,202**
4,008	Less assets		3,574
8,698	**Shortfall**		**8,628**

The Fund has been closed to new entrants since 1992. Members with 10 or more years' service are eligible to take an immediate or deferred pension on leaving the Fund. As a result, almost all members in the Fund can take either an immediate pension or a deferred pension. The total value of this pension for all members as at the valuation date is the vested benefits.

Members will, however, retire at date later than 30 June 2008. The pension they receive at their actual retirement date can be split into that part accrued at the valuation date and that part which has accrued subsequent to the valuation date.

The value of the accrued pension increases with salary increases and decreases by the discount rate. As the discount rate of 6.25% is higher than the rate of salary increase of 3%, the value of the accrued pension reduces over time.

The effect of this for the General Scheme is that the vested benefits are 113% of the accrued liabilities. Note however, that the total benefit is increasing - the vested benefits are 95% of the total service liabilities.

It is unlikely that the position in respect of vested benefits will change significantly before the next valuation (due 30 June 2009), unless the basis of funding is amended.

The actuarial value of the assets was taken as the net asset value.

The valuation revealed that the Fund was in deficit at the date of the valuation. The benefits payable from the Fund are guaranteed by the Government. The Government Actuary recommended that from 30 June 2009, the Government pays 75% of each benefit paid (previously 71%).

The rate of contribution, including employer superannuation contribution tax at 33%, that is required to be paid by funding employers (employers of those contributors who are paid from money that is not public money) has been determined under a notional funding approach, and:

- for employers that are the Public Services of the Cook Islands, Niue or Tokelau, is certified as 6.0% of contributor salaries, and
- for employers other than the Public Services of the Cook Islands, Niue or Tokelau, is certified as the average rate of contributor salaries obtained by applying the percentage rates to the contributors of the employer, by reference to gender and age nearest as at 30 June 2008 given in the following table:

Age range	Males	Females
Up to age 49	3.0%	2.0%
Age 50 to age 54	9.0%	9.0%
Age 55 to age 59	10.0%	12.3%
Age 60 to age 64	13.0%	13.0%
Age 65 and over	0.0%	0.0%

For each employer, these rates are subject to a maximum average rate of 10.0% and a minimum average rate of 6.0%, and further subject to the proviso that, if application of these rates in any case give rise to a change from the average rate currently applying for an employer of less than 0.3%, then the current rate for that employer shall continue to apply.

The rate of contribution, including superannuation contribution tax at 33%, applicable to non-funding employers (the employers of those contributors who are paid from money that is public money) is recommended by reference to the notional funding approach to be set at the following levels:

- for the Armed Forces Scheme: a rate of 15.4% of contributor salaries;
- for the General Scheme: a rate of 6.0% of contributor salaries;
- for the Police Scheme: a rate of 16.1% of contributor salaries;
- for the Prisons Service Scheme: a rate of 0% of contributor salaries;
- for the Judges & Magistrates Scheme: an amount equal to the benefits payable;
- for the Parliamentary Scheme: an amount equal to the benefits payable.

Movement in Promised Retirement Benefit Liability

2007 $ million		*2008 $ million*
12,098	Opening Gross Promised Retirement Benefit Liability	12,564
	Movements in Liability	
76	Benefit changes	44
44	Investment gains	42
346	Change in discount rate and Consumer Price Index	(696)
12,564	**Closing Gross Promised Retirement Benefit Liability**	**11,954**

Purchase of additional benefits

Additional payments of $3.339 million (2007: $5.194 million), to acquire further benefits, were made during the year by members with pre entry service, or on early retirement.

12 Financial instruments

a Management of financial instruments

The investments of the Fund are managed on behalf of the Authority by specialist investment managers, which are required to invest the assets allocated for management in accordance with the terms of written investment management agreements. The Authority has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Authority's SIPSP.

JP Morgan Chase acts as master custodian on behalf of the Authority and provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions.

b Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised in respect of each class of financial asset and financial liability, are disclosed in the Statement of Accounting Policies.

c Capital risk management

The Strategic Asset Allocation (**SAA**) of the Fund, is reviewed regularly by the Authority, in conjunction with its advisors. The Authority reviews, on a monthly basis, the cash requirements and funding of the schemes in the context of maintaining the SAA and redeems or invests funds as appropriate. The Fund's Investment Strategy is reviewed regularly, considering the investment requirements of the Fund.

d Categories of financial instruments

The Fund recognises all investment financial assets and liabilities at fair value through profit or loss, as detailed in the Statement of Accounting Policies, and other financial assets and liabilities at amortised cost.

2007 $000		*2008 $000*
4,232,807	Financial investment assets at fair value through profit or loss	3,511,680
156,796	Financial investment liabilities at fair value through profit or loss	120,287
399,409	Financial assets at amortised cost	518,542
397,138	Financial liabilities at amortised cost	344,500

e Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Fund's risk management and investment policies, approved by the Authority, seek to manage the potential adverse effects of these risks on the Fund's financial performance, within the context of the Risk Parameter. These policies may include the use of certain financial derivative instruments to manage risk within the approved limits.

The Authority outsources the investment management of the Fund to specialist managers, which provide services to the Fund, co-ordinate access to domestic and international investment markets, and manage the financial risks relating to the operations of the Fund in accordance with investment mandates set by the Authority. The Authority's strategy is to invest in a diversified portfolio.

The use of financial derivatives is governed by the Authority's SIPSP, which provides written policies on the use of financial derivatives. These policies permit the use of derivatives to change the Fund's exposure to particular assets. Derivatives cannot be used directly to leverage the Fund and the Fund's effective market exposure should not exceed its market value. Compliance with policies and exposure limits is reviewed by the Authority on a continuous basis.

f Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Fund. The Authority has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from default. The Authority measures credit risk on a fair value basis. The Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Authority.

Credit risk, arising on investments, is mitigated by investing in rated instruments or instruments issued by rated counterparties with credit ratings for the portfolio as a whole of at least a weighted average of A-, or better, as determined by Standard and Poor's.

Credit risk associated with receivables is considered minimal. The main receivables balance is in relation to investments sold, which are settled within three days of trade date, and for which the counterparties are mainly large financial institutions. Other receivables balances are largely immaterial.

The Fund does not have any significant credit risk exposure to any single counterparty, or any group of counterparties having similar characteristics. The table below shows the maximum exposure to credit risk at the reporting date. It is the opinion of the Authority that the carrying amounts of these financial assets represent the maximum credit risk exposure at the balance sheet date. No individual investment exceeds 5% of net assets at either 30 June 2008 or 30 June 2007.

2007 $000		2008 $000
339,839	Cash and cash equivalents	289,834
1,783,951	Managed investment schemes	1,378,046
1,095,504	Fixed interest securities	792,721
352,349	Derivative assets	134,055
261,603	Trade and other receivables	228,708
147,450	Other	8,044
3,980,696	**Total**	**2,831,408**

g Liquidity risk

The Authority's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. The Fund is therefore exposed to the liquidity risk of meeting benefit payments.

The Authority's listed shares and fixed interest securities are considered to be readily realisable.

The Fund has a level of net outward cash flows. The Authority manages liquidity risk by maintaining cash, cash equivalents and short term investments, and through the continuous monitoring of forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The Authority's overall strategy to manage liquidity risk remains unchanged from 2007.

All financial liabilities are expected to be paid within the next financial year.

h Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk) foreign exchange (currency risk) and market prices (price risk). The Authority manages this market risk via outsourcing its investment management; the investment managers manage the market risk relating to the operations of the Fund in accordance with investment mandates. The Authority's strategy is to invest in a diversified portfolio of shares and fixed interest securities and it may also invest in derivative instruments such as futures and options.

The Fund's exposure to market risk has increased from 2007 with the investment in the multi-asset class and the global tactical asset allocation strategy, and collateralised commodity futures, and with the change in taxation rules to the Fair Dividend Rate method of taxation.

Interest rate risk management

The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate instruments expose the Fund to fair value interest rate risk. The Authority monitors the Fund's exposures to interest rate risk.

The tables below detail the Fund's exposure to interest rate risk at the balance sheet date by the earlier of contractual maturities or repricing. Interest rate risk is managed by the investment managers within mandates prescribed by the Authority.

Financial assets: Variable interest rate instruments	*Weighted average interest rate %*	*Less than 12 months $000*	*1 – 5 years $000*	*5+ years $000*	*Total $000*
2008					
Cash and cash equivalents	8.50	289,834	–	–	289,834
Fixed interest - New Zealand	7.53	8,277	41,245	12,222	61,744
Fixed interest - International	5.70	25,676	161,301	544,000	730,977
Mortgages	5.37	–	14	–	14
Total		**323,787**	**202,560**	**556,222**	**1,082,569**
2007					
Cash and cash equivalents	7.39	339,839	–	–	339,839
Fixed interest - New Zealand	7.67	6,005	112,124	37,443	155,572
Fixed interest - International	4.22	61,920	353,375	524,637	939,932
Mortgages	6.06	17	14	–	31
Total		**407,781**	**465,513**	**562,080**	**1,435,374**

Interest rate sensitivity

The sensitivity analyses below have been determined based on the Fund's exposure to interest rates at the reporting date, and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of instruments that have floating interest rates. A 1% or 100 basis point increase or decrease is used when reporting interest rate risk internally, and represents the Authority's assessment of the possible change in interest rates.

The following table illustrates the effect on the operating (deficit)/surplus, after tax and before membership activities, from possible changes in interest rate risk, that were reasonably possible based on the risk the Fund was exposed to at reporting date:

	Changes in variable +/-	*2007 $000*	*2008 $000*
Interest rate risk	1%	44,069	21,626

Foreign currency risk management

Foreign currency risk is the risk that the market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund undertakes certain transactions and holds investment assets denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed within approved policy limits and parameters. The Fund enters into foreign currency contracts designed to hedge some or all of its exposure to foreign currencies. This exchange rate exposure is managed in line with the Authority's SIPSP. The Authority's overall policy at balance date for foreign currency risk management remains unchanged from 2007.

The Fund's foreign currency exposure to the USD is hedged as follows:

Asset Class/Strategy	*Pre tax (post tax) Strategic hedge ratio*	*Range (pre tax)*
International equities including multi-asset class	114% (80%)	104% to 124%
International listed and unlisted real estate	143% (100%)	138% to 148%
International fixed interest	100% (100%)	90% to 110%

Managers of international fixed interest portfolios are required, under their mandates, to hedge the portfolios back to the USD.

The Fund's total exposure to foreign currency exchange at the reporting date was as follows:

2007 $000		*2008 $000*
1,645,055	United States dollars (**USD**)	1,464,672
500,896	Great Britain pounds (**GBP**)	127,032
314,201	Japanese Yen (**JPY**)	98,682
392,000	Euro (**EUR**)	291,743
153,000	Other	829,967

The net exposure of the Fund to foreign currency after hedging is $193,870,000 (2007 $270,009,000).

Foreign currency sensitivity

The Fund is mainly exposed to the USD, GBP, JPY and EUR.

The fixed interest managers are responsible for managing the exposure to other currencies back to the USD, within the terms of their individual investment mandates. Another manager hedges the USD exposure to the NZD. For international equities the foreign currency exposure is hedged back to the NZD within the limits approved by the Authority.

The following table details the Fund's sensitivity to a 5% increase or decrease in the NZD against the USD, assuming there is no hedging. This represents the Authority's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates.

A positive impact results in an increase in the surplus or a reduction on the deficit, after tax and before membership activities, where the NZD weakens against other currencies.

For a strengthening of the NZD against other currencies there would be an equal and opposite impact on the surplus or deficit, and the amounts below would be negative.

The table below shows the effect on (deficit)/surplus after tax and before membership activities:

	Change in variable +/-		*2007 $000*	*2008 $000*
Foreign Exchange Risk	5%	USD	19,975	31,292
		EUR	9,733	4,914
		GBP	1,979	988
		JPY	1,680	1,210
		Australian dollars	478	21,820
		Other	699	423

There have been no changes in the methods and assumptions used to prepare the foreign currency sensitivity analysis from the prior year.

Other market risk

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or its issuer, or to factors affecting all instruments traded in the market. The Fund has investments in equity instruments, fixed interest instruments and derivative financial instruments, which expose it to price risk. The investment managers manage the other market risk in accordance with the Authority's SIPSP and their mandates.

As the Fund's financial instruments are carried at fair value, with changes in fair value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect investment income.

The following table illustrates the effect on the operating (deficit)/surplus, after tax and before membership activities, from possible changes in market price risk, that were reasonably possible based on the risk that the Fund was exposed to at reporting date:

	Changes in variable +/-	*2007 $000*	*2008 $000*
Other market risk	5%	86,016	72,494

The Authority does not believe there are any financial assets past due at balance date and, therefore, there is no impairment.

13 Related parties

In terms of sections 81W(2), 88(2) and 95(1) of the GSF 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 Government, Crown Entities, and State Owned Enterprises, together with a number of other public sector entities, on an arm's length basis:

- The Fund has invested a proportion of its assets in New Zealand Government Stock and Treasury Bills. The Fund's interests are disclosed in the notes to the Financial Statements.
- The Authority managed the Fund's assets and administered the GSF Schemes. For the year ended 30 June 2008, the Fund paid the Authority $19,760 million (2007: $13,816 million) for operating expenses, as detailed in the Statement of Changes in Net Assets. In turn, the Fund was reimbursed by the Government and other employers, as set out in Note 3.

14 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 fair value of investment assets.
- Decreases for values of investments and delays in appointing investment managers resulted in lesser investment management and custody expenses than the forecast set out in the Statement of Changes in Net Assets. During the year the number of investment managers have increased and resulted in a substantial increase in fees paid as compared to previous year

- 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, unexpected salary changes, or transfers to other superannuation schemes.

15 Events After Balance Date

There have been no material events after balance date that require adjustments to or disclosure in the Financial Statements. (2007 : Nil)

16 Adoption of New Zealand Equivalents to International Financial Reporting Standards

In December 2002 the ASRB announced that all New Zealand reporting entities will be required to comply with New Zealand equivalents to NZ IFRS for periods commencing on or after 1 January 2007, with the option to comply early for periods beginning on or after 1 January 2005.

The Fund has adopted NZ IFRS for the year ended 30 June 2008, with 1 July 2006 being the transition date i.e. the start of the comparative period. This requires retrospective application of all NZ IFRSs to comparative information in the NZ IFRS compliant financial statements. Details of the impact that adoption of NZ IFRS has had on the Fund's Financial Statements are presented in the reconciliation of previous NZ GAAP to NZ IFRS on the following pages.

In summary, the change to NZ IFRS has impacted on the Fund's Financial Statements as follows:

Statement of Changes in Net Assets

The net increase in net assets has increased by the reversal of the disposal costs of investments, and the reinstatement of doubtful debts treated as bad debts.

Statement of Net Assets

(i) The disposal costs of investments are added back;

(ii) The derivatives are presented on a gross rather than a net basis;

(iii) Short term investments, having original maturities less than or equal to three months, are included as part of cash and cash equivalents. Otherwise they are classified on their own; and

(iv) Provision for bad debts, which can only be recognised when a loss event has been deemed to occur, is reversed.

Statement of Cash Flows

Certain investments having original maturities less than or equal to three months are now included as part of cash and cash equivalents.

GOVERNMENT SUPERANNUATION FUND
RESTATED FINANCIAL INFORMATION COMPLIANT TO NZ IFRS
STATEMENT OF NET ASSETS

AS AT 1 JULY 2006

	Note	1 July 2006 $000 NZ GAAP	1 July 2006 $000 Reclassification	1 July 2006 $000 Adjustment	1 July 2006 $000 NZ IFRS
Investments					
Fixed interest					
New Zealand	(a)	281,505	31		281,536
International	(a)(b)	958,814	(876)	5	957,943
Equities					
New Zealand	(b)	511,504	–	2,053	513,557
International		1,581,041	–	–	1,581,041
Real estate	(b)	318,831	–	495	319,326
Other					
Mortgages		133	–	–	133
Derivative assets held for trading	(a)	–	258,882	–	258,882
Short term investments	(a)(c)	477,851	(472,775)	–	5,076
		4,129,679	(214,738)	2,553	3,917,494
Current assets					
Cash and cash equivalents	(c)	36,192	320,221	–	356,413
Prepayments and receivables	(d)	166,170	–	3,256	169,426
Other receivables		4,417	–	–	4,417
Income tax receivables		25,045	–	–	25,045
Total current assets		231,824	320,221	3,256	555,301
Total assets		4,361,503	105,483	5,809	4,472,795
Less liabilities					
Other payables		528,410	–	–	528,410
Benefits payable		2,284	–	–	2,284
Derivative liabilities held for trading	(a)	–	105,483	–	105,483
Deferred tax liability		37,695	–	–	37,695
		568,389	105,483	–	673,872
Net assets available to pay promised retirement benefits		3,793,114	–	5,809	3,798,923
Promised retirement benefits					
Gross liability	(e)	–	–	12,098,000	12,098,000
Deficit		–	–	8,299,077	8,299,077
Net assets available to pay promised retirement benefits		–	–	3,798,923	3,798,923

GOVERNMENT SUPERANNUATION FUND
RESTATED FINANCIAL INFORMATION COMPLIANT TO NZ IFRS
STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 $000 NZ GAAP	2007 $000 Adjustment	2007 $000 NZ IFRS
Increase in assets from:				
Investing activities				
Investment revenue				
Interest, dividend and other income		88,884	–	88,884
Changes in net market values of investment assets	(b)	464,513	465	464,978
		553,397	465	553,862
Operating activities				
Operating revenue				
Government		11,255	–	11,255
Other employers		2,561	–	2,561
		13,816	–	13,816
Operating expenses				
Investment management and custody		(9,058)	–	(9,058)
Administration		(4,758)	–	(4,758)
		(13,816)	–	(13,816)
Surplus before tax and membership activities	(b)	553,397	465	553,862
Income tax expense		(198,567)	–	(198,567)
Surplus after tax and membership activities		354,830	465	355,295
Membership activities - contributions				
Government		654,836	–	654,836
Members		73,020	–	73,020
Other employers		14,529	–	14,529
		742,385	–	742,385
Benefits paid		(888,197)	–	(888,197)
Net benefits paid		(145,812)	–	(145,812)
Net increase in net assets		209,018	465	209,483
Opening net assets available to pay benefits		3,793,114	5,809	3,798,923
Net assets available to pay promised retirement benefits		4,002,132	6,274	4,008,406

GOVERNMENT SUPERANNUATION FUND RESTATED FINANCIAL INFORMATION COMPLIANT TO NZ IFRS

STATEMENT OF NET ASSETS

AS AT 30 JUNE 2007

	Note	2007 $000 NZ GAAP	2007 $000 Reclassification	2007 $000 Adjustment	2007 $000 NZ IFRS
Investments					
Fixed interest					
New Zealand	(a)	153,518	2,051	3	155,572
International	(a)	939,322	607	3	939,932
Equities					
New Zealand		637,964	–	2,577	640,541
International		1,501,733	–	–	1,501,733
Real estate	(b)	292,756	–	435	293,191
Other					
Mortgages		31	–	–	31
Derivative assets held for trading	(a)	–	352,349	–	352,349
Short term investments	(a)(c)	662,927	(515,502)		147,425
		4,188,251	(160,495)	3,018	4,030,774
Current assets					
Cash and cash equivalents	(c)	22,548	317,291		339,839
Prepayments and receivables	(d)	253,668	–	3,256	256,924
Other receivables		4,679	–	–	4,679
Total current assets		280,895	317,291	3,256	601,442
Total assets		4,469,146	156,796	6,274	4,632,216
Less liabilities					
Other payables		392,278	–	–	392,278
Income tax payable		30,402	–	–	30,402
Benefits payable		4,860	–	–	4,860
Derivative liabilities held for trading	(a)	–	156,796	–	156,796
Deferred tax liability		39,474	–	–	39,474
		467,014	156,796	–	623,810
Net assets available to pay promised retirement benefits		4,002,132	–	6,274	4,008,406
Promised retirement benefits					
Gross liability	(e)	–	–	12,564,406	12,564,406
Deficit		–	–	8,556,000	8,556,000
Net assets available to pay promised retirement benefits		–	–	4,008,406	4,008,406

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

The adoption of NZ IFRS has not resulted in any material adjustment (with the exception of the reclassification of certain investments to cash and cash equivalents) to the Statement of Cash Flows.

Explanation of changes to the Financial Statements

(a) Reclassification of financial assets and liabilities - Derivatives

In terms of NZ IAS32.42, the derivatives i.e. swaps, options, futures, and forward foreign exchange contracts must be presented separately from the underlying assets, and not on a net basis unless there is an intention to meet both of the following conditions:

(i) to exercise a current legally enforceable right to offset the recognised amounts; and

(ii) to settle them either on a net basis, or simultaneously.

(b) Adjustment of financial assets and unrealised losses

Under NZ IFRS, the fair values of financial assets do not include the disposal costs, which were allowable under NZ GAAP.

(c) Reclassification of short term investments – Cash equivalents

In terms of NZ IAS 7.7 investments, that have short maturities up to three months from the date of acquisition, are treated as cash equivalents.

(d) Adjustment for receivables

NZ IAS 39.59 prohibits provisions based on expected future losses. Therefore, provision for bad debts from Cook Islands employer contributions is reversed and added back to receivables.

(e) Promised retirement benefits

NZ IAS 26.17.1 requires the inclusion on the face of the Statement of Net Assets the actuarial present value of promised retirement benefits.

Deloitte.

AUDIT REPORT

TO THE READERS OF THE GOVERNMENT SUPERANNUATION FUND'S FINANCIAL STATEMENTS

For The Year Ended 30 June 2008

The Auditor-General is the auditor of the 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 2008.

Unqualified Opinion

In our opinion the financial statements of the Fund on pages 50 to 78:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- fairly reflect:
    - the Fund's Statement of Net Assets as at 30 June 2008; and
    - the changes in net assets and cash flows for the year ended on that date.

The audit was completed on 3 September 2008, 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.

The 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 fairly reflect the net assets of the Fund as at 30 June 2008. They must also fairly reflect 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 New Zealand Institute of Chartered Accountants.

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

GOVERNMENT SUPERANNUATION FUND AUTHORITY

STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES

This document is titled Statement of Investment Policies, Standards and Procedures (**SIPSP**) and is dated 3 September 2008. An electronic copy is available via website *www.gsfa.co.nz*.

No liability

While the Authority has made every effort to ensure that the information provided in this document is accurate, neither the Authority nor its advisors will be liable whether in contract or in tort (including negligence), equity or any other cause of action to any persons or person who rely on the information without the prior agreement of the Authority.

Change without notice

The Authority may change the information in this document at any time and without providing any notice to any party of any changes.

CONTENTS

1 INTRODUCTION

1.1 The Authority

The Government Superannuation Fund Authority (**the Authority**) was established in 2001 to manage and administer the assets of the Government Superannuation Fund (**GSF** or **the Fund**) and the Government Superannuation Fund Schemes (**GSF Schemes**) in accordance with the Government Superannuation Fund Act 1956 and subsequent amendments (**the GSF Act**). The Authority is an autonomous Crown entity under the Crown Entities Act 2004 (**Crown Entities Act**).

1.2 Purpose

This Statement of Investment Policies, Standards and Procedures (**SIPSP**) records the arrangements set by the Authority's Board (**the Board**) for the governance and management of the investment assets held by the Fund. The Board's governance defines fiduciary roles and responsibilities, establishes the decision making processes and the policies and procedures for management of the investment assets of the Fund.

1.3 The GSF Act

The Authority manages the assets of the Fund in accordance with the requirements of the GSF Act. Extracts from sections 15J (2), 15L and 15M of the GSF Act are set out below.

Section 15J (2) of the GSF Act requires that:

> *"The 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) world community."*

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 of the GSF Act requires that:

> *"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."*

1.4 Review

This document is dated 3 September 2008 and supersedes all previous versions. This document is subject to regular review and amendment as the Fund's investment strategy evolves. A version control document is maintained by the Board.

2 THE FUND MANAGEMENT STRUCTURE AND GOVERNANCE

Required under section 15M (f) - the Fund management structure.

2.1 Policies

The Board is the governing body of the Authority and is responsible for making all decisions relating to the Fund. The Board has all the powers necessary for managing, and for directing or supervising the management of, the business of the Authority and the Fund. The Authority's key governance document its Corporate Governance Statement, incorporating the requirements set out in the Act, the Crown Entities Act 2004, other legislation and regulation, and policies and practices developed by the Board. A copy of the Authority's Corporate Governance Statement can be found on the website *www.gsfa.govt.nz*.

The Board has established an Investment Committee and Responsible investment Committee to perform and exercise the functions and powers of the Board delegated to each committee, as applicable. Committees have written terms of reference and ensure that their activities remain consistent with the Crown Entities Act. Each committee reviews its performance annually and is also reviewed by the Board.

The Board is supported by a Management team who act in management, operational and secretarial roles on behalf of the Authority. Clear separation of the governance and operational functions are maintained. The Board retains the power of appointment of investment managers and custodians.

The Authority has outsourced the key activities of scheme administration and investment management (including custody of the Fund's assets) as well as legal, tax and investment advisory functions and communication services.

In terms of the GSF Act, the Government Actuary is the actuary for the Fund and the Auditor-General is the auditor.

2.2 Standards

(a) A global custodian is appointed 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 (undertaken by the global custodian).

All the assets of the Fund, apart from cash holdings required for operational liquidity purposes, are held under custody, unless specifically authorised otherwise by the Board.

(b) Cash required for operational liquidity purposes is managed by the Authority's Management.

(c) Third party investment managers have been engaged to invest the assets of the Fund. Details of the current investment managers can be found on the website *www.gsfa.co.nz*.

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 MSA between the Authority and Annuitas contains delegations of authority to enable Management to carry out the day to day management of the Authority's investment, custody and scheme administration arrangements. In relation to investments, Management is primarily responsible for the identification and implementation of appropriate strategies for the Authority to meet its obligations under the GSF Act and its objectives. This includes the management of contracted services, including investment management, custodial and external advisers, maintaining financial accounting and performance calculations and contract and compliance monitoring.

2.3 Procedures

Selection of managers is made in accordance with the Authority's Policy on Procurement of Services.

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

- best practice portfolio management;
- the skills and experience the manager brings to the role;
- the substance and viability of the manager;
- the costs that can be expected to be incurred;
- the potential for cost savings and other efficiency gains; and
- the existence of appropriate risk management structures.

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

Investment mandates shall include guidelines setting out 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.

3 STATEMENT OF INVESTMENT BELIEFS

3.1 Policies

The Board believes that it is essential to have a clear set of investment beliefs to communicate its values and to provide a basis for its investment actions. Accordingly the Board has adopted the following set of Investment Beliefs.

3.2 Standards

(a) **Higher returns are generally associated with higher risks**

Investors demand a return premium to compensate them for investing in risky assets.

(b) **Setting the asset policy mix is the most important investment decision**

Setting, managing and monitoring the appropriateness of the strategic asset allocation and exposures to major market risks are the key investment management functions. Although active management may be engaged to seek additional sources of return to the underlying asset class returns, their additional impact on the risk and return characteristics of the portfolio is secondary compared to the risks and returns of the underlying markets themselves.

(c) **Diversification reduces risk**

Total investment risk can be reduced for any given return target by investing in a diversified range of asset classes that gives exposure to different sources of return that are complementary or not closely related and, within an asset class, by investing across a range of industries, countries and companies. Diversification reduces risk but has a proportionately lesser effect on returns. A portfolio that is well diversified across asset classes and within those asset classes, will deliver more consistent returns over time than a less diversified portfolio.

(d) **Market timing is not a reliable source of return because of the short term unpredictability of returns**

Asset values and returns are determined largely by expectations about fundamental factors that drive future cash flows and by the discount rates applied to those cash flows. In the short term, returns fluctuate randomly as new information is incorporated into asset prices. Returns are also affected in the short term by uncertainty, temporary influences and sentiment. These random components (sometimes referred to as 'noise') make predicting returns very difficult over short periods and hence market timing is not a reliable source of return. Over longer periods, the more stable components of return become more evident.

(e) **Nevertheless, account should be taken of unusual asset price behaviour**

Asset prices deviate significantly from normal relationships from time to time, increasing the risk of abnormal future returns, ie, asset price 'bubbles' do occur. Notwithstanding the difficulty of market timing, it is appropriate to take account of this risk in implementing major investment decisions.

(f) **Management of costs is important**

Investment returns should be considered net of all costs. Costs can be incurred in the form of fees, commissions, transaction expenses, and market impact costs. Costs can also be structural such as deviations from the strategic asset allocation that increase risk, maintenance of the management structure and unduly constraining investment managers' ability to add value.

(g) **Markets vary in their efficiency and market inefficiencies offer skillful managers the opportunity to add value**

The more inefficient the market, the greater the opportunities for skillful active managers to out-perform the returns from a well diversified passively held portfolio through analysis and research and by exploiting the inefficiencies. It is possible to identify skillful managers by thorough research. The greater expected returns from active management should be weighed against the higher costs and any tax implications arising from active management. Rewards to active management will be maximised by engaging skillful managers with diversified investment approaches over the broadest possible number of independent investment decisions.

3.3 Procedures

The Investment Beliefs are reviewed formally as part of the annual statutory review of the SIPSP and updated at other times as determined by the Board.

4 ASSET CLASSES AND SELECTION CRITERIA

Required under section 15M (a) - The classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes.

4.1 Introduction

Investments can be divided into broad asset classes that share common return and risk characteristics. Each asset class differs materially from the others in its characteristics. These differences and the interaction among asset classes, when combined in a total portfolio, provide diversification that improves the total expected return available for any given level of risk.

4.2 Policies

The asset classes in which the Fund may invest are:

(a) **Global equities** comprising equity securities and securities convertible into equities listed, or shortly to be listed, on any recognised stock exchange and includes partly paid ordinary and preference shares. The asset class includes large, mid and small capitalisation equities and exposures to emerging market issuers.

(b) **Real Estate** comprising land and premises built on land and holdings in entities that invest principally in land and premises.

(c) **Fixed Interest** comprising securities issued by sovereign and non-sovereign issuers and investments in various sub-sectors such as mortgage-backed and asset-backed securities and inflation linked bonds or products. The asset class includes government guaranteed debt securities (or guaranteed by an agency thereof) and non-sovereign debt, including deposits debentures, bonds, notes, promissory notes and other securities not convertible into equity at the issuers option.

(d) **Cash and short term securities** comprising New Zealand and foreign currency cash holdings, as specifically provided for in the relevant investment management. agreements for liquidity purposes or held as collateral against derivative transactions.

(e) **Commodities** comprising tangible products, such as metals, energy and agricultural products.

The Fund may invest in these asset classes by way of direct ownership of the assets or through securities, including equity interests in collective investment vehicles and derivative securities, such as futures, forward contracts and options. The Fund's investments will generally be traded on recognised public exchanges but may be traded privately.

Private market assets and securities are generally less liquid and include collective investment vehicles that hold eligible assets and securities, such as unit trusts, hedge funds and fund-of-funds that engage in active strategies trading among various asset classes and securities. A Multi-Asset Class investment is a diversified investment portfolio comprising a range of asset classes, including global equities, debt securities, real estate, private equity, hedge funds.

The selection of individual investments within the various asset classes is delegated by the Authority to professional investment managers selected for their expertise in particular investment disciplines. Each manager is mandated contractually to invest in a defined range of eligible investments and subject to defined limits of investment risk.

5 THE BALANCE BETWEEN RISK AND RETURN

Required under section 15M (e) of the GSF Act - The balance between risk and return in the overall Fund portfolio.

5.1 Policies

(a) **Investment Objective**

The Authority's investment objective is to minimise the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term without undue risk to the Fund as a whole, within a best practice framework.

In seeking to achieve this objective over the long term, the Authority determines a level of investment risk the Fund can accept that is consistent with an expected excess return over New Zealand Government Stock (**NZGS**). The Risk Parameter defines this level of risk and the Investment Performance Measure is the expected return.

(b) **Risk Parameter**

The current Risk Parameter, adopted in May 2007 and confirmed in June 2008, is to have no more than a one in ten chance in any one year of a loss after tax greater than 6% of the total Fund.

(c) **Investment Performance Measure (IPM)**

The Authority considers that the Risk Parameter is consistent with an expected after tax return equivalent to the NZX New Zealand Government Stock Gross Return Index (after tax), plus 2.5% per annum, measured over rolling 10 year periods.

5.2 Standards

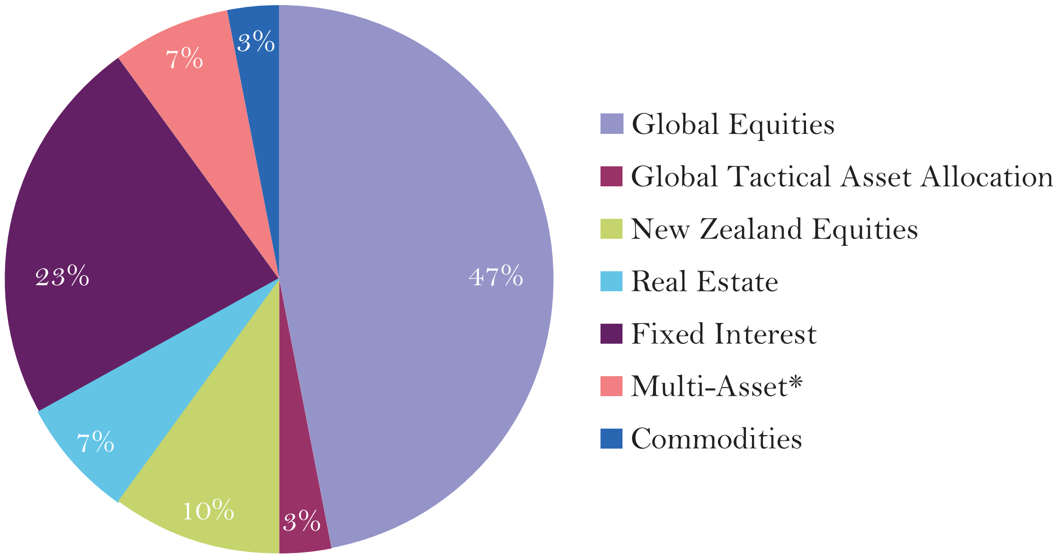
(a) **Strategic asset allocations (SAA) and rebalancing ranges**

The investment performance of the Fund will be determined largely by the allocation among asset classes in which the Fund invests. The SAA is selected by the Authority to maximise the likelihood of achieving the investment objective, limited by the Risk Parameter and the IPM.

The current allocation to each asset class or strategy is illustrated in Graph 1 and set out in Table 1 (see page 93).

The ranges indicate the percentage the capital allocation is permitted to deviate from the SAA before rebalancing trades are required.

Graph 1: Strategic asset allocation



*Multi-Asset Class is a diversified investment portfolio comprising private equity, hedge funds, absolute return strategies and global equities. Global Tactical Asset Allocation is dynamic asset allocation fund that engages in active strategies trading among various assets and securities.

Table 1: Strategic asset allocation

	Strategic asset allocation %	Ranges %
Global equities	47	43 to 51
New Zealand equities	10	7 to 13
Real estate	7	4.5 to 9.5
Total growth assets	**64**	**54 to 69***
Fixed interest	**23**	**19 to 27**
Commodities	**3**	**0 to 5**
Global tactical asset allocation	**3**	**2 to 4**
Multi-asset	**7**	**4 to10**
Total assets	**100**	
Foreign Exchange Exposure	**10**	**8 to 12**

*The rebalancing ranges for individual asset classes are subject to the total growth assets.

(b) **Foreign exchange exposure and hedging policies**

The Authority's overall objective is to have an exposure to foreign currencies of 10% of the total Fund. It manages the level of exposure through a currency hedging programme for international equities. Hedging programmes for the other assets classes are fixed. The Authority fully hedges into New Zealand dollars its foreign currency exposures from the Fund's international fixed interest and real estate portfolios.

Table 2: Summary of hedging strategies

	Asset Class/ Strategy	Pre tax (Post tax) Strategic Hedging Ratio	Range (Pre tax)
1.	Global equities (including multi-asset)	114% (80%)	104% to 124%
2.	Real estate	143% (100%)	138% to 148%
3.	International fixed interest (and GTAA) hedge ratio	100% (100%)	90% to 110%

5.3 Procedures

(a) **Review of Objectives and SAA**

The IPM and the Risk Parameter are reviewed at least annually, taking into account the investment and taxation environment in which the Authority operates. The trade-off between risk and return is reviewed based on analysis of the prospective risk and return characteristics of each asset class in which the Fund might invest and their combinations.

(b) **Rebalancing**

Rebalancing takes place monthly to ensure the Fund remains aligned with its SAA and taking into account known cash flows for the following month. Rebalancing takes into account private market investments that are relatively illiquid, such as equity interests in collective investment vehicles that are not traded and have contractual restrictions on redemptions.

(c) **Implementation**

Implementation strategies for significant asset allocation changes or the addition of new asset classes may include a staged entry or exit programmes to achieve investing and disinvesting goals.

6 BENCHMARKS

Required under section 15M (b) - Determination of benchmarks or standards against which the performance of the fund as a whole, classes of investment, and individual investments will be assessed.

6.1 Policies

The benchmark for the Fund as a whole (and for individual asset classes) is selected to be consistent with the risk and return assumptions that underpinned determination of the strategic asset allocation for the Fund. The Fund's performance is assessed by comparing its investment return with the IPM, Risk Parameter and individual asset class or strategy benchmarks (see sections 5.1 and 5.2).

6.2 Standards

(a) **Investment Objective**

The Authority's investment objective is to minimise the Crown's contribution to GSF by maximising the return on the assets of the Fund over the long term without undue risk to the Fund as a whole, within a best practice framework.

(b) **Investment Performance Measure (IPM)**

The IPM is an expected after tax return equivalent to the NZX New Zealand Government Stock Gross Return Index (after tax), plus 2.5% per annum, measured over rolling 10 year periods.

(c) **Risk Parameter**

The current Risk Parameter, adopted in May 2007 and confirmed in June 2008, is to have no more than a one in ten chance in any one year of a loss after tax greater than 6% of the total Fund.

(d) **Asset class or strategy benchmarks are set out in Table 3.**

Table 3: Asset class and strategy benchmarks

Asset Class / Strategy	Benchmark (Pre hedging)	Benchmark (including hedging)
Global equities	MSCI World Index	80% (after tax) hedged by currency weights to the MSCI World Index hedged
New Zealand equities	NZX 50 gross index including imputation credits	
Global listed real estate – collective portfolio	UBS Warburg Global Real Estate Total Return Investors Only Index	100% hedged to New Zealand dollars
US unlisted real estate	NCREIF Property Index	100% hedged to New Zealand dollars
International fixed interest	Lehman Brothers Global Aggregate Index	100% hedged to United States dollars excluding New Zealand Government securities
New Zealand fixed interest	NZX New Zealand Government Stock Gross Index	
Commodities (Collateralised Commodities Futures)	Goldman Sachs Commodity Index expressed in US dollars	
Collateral held against Commodities futures	New Zealand 90-Day Bank Bill Index	
Global Tactical Asset Allocation	US 3 month libor + 6%	100% hedged to United States dollars
Multi Asset Class	70% MSCI World Index and 30% Lehman Brothers Global Aggregate Index	80% (after tax) hedged by currency weights to the MSCI World Index hedged

6.3 Procedures

(a) Any investment returns above the return for NZGS will reduce the Crown's contribution to the Fund (NZGS is a proxy for the rate at which the Crown could otherwise borrow money to pay entitlements). Performance against the Investment Objective can be measured by comparing the after tax return of the Fund with the after tax return from investing in NZGS over the same period.

(b) The Fund's performance is assessed by comparing its investment return with the IPM over rolling 10 year periods. The Authority recognises that, from year to year, investment returns may not meet the IPM.

The Board also monitors the performance of the Fund's SAA relative to the Risk Parameter and IPM and the performance of the Fund relative to its SAA. The first measure gauges the appropriateness of the SAA while the second measure gauges the effectiveness of implementation, primarily selection of active managers or strategies.

(c) The performance against the Risk Parameter is monitored by comparing the variance of the Fund's actual return with the variance consistent with a loss of 6% occurring not more than one year in ten.

(d) The performance of asset classes or strategies is assessed by comparing the actual performance of the investment managers with the benchmarks relevant to their respective mandates, plus any excess return target expected for active managers. Investment managers' performance is generally considered over periods not less than three years.

Investment performance is generally measured:

- Before and after the deduction of any fees due to the investment managers; and
- After transaction costs have been deducted (but before custodian costs are deducted).

Investment managers are evaluated after taking into account their investment management fees and the degree of risk incurred to achieve expected return targets. Investment managers are also compared to other managers in the same asset class or strategy.

7 STANDARDS FOR REPORTING

Required under section 15M (c) - standards for reporting the investment performance of the Fund.

7.1 Policies

A comprehensive and timely reporting framework enables the Board to analyse the performance of the Fund, asset classes and investment managers.

7.2 Standards

(a) **Reporting by the custodian to the Board**

For the Fund's investments as a whole and for each investment manager, the custodian provides the reports required by the Authority to enable monitoring and review of the Fund and managers' performance. Those reports include:

- the overdraft position of each portfolio;
- accounting matters including portfolio valuation;
- reconciliation of portfolio values and cash flows with the investment managers;
- investment performance measurement and comparisons with benchmarks;
- taxation matters; and
- reports of compliance with mandate specific restrictions on separately managed portfolios.

(b) **Reporting by investment managers**

Reports from investment managers each month may cover (where applicable):

- Details of securities held;
- a review of the performance and an analysis of performance factors;
- investment philosophy and strategy;
- certification that the terms of the investment contract have been met including certification that the portfolio has not been leveraged;
- reconciliation of portfolio accounts with the custodian;
- a statement of any voting rights issues;
- annual external audit report; and
- compliance with responsible investment policies

The Board reviews the managers' investment performance quarterly and investment managers are required to meet with Management, on behalf of the Authority, on at least an annual basis.

(c) **Reporting by Management to the Board**

Management reports investment performance quarterly to the Board including aggregate returns and returns analysed by asset class and by manager. In each case actual returns are compared to benchmarks, expected risk measures, any active return targets and, in appropriate cases, peer returns. Summary reports are provided monthly of aggregate and asset class returns. Management also reports on responsible investment developments.

Management liaises regularly with the Treasury which represents the Minster of Finance.

(d) **Public Reporting**

The Fund's investment performance is reported quarterly on the Authority's website *www.gsfa.govt.nz* and published each year in the Fund's Annual Report, which is tabled in the House of Representatives. Forecasts for investment performance are published each year in the Authority's Statement of Intent.

The Treasury also reports to the Minister quarterly, following consultation with the Authority, on the Fund's investment performance and on key operational issues.

7.3 Procedures

The investment management agreements contain reporting provisions to enable the Board to determine a manager's compliance with the agreement and mandate, and success in meeting investment targets set for the manager. Similarly, the reporting functions provided by the custodian, including standards for timeliness, are described in the custodian contract.

8 RESPONSIBLE INVESTMENT

Required under section 15M (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 15M (i) - The retention, exercise or delegation of voting rights acquired through investments.

8.1 Responsible Investment Policies, Standards and Procedures (RI Policies)

The Authority has developed RI Policies for:

(a) ethical investment, including avoiding prejudice to New Zealand's reputation as a responsible member of the world community;

(b) environmental, social, and governance considerations; and

(c) the retention, exercise, or delegation of voting rights acquired through investments.

The Authority may take other factors into account in its investment processes, provided they do not conflict with its responsibilities under the GSF Act and can be implemented in a practicable and cost effective way. The Authority takes a broad range of other factors into account in its investment processes including:

- information or advice that a corporate entity or country, on the basis of credible evidence from publicly available sources, has participated in serious infringements of relevant international standards relating to human rights, labour and employment, the environment or international security and disarmament;
- any action by the corporate entity or country which is of such a nature that the Board considers that ongoing investment may give rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community; and
- information and advice obtained by the Authority that the entity is subject to economic or other sanctions that New Zealand applies.

The Board is accountable for, and maintains oversight of, the Authority's RI Policies. The Board has established the Responsible Investment Committee to oversee the development of the RI Policies, monitor their implementation, and make recommendations to the Board, as required.

The Authority's RI Policies are regularly reviewed by the Board.

A copy of the Authority's **RI Policies** can be found on the website *www.gsfa.govt.nz*

9 RISK MANAGEMENT

Required under section 15M (h) - The management of credit, liquidity, operational, currency, market, and other financial risk.

9.1 Policies

The Authority has developed comprehensive risk management policies for the management of various investment, operational and financial risks. The Audit and Risk Review Committee assists the Board in fulfilling its responsibilities with respect to internal controls, accounting policies, financial statements approval and risk management. Risk management is further supported by the Corporate Governance Statement, acceptable conduct policies for Board members and Management, Board expenditure policies and procedures, defined roles and responsibilities, performance accountability processes and timely disclosure and communication.

The level of investment risk in the Fund is defined by the Risk Parameter and the Authority's risk management procedures described in section 8.3. A description of the major risk categories are set out below.

9.2 Standards

(a) **Market risk**

Market risk is the risk of adverse movements in investment markets (including asset prices, volatility, changes in the yield curve or other market related variables) that affect the value or income of the portfolio. Market risk is outside the control of the Authority. The volatility of investment markets means that the return from the Fund is inherently uncertain. Actual returns from each asset class may vary significantly each year from the mean returns assumed in determining the investment strategy appropriate to the long term.

Major structural changes to investment markets and/or taxation environment are not within the control of the Authority. However, the Authority takes into account changes in these risks in its reviews of the SAA and investment strategy.

(b) **Borrowing or leverage risk**

The Fund is not permitted to borrow money or charge any of the property of the Fund, directly or through financial instruments, without the Minister of Finance's consent. The Authority has sought and obtained the Minister's consent to enter into financial instruments, where the use of those is consistent with the Authority's SIPSP. The Authority has also obtained the Minister's consent to enter into temporary overdrafts with its banks.

Collective investment vehicles

The Fund may own equity securities or invest in collective investment vehicles that borrow or grant charges on their own assets provided that owning these equity securities does not cause undue risk to the Fund as a whole, as expressed in the Risk Parameter. Particular investments or strategies within collective investment vehicles may be leveraged or include leverage or be invested "short". (Short positions arise when securities are sold while not yet owned, in anticipation of being bought after the price falls. Short positions may be created physically by borrowing the securities and selling them or through derivative contracts but involve leverage in either case.)

Derivatives held directly by the Fund

To avoid undue risk to the Fund as a whole, derivative positions held directly by the Fund are required to be collateralised. In general this means the Fund must hold sufficient cash or securities corresponding to the derivatives to be able to meet any obligations arising from closing out the derivative transaction at current market prices.

(c) **Manager risk**

The Authority retains professional managers to implement its investment strategy and, in many cases, deliver superior returns through skilled active management. Manager's returns may vary from expected levels.

(d) **Credit risk**

Credit (or counterparty risk) is the risk of default by a counterparty to a particular transaction or an issuer of a security held in the portfolio.

(e) **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.

(f) **Operational risk**

Operational risk is the risk of financial loss due to mismanagement, error, fraud or unauthorised transactions.

(g) **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.

9.3 Procedures

(a) **Market risk** is managed by:

- specifying the total risk budget of the Fund and its various major exposures consistent with the Risk Parameter and best practice assumptions in relation to exposure risks and correlations among them;
- diversifying the asset classes in which the Fund invests by adopting the SAA described in section 4 and a range of investment management techniques for the Fund;
- seeking professional advice on the investment strategy and SAA;
- carrying out peer reviews of advice, and consulting with other Crown Financial Institutions and large investment funds;
- requiring investment managers to manage their portfolios within defined market exposure limits for each asset class held; and
- Setting limits to which managers are required contractually to manage their portfolios which may include:
  - limits on the expected volatility of their total portfolio or their portfolio relative to the benchmark;
  - limits on exposure to any single issuer of securities;
  - limits on particular exposures in the manager's benchmark; and exposures not represented in the benchmark.

(b) **Borrowing or leverage risk** is managed by:

- requiring any derivative transactions held directly by the Fund to be adequately collateralised with cash or corresponding securities, valued at current market prices;
- entering into commercial arrangements for any charges against the Fund in accordance with industry best practice, such as the use of agreed counterparty settlement limits and temporary overdrafts for forward currency contracts, swaps and other contracts for difference;
- requiring settlement of amounts outstanding from any derivative transactions due to short term price fluctuations that exceed levels agreed in advance with counterparties;
- the Authority satisfying itself that potential managers (including managers of collective investment vehicles) have adequate policies and procedures relating to derivative counterparties and, if selected, monitoring that managers adhere to their policies; and
- using appropriate industry standard documentation.

(c) **Manager risk** is managed by:

- robust selection process for investment managers based on demonstrated ability and independent expert opinion;
- diversification among managers;
- setting mandates for active managers based on best practice portfolio management that prescribe acceptable risk limits;
- regular assessment and review of manager performance against the benchmark and peers; and
- putting in place management agreements or other satisfactory contractual terms that separate Fund assets from managers and protect against manager errors, omissions and wrongful actions.

(d) **Credit risk** is managed by requiring that managers of the Fund's credit investments:

- maintain the credit quality of their portfolios within agreed contractual guidelines and specified according to approved independent credit ratings;
- limit exposure to individual issuers to prescribed limits; and
- maintain appropriate policies and procedures relating to derivative counterparty selection and management and appropriate industry standard documentation.

(e) **Liquidity risk** is controlled by implementing the Fund's SAA and rebalancing procedures described in section 4. In addition, liquidity risk is managed by:

- requiring, except as specifically authorised by the Board, managers to invest only in securities listed on recognised exchanges;
- limiting investment in securities that are not traded on recognised markets as authorised by the Board;
- requiring managers, within the terms of their individual investment management agreements, to hold diversified portfolios; and
- limiting the credit rating of the fixed interest and cash investments to approved levels.

(f) **Operational risk** is managed by:

- engaging an independent global custodian to record transactions, report on performance and monitor compliance of investment managers with mandates;

- having in place a specific mandate for each investment manager, based on best practice portfolio management;
- clear separation of functions between investment management, custody, and overall supervision;
- ensuring the Management team has sufficient resources to to conduct the oversight function as part of its overall responsibilities; and
- requiring investment managers and the custodian to:
  - provide the Authority with third party covenants or assurances against operational risk events
  - have in place insurance arrangements to cover claims in those events
  - have in place and regularly confirm the existence and efficiency of internal policies and controls to address those risks
  - provide compliance reporting, and
  - reconcile the Fund's recorded positions regularly.

(g) **Currency risk** is managed by:

- maintaining a foreign currency hedging policy for the Fund and individual asset classes;
- engaging currency managers to manage the various hedging programmes;
- specifying the bounds within which investment managers may take on currency exposures relative to their benchmark; and
- specifying the instruments that managers may use and the credit worthiness of the counterparties in the investment management agreement with each manager.

10 THE USE OF DERIVATIVES

Required under section 15M (g) - The use of options, futures and other derivative financial Instruments.

10.1 Introduction

Derivatives are financial instruments whose value and characteristics are derived from underlying assets, indices or reference rates. Derivatives cover a broad range of financial instruments and include futures contracts, forward currency contracts, swaps, forward interest rate contracts, options and credit default swaps.

There is a variety of purposes for which it may be appropriate for the Fund to use derivatives. These include risk management, value adding investment strategies and transactional efficiency.

Derivatives provide another means for an investment manager to obtain market exposures and can be more liquid than the assets from which their value is derived. The use of derivatives is subordinate to the investment strategy and must be consistent with the objectives of the investment management mandate.

10.2 Policies

Derivatives may be entered into by the Authority or its managers and custodians on behalf of the Fund. Their use must be consistent with the investment strategy and entered into as specified in each investment management agreement, or where consistent with the terms governing collective investment vehicles.

Section 15C of the Act requires the consent of the Minister of Finance to enter into derivative transactions. Accordingly the Authority has sought and obtained the Minister's approval to use derivatives subject to certain conditions.

The use of derivatives is permitted only where it results in market exposures appropriate to the Fund as a whole; the resulting counterparty exposures are adequately controlled and the Fund can meet any liquidity requirements arising from their use.

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.

10.3 Standards

Derivative instruments may be traded on recognised exchanges or issued by a counterparty over-the-counter. Each such counterparty must meet the Fund's general requirements in terms of credit rating and contractual arrangements.

The net exposure to foreign currencies (after taking into account hedging positions) in the relevant portfolios is to be in accordance with the Authority's hedging policy for the asset class. If required, appropriate parameters for hedging using proxy currency will be established with the currency managers as well as appropriate operational ranges.

The effective exposures to underlying securities or assets arising from any derivatives are taken into account for the purposes of determining compliance with the prescribed exposure limits of portfolios.

10.4 Procedures

All investment managers are required to provide the Authority with a copy of their policies relating to derivative securities trading and counterparty risk and to manage their derivative exposures in accordance with those policies. The Authority recognises that, where it invests in collective investment vehicles offered by investment managers, those vehicles may be investing in derivatives and takes that into account in determining the appropriate level of investment for the Fund.

The risk of derivatives is measured by their effective exposure to underlying assets as well as on a stand alone basis. The value of derivatives is measured according to generally accepted industry best practice.

Over-the-counter foreign exchange hedging derivative contracts may be entered into only with counterparties that have credit ratings approved by the Board and measured by a recognised rating agency for counterparty risk and domiciled in New Zealand, or in countries with which New Zealand has a double tax treaty.

The currency exposure associated with international investing will be managed using forward foreign exchange contracts relating to the currencies in which the securities that comprise the portfolio are denominated, or their close proxies.

Derivative policies and practices, including foreign exchange hedging are in accordance with any selected manager's derivatives policies, set out in their offer documents, or as otherwise specified in an investment management agreement. Selected managers are required to maintain policies and procedures relating to derivative counterparty selection and management accordingly and use appropriate industry standard documentation.

11 INVESTMENT CONSTRAINTS

Required under section 15M (k) - Prohibited or restricted investments or any investment constraints or limits.

11.1 Policies

Prohibitions and constraints imposed by the Authority can be categorised as follows:

(a) asset classes or strategies which do not form part of the asset allocation;

(b) investments excluded under the Authority's RI Policies;

(c) investments outside the permitted investments of any investment mandate, or not included in the offer document of a collective investment; and

(d) exposures outside the rebalancing range for each investment class (to ensure the investment objective of the Fund is not compromised by excessive deviation from the Fund's SAA).

In addition, the 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.

11.2 Standards

The Authority has developed constraints and limits in respect of each asset class or strategy to control risks. Each investment management agreement specifies those investments that constitute authorised investments and managers may not invest other than in those permitted investments.

Limits on the maximum holding that can be held in each issuer address section 15K of the GSF Act and rebalancing ranges for each asset class or strategy are recorded in the Appendix.

11.3 Procedures

Specific written authorisation from the Authority is required to invest outside of the prescribed permitted investments. The Board will consider such investments as they arise on application from the investment manager.

Ranges for rebalancing are set out in Table 1, page 93.

12 VALUATION

Required under section 15M (j) - The method of, and basis for, valuation of investments that are not regularly traded at a public exchange.

12.1 Policies

Many of the investments of the Fund are securities regularly traded on recognised exchanges and are valued independently and reported publicly. These investments are valued at current market value by the independent custodian in accordance with accepted industry best practice.

Where investments are not traded on recognised exchanges, the Authority, in conjunction with the custodian, determine fair valuation on these investments through an objective or independent process where possible. Examples of investments not traded on recognised exchanges are collective investment vehicles, some non-sovereign bonds and over-the-counter derivative transactions.

Where a valuation discrepancy arises between an investment manager and the custodian, the Authority generally accepts the custodian's valuation.

12.2 Standards

In the case of listed assets, fair value is determined by reference to prices traded on recognised exchanges. For unlisted securities, where quoted market prices are not available, fair value will be determined on the basis of independent valuation. Investments in collective investment vehicles will be subject to external valuation processes and valued according to accepted market practice. In the case of over-the-counter derivatives, the mark-to-market method for determining the value is independently verified.

12.3 Procedures

Wherever possible, independent pricing measured at subsequent reporting dates will form the basis of the Authority's fair value estimate, using the Standards in 12.2. In cases where an independent valuation is unable to be obtained, the Authority uses the closing price released by the relevant investment manager. Investments in collective investment vehicles, where underlying assets are not publicly traded, are subject to the Board being satisfied that there are adequate and timely independent valuations and audit procedures to validate underlying valuations.