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Reports and Financial Statements

for the year ended 30 June 2015

GOVERNMENT SUPERANNUATION FUND AUTHORITY

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

Contents

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

GOVERNMENT
SUPERANNUATION FUND
AUTHORITY

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 reports on the activities of the Government Superannuation Fund Authority (the **Authority**) and the Government Superannuation Fund (**GSF** or the **Fund**) for the year ended 30 June 2015.

The Authority was established in October 2001 as a Crown entity by section 15A of the Government Superannuation Fund Act 1956 (**GSF Act**) and became an autonomous Crown entity under the Crown Entities Act 2004 (**Crown Entities Act**) in January 2005.

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, appointed by the Board, carries out these functions under delegation from the Board.

Features of the 2015 Year

- Strong return on investments for the year of 13.3% before tax and after investment fees. This was 2.6% ahead of the Reference Portfolio and 4.7% ahead of the return on New Zealand (**NZ**) Government Stock.
- Fund investment returns were boosted 2.1% by above normal exposure to foreign currency when the NZ dollar declined sharply late in the financial year. Active managers added 0.7% of return overall, notably in global equities and the multi-asset class strategy.
- Over the last 3 years the Fund investment return averaged 15.0% pa, 1.0% pa above the Reference Portfolio and 8.9% pa above NZ Government Stock.
- Over the last 10 years, which spans the global financial crisis, the Fund investment return was 7.1% pa, compared to 7.0% pa for the Reference Portfolio and 6.2% pa for NZ Government Stock.
- An after tax surplus of $511 million saw the Fund grow in size over the year from $3,677 million to $4,087 million after entitlements paid and contributions received.
- Better than expected investment returns together with the Government contributions has seen the unfunded liability fall over the year from $9,149 million to $8,592 million.
- During the fiscal year $877 million was paid out to members of the GSF Schemes.
- Progress on the new Business System for the administration of the GSF Schemes has been slower than planned. The Authority is fully committed to having a fit for purpose system which will enable the GSF Schemes to operate efficiently and accurately.

Investment Activity

The Fund switched to a before tax investment objective this year. This reflects the fact any NZ tax incurred by the Fund is paid to the Crown. The Fund's risk profile did not change but its objectives are now expressed relative to NZ Government Stock over a ten year rolling period.

The Fund relies largely on equities to provide the target return over NZ Government Stock returns but is always looking for more efficient ways to capture alternative return sources. Almost 20% of the Fund is invested in alternative asset classes such as insurance-linked assets, private equity and real estate funds, and skill-based trading strategies. The Fund's private equity investments are now well into their 8-10 year lifecycles and have started to produce very good returns both in NZ and offshore. Insurance-based investments have provided worthwhile diversification of fixed interest investments.

Early in 2014 a more flexible approach to asset allocation was adopted to allow limited shifts in asset allocation to recognise that future long term returns are affected by current market prices to some degree. During the year the Fund's foreign currency exposure was reduced from 40% to 20% in after tax terms in response to the significant decline in the NZ dollar to more normal valuation levels. A small position was also established in commodity futures because global bonds were considered to be over-valued whereas commodity prices are at multi-year lows.

Considerable attention is paid to the cost of active management relative to the extra risk and expected enhancement. The investment team has been investigating a lower cost approach to active equity management that captures part of the active returns provided by skilled managers using systematic exposure to risk factors that offer a distinct risk premium. This work is ongoing. A third global bond manager was added to diversify the fixed interest manager risk. A further small commitment was made to global private equity funds managed by Makena Capital.

Collaboration with other Crown Financial Institutions (**CFIs**) continued, notably with the Guardians of New Zealand Superannuation. As well as discussing common investment issues, the Authority joined with the CFIs in hiring a global engagement service company to co-ordinate engagements with global companies that have serious issues around environment, human rights and corruption. The Authority also participated in the launch of the NZ Corporate Governance Forum to promote good governance among listed NZ companies.

Full details of the Fund's investment strategy and investment returns can be found in the Investment Commentary on page 7.

Schemes

Datacom Employer Services Limited continues as the scheme administrator.

Work continues on the development of a new and more sustainable Business System for use in the administration of the GSF Schemes.

Further comment on GSF Schemes' activity can be found on page 15.

Outlook

Global economic conditions are improving in response to continued extraordinary monetary stimulus and, as yet, there is no sign of incipient inflation. However there is a big divergence among countries in economic performance and in monetary policies. The US is recovering and will be raising interest rates but only very gradually and from very low levels. Europe has followed Japan with aggressive monetary stimulus but both economies require structural reform to sustain economic growth. This will be hard to achieve politically, increasing the risk of continuing destabilising events in Europe in particular. Emerging markets are in a cyclical trough related to commodity prices but some of these economies have good medium term growth prospects. China faces a testing period of economic management as it tries to transition from investment-led to consumption-led growth without causing major disruption.

After an impressive bull run, global bond and equity markets are pricing a continuation of the very low interest rates for several more years notwithstanding the imminent prospect that US interest rates will start to rise before the end of 2015. This means government bonds, the safest long term asset class, are likely to return an average of only 2-4%pa over the next few years, near zero in real terms. Global equities are moderately more expensive than normal and assuming only moderate growth, implying a return of 6-8%pa. Although modest, this is good value relative to bonds. With slowing revenue growth, profitability is being maintained by increasing corporate leverage and, hence, risk. The significant realignment of the US dollar versus other global currencies over the last year relieved some of the tension in markets arising from the divergent monetary policies of the US compared to the rest of the world.

The asset classes looking most extreme in terms of valuation are commodities, which are at multi-year low prices, and global listed real estate and infrastructure, which are expensive compared to equities in general. The extremely low interest rates on offer have encouraged investors to chase other sources of yield, notably lower risk equities with stable and high dividend payouts, real estate and infrastructure trusts. Emerging markets have been poor performers in contrast but several now look under-valued relative to their longer term growth prospects.

The NZ dollar is no longer grossly over-valued, which will facilitate a shift of resources towards global-facing firms, other than dairy producers. The NZ share market, which is dominated by lower risk yield stocks, is likely to be more challenging after several very good years.

Global economic adjustment is continuing broadly in a positive direction towards a 'new normal' with low growth and low interest rates. Market volatility had been low, foreshadowing low future returns, but could easily jump. Divergent monetary conditions among the major economies remain a risk and geopolitical events can always trigger disturbance in markets. After a very strong run of investment returns, the next year or so is likely to be more difficult.

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. It explains how the Authority operates and gives all stakeholders access to our annual investment results, as well as any changes the Authority makes to its policies, investment strategy and personnel.

The Board

Toni Kerr retired from the Board effective 30 June 2015. Toni served as both a Board member and as Chair of the Audit and Risk Review Committee. I would to like to thank Toni for her contribution to the Board over the last six years.

Ainsley McLaren has been appointed to the Board with effect from 1 July 2015 and brings with her a wealth of investment experience. It is great to have Ainsley on the Board and we look forward to working with her.

The Board has worked effectively and efficiently in 2014/15 with eight full Board meetings being held during the financial year. The Board has two permanent committees, an Investment Committee chaired by Craig Ansley and an Audit and Risk Review Committee chaired by Toni Kerr. Following Toni Kerr's retirement, Cecilia Tarrant has taken on the role of Chair of the Audit and Risk Review Committee. In 2014 the Board also established a committee to provide governance oversight to the project developing the new Business System for the administration of the GSF Schemes. This Committee is chaired by Michelle van Gaalen.

Conclusion

The Board thanks the Minister of Finance and government officials for their support, and the Management team and staff 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.

Keith B Taylor
Chairman
Government Superannuation Fund Authority Board

2 September 2015

GOVERNMENT
SUPERANNUATION FUND
AUTHORITY

Investment Commentary

Investment Strategy

The Authority is required to invest the Fund on a prudent, commercial basis. In so doing, its investment objective is to maximise returns without undue risk to the Fund as a whole, while managing and administering the Fund in a manner consistent with best practice portfolio management.

Following a review in 2013, the Authority defined this objective as being to maximise the Fund's excess return relative to NZ Government Stock (before NZ tax) with a one in four chance of under-performing NZ Government Stock by a cumulative 10% measured over rolling ten year periods.

In addition to the investment objective's long term return and risk measures, the Authority established a Reference Portfolio in 2010 to define and monitor the Fund's relative risk and return performance over shorter, interim periods. The Reference Portfolio is a simple, globally diversified asset allocation that is expected to meet the long term investment objective by investing passively in liquid public markets at low cost.

In early 2015 the Board commissioned a high level review of the Authority's investment programme. The purpose of the review was to compare the Authority's programme with global best practice. The review was led by Mark Burgess the former CEO of the Australian Future Fund. A number of recommendations were made, considered and implemented. The overall assessment was that the Fund was well managed and operated at best practice levels.

Asset Allocation and Reference Portfolio

The Authority reviews the asset allocation of the Fund regularly to ensure it remains consistent with the investment objective, legislative requirements and best practice.

The Authority last reviewed its Reference Portfolio in 2013. The current Reference Portfolio effective from 1 July 2014 has 60% international equities, 10% New Zealand equities and 30% global fixed interest.

All active investment decisions are benchmarked against the Reference Portfolio to assess whether they have added value in terms of higher returns or reduced risk, net of costs. These decisions include the addition of asset classes that diversify the Fund's sources of return as well as skill-based active management strategies.

Table 1 sets out the Fund's asset allocation, as at 30 June 2015 and 2014, compared with the Reference Portfolio.

Table 1[1]

Asset Class	Investment Assets at 30 June 2015		Investment Assets at 30 June 2014		Reference Portfolio
	$m	%	$m	%	%
Global fixed interest	**581**	**14.6**	614	16.7	30
Global equities	**2,458**	**61.6**	2,086	56.7	60
New Zealand equities	**385**	**9.7**	369	10.0	10
Commodity futures	**84**	**2.1**	0	0	-
Catastrophe insurance	**268**	**6.7**	206	5.6	-
Life settlements	**96**	**2.4**	66	1.8	-
Multi-asset class[2]	**270**	**6.8**	216	5.9	-
Global tactical asset allocation	**118**	**3.0**	93	2.5	-
Currency overlay[3]	**(270)**	**(6.8)**	32	0.9	
Total	**3,990**	**100.0**	3,683	100.0	100.0

1 The numbers in the table differ from the numbers in the Statement of Net Assets for the Fund (on page 36) because of different disclosure requirements for financial reporting purposes.

2 The Fund invests in a multi-asset class fund which is a diversified portfolio comprising listed equities, private equities, global property and absolute return hedge funds.

3 Currency overlay comprises unrealised profits or losses (shown in brackets) on currency hedges and is generally made up of cash equivalents or short term liabilities to banks (when there are accrued losses). The Reference Portfolio is hedged so that 20% is exposure to Foreign Currency. The actual portfolio also had a 20% exposure to Foreign Currency at 30 June 2015 but varied between 40% and 20% during the year.

All table figures are rounded and so may not appear to add exactly.

Investment Returns

The Fund had another strong return on investments for the year of 13.3% (before tax and after investment fees). This compares to a gross return on the Fund of 13.8% before tax and expenses.

Global equity returns were a modest 8% in local currency terms and 30% in New Zealand dollar terms as the dollar fell against our investment basket of currencies, including 23% against the US dollar. The Fund's short position in the New Zealand dollar, plus strong stock selection in global equities, resulted in the Fund beating its Reference Portfolio by 2.6%. The Reference Portfolio return itself was 2.1% ahead of New Zealand Government Stock.

Table 2 compares the Fund's investment return before tax and after fees against the Reference Portfolio and New Zealand Government Stock over periods ended 30 June.

Table 2: Total Fund Return Summary

Returns per annum to 30 June 2015	1 year	3 years	10 years
Fund Investment Return (before tax and after fees)	13.3	15.0	7.1
Reference Portfolio	10.7	14.0	7.0
New Zealand Government Stock	8.6	3.5	6.2

The Fund's investment return before tax and investment fees of 13.3% compares with the Reference Portfolio return of 10.7%, contributing to strong value added in the last 3 years. We measure the performance of active management net of fees. A return of 2.2% was added by underweighting the NZ dollar during the year.

The short dollar position was based on its over-valuation and was closed out following the dollar's decline to more sustainable levels in mid-2015. External managers, notably the global equities and multi-asset managers, added 0.8% and 0.6% respectively to the Fund.

The Fund's investment return has exceeded NZ Government Stock by a large margin in recent years and is also ahead of its Reference Portfolio. Measured over the last 10 years, however, the excess return over NZ Government Stock is only 0.9% as that period includes poor global equity market returns in the 2008 global financial crisis.

Returns from global financial assets, especially equities, continued their strong run of recent years, fuelled by exceptional monetary policy stimulus. While 12 month returns were above average, however, they faltered somewhat as the year progressed and more volatility disturbed markets. Equities were down in the last quarter of the financial year and only an overdue plunge in the NZ dollar boosted returns on unhedged offshore assets.

Returns by Asset Class

Table 3 shows the investment returns by major asset class compared to the relevant asset class benchmark. (All returns in NZ dollars before tax and after fees.)

Table 3

Asset Class	Year to June 2015		3 Years to June 2015 pa	
	Actual	Benchmark	Actual	Benchmark
Total fund	**13.3**	**10.7**[5]	15.0	14.0
Global fixed interest	**5.6**	**6.8**	6.3	6.0
Global equities[6]	**31.6**	**30.2**	21.5	19.5
New Zealand equities	**12.8**	**12.9**	21.8	20.4
Multi-asset class[6]	**38.6**	**29.4**	15.4	15.9
Global tactical asset allocation	**4.5**	**8.1**	-0.4	2.0
Catastrophe insurance	**3.0**	**4.5**	5.9	7.1
Life settlements	**7.7**	**n/a**	0.2	n/a
Currency overlay[7]	**-16.8**	**-19.1**	-2.8	-2.9

5 The benchmark for the total Fund is the Reference Portfolio.

6 Returns are unhedged. All other asset class returns are hedged to NZ dollars.

7 Currency overlay return includes full hedging of all international assets except international equities and multi-asset class, which are hedged partially. The difference in return from the benchmark this year is due largely to active lowering of the hedge ratio below the benchmark ratio of 80% of total Fund assets (after tax).

Global Fixed Interest

Actual Return 5.6%, Benchmark Return 6.8%
Benchmark – Barclays Capital Global Aggregate Bond Index hedged to NZ dollars

Returns from fixed interest investments (such as government and corporate bonds) comprise interest income and capital gains (when market yields decline) or losses (when yields rise).

Global bond yields are at multi-decade lows owing to the unprecedented policy action of US, European and Japanese monetary authorities. They may be searching for the bottom, however, as they declined early in the year then rose in the latter part. The main driver is the expectation of a gradual rise in US interest rates as monetary policy is normalised again, although it will be several years, if ever, before short term interest rates return to the levels last seen in 2007. Corporate credit spreads widened to long term average levels as a reaction to falling commodity prices after having tightened to very low levels earlier in the financial year. Emerging markets debt lagged the developed markets by 10% as commodity prices fell and the US dollar strengthened.

NZ bonds performed better this year after lagging global bonds in the previous year. This reflected a minor reversal in the relative strength of the domestic economy, which showed a weakening trend after a year or two of 'rock star' growth. The result was that NZ Government Stock returned 8.6%, including some capital gain, while global bonds hedged into NZ dollars returned 6.8%.

The Fund's global fixed interest portfolio under-performed for the year owing to its exposure to emerging markets debt.

Global Equities

Actual Return 31.6%, Benchmark return 30.2%
Benchmark - MSCI All Countries World Index unhedged

The extraordinary reported returns in International shares are exaggerated by translation into NZ dollar terms when the dollar fell dramatically late in the financial year. In local currency terms the return was a very average 8.2%, a tailing off from a long bull market run since the global financial crisis in 2008. Japan was the standout returning 31% in local currency terms. Sectors with stable earnings and cash flows have done well as investors look for yield in a low interest rate world and resilience to any economic slowdown.

The Fund's international equities managers added 1.4% collectively during the year and have added almost 2%pa for the last three years. Quantitative managers and the deep value specialist have done extremely well. The active equities programme totals $2.1 billion, which is more than half the Fund's assets, and has added 1.2%pa net of fees since inception.

The appointed managers are under continuous review and currently comprise six global managers and an emerging markets specialist. There is a mix of approaches to avoid over-exposure to a single strategy. Two quantitative managers aim to add value by holding risk balanced portfolios that exploit temporary relative valuation spreads and earnings momentum factors. A third quantitative manager focuses on low volatility stocks. Two other global managers focus on fundamental company valuations with a longer horizon and generally have slower turnover of shares in their portfolios. One focuses on deep value opportunities. One fundamental manager's mandate was terminated during the year.

Commitments have been made to two global private equity funds-of-funds managed by Makena Capital, the Fund's US-based global multi-asset class manager. USD 45 million has been committed and USD 22 million had been invested as at June 2015. These funds access a selection of leading global private equity managers, including the purchase of stakes in several existing private equity funds at discounts to their underlying company values.

New Zealand Equities

Actual Return 12.8%, Benchmark Return 12.9%
Benchmark - NZX50 Gross Index including imputation credits

NZ equities include investments in public and private markets.

The NZ share market performed slightly ahead of global markets when measured in local currency terms. It has been re-rated globally because of strong interest in defensive stocks, such as utilities and telecoms, particularly following the partial sales of government owned electricity companies. The economy has also been stronger than Australia and the rest of the world. The Fund's two managers of NZ public equities had a tough year subtracting 1.7% and 2.0% respectively relative to the index. They remain ahead of benchmark since inception however.

The Fund is also invested in four NZ private equity funds. Reported returns on these investments are negative in the early years on account of fees being paid on committed capital that is not yet invested and the delay until investments can be valued at other than their investment cost. This also means they lag the public markets, especially when the public market is as strong as it was in 2013 and 2014.

The Willis Bond Fund is 6 years into its 10 year programme of acquiring commercial properties in Wellington and Auckland and redeveloping them for a mixture of commercial, retail and residential apartments. It returned 38% this year based on market valuations and realisations.

Direct Capital Partners Fund IV is performing well. It has made seven investments and returned 29% for the year based on current appraised values and distributions received.

The Pencarrow and Pioneer Capital funds are earlier in their investment programmes with about a half of capital drawn and 5 and 4 investments made respectively.

Multi-Asset Class

Actual Return 38.6%, Benchmark Return 29.4%
Benchmark - Reference Portfolio

The extraordinary reported returns are exaggerated by translation into NZ dollar terms as the dollar fell dramatically late in the financial year. The global multi-asset class fund aims to produce equity-like returns with half the risk over the long term. One-third of the multi-asset class fund is invested in public markets - global equities and bonds. The other two-thirds are invested in absolute return (hedge) funds, global private equity and private real estate funds. It represents an alternative way of getting exposure to equities and credit together with skill-based strategies.

The multi-asset fund added 9.2% relative to its benchmark in the current year and is in line with its benchmark since inception. The multi-asset portfolio has a slightly lower risk profile than its benchmark, which is the same as the GSF as a whole. It is also less volatile partly on account of lagged valuations for private market funds. This year's strong performance reflects added value across both public and private markets with strong cash flows from private equity realisations.

Global Tactical Asset Allocation

Actual Return 4.5%, Benchmark Return 8.1%
Benchmark - 3 month London Interbank Offered Rate (LIBOR) hedged to NZ dollars

3% of the Fund is invested in a fund that invests across markets using only liquid derivative contracts. Its aim is to significantly out-perform cash with similar risk to global equities. Excess returns are derived largely from trades based on relative value and momentum among bonds, equities, commodities and currencies, rather than relying on market direction. The strategy is expected to provide an alternative diversifying source of return. It tends to do relatively well in weak equity markets but lag strong markets.

The manager had a poor year returning 3.6% less than the benchmark as its strategies lagged in a bull market for equities. Owning relatively cheap assets has not been rewarding in recent years. This has reduced the out-performance since inception to 0.4% net of fees which is at the lower end of the range of expectations.

Catastrophe Insurance

Actual Return 3.0% Benchmark Return 4.5%
Benchmark - Swiss Re Catastrophe Bond Index (Total Return) hedged to NZ dollars

Catastrophe insurance comprises catastrophe bonds and various forms of reinsurance contracts. By investing in these, the Fund takes on the risk of rare but large losses from major global catastrophes, such as hurricanes and earthquakes, which are borne primarily by global property insurers and reinsurers. The Fund receives premiums to accept part of the risk and effectively spread the large risks that the insurance industry's capacity cannot bear. These returns have very low correlation to the rest of the total Fund. Catastrophe risk managers beat their industry benchmark this year, which matched conventional bonds. The portfolio suffered because one of the investment vehicles is denominated in Australian dollars, an effect that should wash out over time.

Life Settlements

Actual Return 7.7%
Benchmark - none

The Fund has invested almost $100 million in life settlements via a swap with an investment bank and in a life settlements managed fund. A life settlement is the sale of an existing life policy to a third party who takes over outstanding premiums and collects the benefit on maturity. The investments provide exposure to more than 1000 lives overall with diverse characteristics to limit risk. It has an expected return greater than equities over a long horizon but is subject to market valuation changes that are sensitive to long term interest rates. There is no ideal benchmark. Returns to date are below expectations on account of a higher market discount rate applied to future policy maturities while cash flows are broadly in line with expectations.

Currency Overlay

Actual Return -16.8%, Benchmark Return -19.1%
Benchmark - Composite Index of the currencies comprising underlying asset classes

The Fund's currency exposure is managed at a total Fund level. The Fund fully hedges foreign currency exposures of all asset classes except global equities and the Multi-asset class investment. Equities are partially hedged to leave the desired percentage of the total Fund unhedged. The Fund's benchmark currency exposure is 20% after tax (ie, 80% hedged). Thus, although the currency overlay return itself is negative, it is fully offset by the corresponding positive NZ dollar return of those assets (see returns on international equities and multi-asset class above).

Since June 2010 currency exposure has been actively managed. The NZ dollar is correlated to global equity markets, which are the Fund's largest risk exposure, and this exposes the Fund to simultaneous downward shifts in both global equities and the NZ dollar. To reduce this risk, the foreign currency exposure is increased when the NZ dollar is perceived to be over-valued and vice versa.

Foreign currency exposure was reduced from the maximum 40% to the benchmark 20% during the latter half of the financial year because the NZ dollar fell significantly from an over-valued level. The actual currency hedge added 2.2% to the Fund for the year owing to the over-exposure to foreign currency when the NZ dollar fell.

Commodity Futures

Actual Return 3.2%, Benchmark Return 5.2% (for 4 months to 30 June 2015)
Benchmark - Bloomberg Commodity Index

The Authority has introduced a programme of dynamic asset allocation which allows moderate shifts among liquid asset classes when extreme discrepancies occur between market prices and fundamental value. Such moves are expected to be relatively infrequent and slow moving. The change in currency hedge ratio in response to the over-valued NZ dollar is an example.

The Fund invested 2% in commodity futures in March 2015, as part of this programme, funded from global bonds, because commodity prices are very low historically whereas bonds are relatively expensive. The commodity futures are invested via AMP Commodity Futures Fund.

Outlook

Global economic conditions are improving in response to continued extraordinary monetary stimulus and, as yet, there is no sign of incipient inflation. The US will be raising interest rates but only very gradually and from very low levels. Europe has moved to follow Japan with aggressive monetary stimulus but both economies require structural reform to sustain economic growth. This will be hard to achieve politically, increasing the risk of continuing destabilising events in Europe in particular. Emerging markets are in a cyclical trough related to commodity prices but some of these economies have good medium term growth prospects. China faces a testing period of economic management as it tries to transition from investment-led to consumption-led growth without causing major disruption.

Global bond and equity markets are pricing a continuation of the very low interest rates for several years notwithstanding the imminent prospect that US interest rates will start to rise before the end of 2015. This means government bonds, the safest long term asset class, are likely to return an average 2-4%pa over the next few years, near zero in real terms. Global equities are only moderately more expensive than normal and assuming only moderate growth, implying a return of 6-8%pa. Although modest, this is good value relative to bonds. The significant realignment of the US dollar versus other global currencies over the last year relieved the tension in markets arising from the divergent monetary policies of the US and the rest of the world.

The asset classes looking most extreme in terms of valuation are commodities, which are at multi-year low prices, and global listed real estate and infrastructure, which are expensive compared to equities in general. The extremely low interest rates on offer have encouraged investors to chase other sources of yield, notably lower risk equities with stable and high running yields, real estate and infrastructure trusts. Emerging markets have been poor performers in recent years but now look under-valued relative to their longer term growth prospects although differentiation is required.

The NZ dollar is no longer grossly over-valued, which will facilitate a shift of resources towards global-facing firms, other than dairy producers. The NZ share market, which is dominated by lower risk yield stocks, is likely to be more challenging after several good years.

Global economic adjustment is continuing broadly in a positive direction towards a 'new normal' with low growth and low interest rates. Market volatility remains low, which is consistent with low rates of return, but implies potential for a rocky road ahead around modest average returns. Divergent monetary conditions among the major economies remain a risk and geopolitical events can always trigger disturbance in markets. After a very good run of investment returns, the next year or so is likely to be more difficult.

Responsible Investment

The Act requires the Authority to manage and administer the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The Authority must also have an ethical investment policy. The Authority addresses these matters through its Responsible Investment (**RI**) Policies, which cover the exercise of voting rights with respect to shares owned by the Authority and consideration of governance, environmental and social issues relating to its investments.

In terms of its RI Policies, the Authority excludes direct investment in securities issued by a number of companies involved in the manufacture of tobacco, anti-personnel mines, cluster munitions and nuclear weapons. These activities are inconsistent with Government policy or international conventions to which NZ is a party.

The Authority has joined with other Crown Financial Institutions (**CFIs**) in hiring a global engagement firm to co-ordinate engagement on our behalf with global companies that have significant RI issues. The Authority has participated in engagements with several companies with other CFIs and, in some cases, with global peer funds linked through the United Nations Principles for Responsible Investment (**UNPRI**). These companies were believed to be damaging the environment severely, infringing human rights or engaged in bribery and corruption. If companies materially breach our RI standards and engagement is unlikely to change their behaviour the Board will consider excluding them from our portfolio and has done so. Excluded companies are listed on the website. The Authority has also encouraged its investment managers to consider the UNPRI and ensure that governance, environmental and social risks are analysed adequately as part of their investment processes.

Shortly after the end of the financial year, the Authority joined with other CFIs and NZ fund managers to launch the NZ Corporate Governance Forum. The aim of the Forum is to promote good corporate governance practices among NZ's listed companies because we believe that will improve company performance over time, reduce investment risk and lower the cost of capital to firms.

The Authority invests in a number of collective investment vehicles (**CIVs**). These are a practical and cost effective way to get exposure to some markets and managers. The Authority cannot influence directly the securities held by the CIVs, or their individual voting decisions. A CIV's ability to comply with the RI Policies is considered as part of the investment evaluation and, if an investment is made in the CIV, the manager of the CIV is advised of the RI Policies and associated decisions and encouraged to reflect them in their own policies.

The Authority and other CFIs have similar RI obligations and all are signatories to the UNPRI. The CFIs work together to implement their RI Policies using consistent information and research gathered initially by the RI unit of the Guardians of New Zealand Superannuation.

Schemes Commentary

Schemes administration

Datacom Employer Services Limited continues as the administrator of the GSF Schemes and has met the performance standards that have applied since 1 July 2009. These performance standards reflect current best practice in schemes administration and are specific in terms of required turn-around times.

New Business System

Work on development of a new and more sustainable Business System to be used in the administration of the GSF Schemes continues. The current Business System is more than fifteen years old and incorporates technology that is no longer in common use in New Zealand.

The detailed requirements for the project were completed in December 2010. The construction phase was originally scheduled for completion around June 2012.

Implementation of the new Business System for shemes administration has been delayed. The Authority was not satisfied with results from pre-implementation system tests and work continues to ensure the system delivered is fit-for-purpose.

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Governance and Accountability

The Authority was established in October 2001 as a Crown entity under section 15A of the GSF Act and became an autonomous Crown entity under the Crown Entities Act in January 2005. 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 the Board is responsible for the business of the Authority.

Government Superannuation Fund Authority Board - as at 2 September 2015

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

Keith Taylor. Appointed as a Board member 10 August 2008 and appointed as Chairman from 1 August 2011. Mr Taylor is Chairman of Directors on the Board of Gough Holdings Limited. He is Deputy Chair of the Earthquake Commission and of the Reserve Bank of New Zealand. He is a director of Southern Cross Medical Care Society, Port Marlborough New Zealand Limited, Butlands Management Services Limited, Carey Baptist Theological College and Annuitas Management 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.

Cecilia Tarrant. Appointed as a Board member 25 August 2011 and as Deputy Chair as at 1 July 2013. She is a director of Fletcher Building Limited, Shopping Centres Australasia (SCA) Property Group Trustee NZ Limited, and Annuitas Management Limited. She is a trustee of the University of Auckland Foundation and a member of the University of Auckland Council. She previously held a number of senior management positions with Credit Suisse First Boston and Morgan Stanley in New York and London.

Craig Ansley. Appointed 16 July 2012. Dr Ansley is a member of the Board of Guardians of the New Zealand Superannuation Fund and he is an external member of BNZ Wealth & Private Banking Review Committee. He was the founder of the New Zealand office of Russell Investment Group, and spent several years in senior roles in that organisation.

Michelle van Gaalen. Appointed 1 November 2012. Ms van Gaalen is currently Chief Executive of Pinnacle Life Limited and has previously held various executive roles including Director of Strategy and Business Performance for the BNZ.

Shelley Cave. Appointed 1 July 2014. Ms Cave is a Board Member of the Financial Markets Authority and she was formerly a partner of the law firm Simpson Grierson specialising in capital markets transactions.

Ainsley McLaren. Appointed 1 July 2015. Ms McLaren is currently the Acting Head of Business Strategy and Performance at Westpac NZ Limited and a Director of Hohepa Auckland Regional Board. She has previously held various executive roles including Head of Investment Management at ASB Group Investments and Executive Director at First State Investments (NZ) Limited.

Retired Board Member

Ms Toni Kerr retired from the Board on 30 June 2015.

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 two committees with specific responsibilities for Audit and Risk Review and Investments. The Chairman is an ex officio member of both committees.

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

- the power of delegation;
- the power to grant a 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 and the two committees each met three times.

Auditor

The Auditor-General is the auditor of the Authority. The Auditor-General has appointed David J Shadwell of Deloitte to act on her behalf.

Our People

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 schemes management arrangements. In the case of schemes management, the delegation includes interpretation of the provisions of the GSF Schemes and exercise of discretionary powers in accordance with the Provisions, Policies and Procedures of the GSF, subject to appropriate consultation with the Board.

Annuitas strives to be a good employer and is committed to offering equal employment opportunities to prospective and existing staff. Annuitas has 13 staff and a diverse ethnic mix. The employee gender split is 54%/46% female/male and the age range includes people in their 30's through to people in their 60's. Workplace flexibility and investment in professional development are core to its employment offering and whilst none of the staff have serious disabilities Annuitas strives to be a good EEO (equal employment opportunity) employer. Staff participated in a range of educational development programmes during the year.

The activities of Annuitas compared with seven key elements of being a good employer are summarised in the table below.

Element	Annuitas Activity
Leadership, accountability and culture	• Alignment between strategic plan objectives, individual objectives and performance measures.
Recruitment, selection and induction	• Robust recruitment and selection process. • Orientation and induction for all staff.
Employee development, promotion and exit	• Professional development opportunities identified and sourced. • Any vacancies advertised internally. • Exit interview process.
Flexibility and work design	• IT systems facilitate working from home. • Flexible Working Arrangements Policy.
Remuneration, recognition and conditions	• Transparent, equitable and gender-neutral job evaluation practices. • Remuneration benchmarked against third-party New Zealand data. • Discretionary performance incentive scheme.
Harassment and bullying prevention	• Acceptable Conduct Policy for Employees and Contractors signed annually by all employees and available at all times. • Relevant other policies available at all times.
Safe and healthy environment	• Robust Health and Safety Policy. • Strong focus on employee health, safety and well-being.

All Annuitas policies are regularly reviewed and/or updated, many on an annual basis.

The workforce profile of Annuitas has remained stable. During the year there was one appointment.

The Management team is:

- Simon Tyler Chief Executive
- Euan Wright Chief Financial Officer
- Fiona Morgan Manager, Finance
- Philippa Drury General Manager, Schemes
- Janet Shirley Manager, Schemes
- Paul Bevin General Manager, Investments
- Peter McCaffrey Manager, Portfolio Strategy and Risk
- Nicky Rumsey Manager, Investments.

Indemnity

The Authority has:

- 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 Management, who exercise delegations on behalf of the Board in terms of the MSA, whereby it agreed to indemnify the members of Management (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 Management do not protect the Board members, or the members of Management, 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
- 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 indemnities. 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 Management 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 Management, 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 01 – Management of the Government Superannuation Fund

This output class provides investment and schemes 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 measures are set out in the Authority's Statement of Intent for the period commencing 1 July 2014.

Investment Management

Performance Measure	Performance Achievement
Manage investments to maximise returns over the long term, without undue risk to the Fund as a whole, in accordance with best practice portfolio management.	
• Fund return compared to the expected return over rolling 10 year periods. • Volatility and loss of value of Fund returns versus expected levels. • Actual performance (returns and assessed risk) compared to the Reference Portfolio over rolling 3 years to determine the added value of alternative asset exposures and active management (net of additional fees and costs). • All measured with reference to independent market valuations by the custodian and assessed by the Authority's investment management staff	Objective achieved: • Over the last 10 years the Fund returned 7.1%pa before tax compared to NZ Government Stock return 6.2%pa. The margin of 0.9%pa was less than the expected 2.5%pa. • Over the last 3 years the Fund returned 15.0% before tax compared to NZ Government Stock of 3.5%pa. • The Fund's net of fees return was 2.6% ahead of the Reference Portfolio for the year and 1.0%pa ahead over the last 3 years. • The Fund's risk over the last 3 years (measured as volatility of returns) was 3.6%, which was lower than the Reference Portfolio's 4.4% and within the long term risk measure. • Performance is calculated independently by the Custodian and verified by Management.

Performance Measure	Performance Achievement
Endeavour to achieve competitive investment costs justified by value added.	
• Comparison of investment managers' actual performance against contracted mandates and representative benchmarks, measured independently by the custodian and assessed by the Authority's investment management staff, with monthly management reporting and quarterly reporting to the Board. • Comparison of expected and actual value added, in terms of excess return (net of additional costs) and/or reduced risk, versus the Reference Portfolio. • Annual comparison of the Fund's performance and cost structure with those of similar organisations, prepared by independent party. • Independent statutory review every 5 years.	Objective substantially achieved: • External managers added 0.6% in the last year and 1.2%pa over the last 3 years (net of fees). • Internal active currency hedge management added 2.2% this year but subtracted 0.2%pa over the last 3 years. • Alternative strategies matched the Reference Portfolio this year but lagged in the last 3 years owing to the strong returns from public equity markets. • Active management, including the addition of alternative assets, lowered Fund risk, contributing to an improved reward for risk compared to the Reference Portfolio. • The Fund is benchmarked annually against global peers. Latest available results to calendar 2013 indicated: • The Fund's 5 year return was above peers due to a larger policy allocation to equities. • Risk was higher than peers owing to the larger equities allocation. Alternative asset classes reduced risk. The Fund's active risk is above peers. • 5 year value added from active management was below peers owing to a negative contribution from active currency hedging. • Costs were above peers owing to greater use of external, active management as opposed to internal or passive management. • The last statutory review was completed in 2011 and concluded inter alia that 'the Fund's overall investment cost level is consistent with meeting the Fund's objectives and is in line with that of similarly sized funds with a similar asset allocation mix in the Australian and NZ market.'

Performance Measure	Performance Achievement
Monitor individual investment managers to ensure compliance with contracted mandates and, where appropriate, out-performance against benchmarks.	
• External review by independent adviser and regular reviews by the Authority's investment management staff.	Objective achieved: • Reviews of external investment managers are obtained regularly from independent investment advisers. • Compliance and performance is monitored monthly by the Authority's staff against mandates and independent benchmarks. • A full review of the NZ equities managers was undertaken in 2013, global equities management was reviewed in 2014 and global fixed interest management was reviewed in 2015. • The Managers overall have added value of 1.65% over their respective benchmarks this financial year.
Maintain a SIPSP that meets best practice.	
• Periodic review by independent adviser to assess whether the SIPSP meets best practice and is relevant.	Objective achieved: • The SIPSP is reviewed annually by the Board and in the 5 yearly statutory review. The statutory review completed in 2011 stated the SIPSP meets best practice and is relevant. This was also endorsed by the Mark Burgess review in 2015.

Performance Measure	Performance Achievement
Comply with the SIPSP.	
• No unauthorised variations from the SIPSP (which may be varied by the Board from time to time) identified on annual review. • Actual asset allocation rebalanced monthly to within rebalancing tolerances set out in the SIPSP. • Investment manager risk remains in line with expectation by comparing investment managers' actual risk profiles against expected risk. • Review of custodian's performance against key performance indicators quarterly to determine that it meets its Service Level Agreement. • No direct investments that breach the Responsible Investment policies set out in the SIPSP. • All investments in collective investment vehicles (**CIVs**) in accordance with Responsible Investment policies in the SIPSP. • CIVs notified of the Board's Responsible Investment policies. • Measured by internal and external review.	Objective achieved: • The Fund remained fully compliant throughout the year. • Rebalancing was completed monthly to within predetermined policy ranges. • Each manager's risk is monitored at least quarterly and there were no significant breaches, that required further action, during the year. • The custodian is monitored against KPIs contained in the Service Level Agreement and service issues are addressed with the custodian quarterly. • A full tender for custody services was initiated in 2015. • No breaches of Responsible Investment policies occurred. • Investment in all CIVs complied with the SIPSP. • All CIVs notified of the Responsible Investment policies.
Put in place a sound investment strategy consistent with the SIPSP and the Authority's Beliefs	
• Board review of the investment strategy, including the key investment and taxation assumptions, at least annually that confirms the strategy is consistent with the SIPSP and the Authority's Beliefs.	Objective achieved: • The Board reviewed the SIPSP in 2015. • The investment strategy is reviewed at Board meetings to ensure it meets the Investment Objective and Investment Beliefs contained in the SIPSP. The Objectives were amended with effect from July 2014 and the Reference Portfolio modified to exclude commodities. • The Board commissioned an independent review of the investment programme in 2015. This was undertaken by Mark Burgess. The purpose of the review was to compare the Authority's investment programme with global best practice. The review endorsed the programme and suggested some enhancements to risk monitoring and process improvements.

Performance Measure	Performance Achievement
*Collaborate with other CFIs to monitor environmental, social and governance (**ESG**) risks of investments, engage with companies with negative ESG issues, encourage integration of ESG issues into investment arrangements where consistent with financial objectives, and maintain a list of excluded investments.*	
• Avoidance of negative ESG issues. • Advice to investment managers on policies and exclusions. • Updated exclusion list. • Participation in engagements with companies that lead to positive change in behaviour.	Objective achieved: • In 2014 the Fund was ranked in the first or second quartile for all but one of the United Nations Principles of Responsible Investments (**UNIPRI**) principles. • The list of excluded investments has been maintained up to date. External managers are advised of the Authority's policies and exclusions. • In conjunction with CFIs hired an engagement firm to engage with companies with significant RI issues.
Ensure the Authority complies with the GSF Act.	
• Conclusions of in-house legal compliance programme developed with advice from the Authority's legal adviser.	Objective achieved: • The Authority complied fully with the Act throughout the year with the advice from the Authority's legal adviser.

Schemes Administration

<table>
<tr><th>Performance Measure</th><th>Performance Achievement</th></tr>
<tr><td colspan="2">Accurately calculate and pay entitlements, process contributions correctly and on time.</td></tr>
<tr><td>

• Performance is in line with the key performance indicators (**KPIs**) set out in the Management Agreement between the Authority and Schemes Administrator.

KPIs are:
- 100% of all annuities are paid on time;
- all contributions are banked on receipt and allocated as soon as verified as being correct;
- all transactions are processed correctly;
- all routine correspondence is responded to within 5 working days; and
- all non-routine correspondence is responded to within 7 working days.

Performance against KPIs is measured through monthly reporting by the Schemes Administrator, monitored by Management.

- The Business System is relevant and supportive of the requirements of the Schemes.

Assessed by:
- no major loss or corruption of data or functionality;
- having an appropriate Business Continuity Plan in place;
- the ability to access required data from both the current and new Business Systems; and
- the new Business System being operational by 1 July 2015.

</td><td>

Objective achieved:
• The scheme administrator, Datacom Employer Services Limited (**Datacom**), met the performance standards (set out in the Management Agreement between the Authority and Datacom) during the year.
• All KPIs have been met.
• Detailed monthly reports are provided by Datacom on performance against KPIs. The reports are reviewed in detail by Management and included in the papers for consideration by the Board at its regular meetings. Quarterly compliance certificates are received from Datacom and are reviewed by Management.
• The Business System continues to support the requirements of the schemes administration team. There has been no major loss or corruption of data or functionality. There were no outages during business hours and no loss of data during the year. Data has been successfully extracted as required.

Objective not yet achieved.
• Development continues on the new Business System. Work continues to ensure the system delivered is fit-for-purpose.

</td></tr>
</table>

Performance Measure	Performance Achievement
Respond appropriately to stakeholders' inquiries and provide relevant information.	
• Timely responses to all requests for information from Treasury and meeting deadlines measured by: – no requests being received for missing or incomplete information; and – timeframes being met. • Regular updating of website information on Schemes and Investment, sending the annual Chairman's letter to members by the end of September each year and sending member and employer updates. • Achieving consistently good (50% or higher) satisfaction scores in the major aspects of the biennial survey of members and employers and positive feedback from other stakeholders. • Timely processing of appeals. On receipt of an appeal, complete papers are provided to the Appeals Board at least 14 days before each scheduled hearing.	Objective achieved: • Data required by the Actuary for reporting to Treasury was sent within the required timeframes. • All information provided was complete. • The Authority's website has been regularly updated during the year. An annual letter was sent by the Chairman to all GSF members, and two employer updates, and two member updates were sent out. • The Authority carries out a biennial survey on a random sample of members (600) and employers (80). In the 2015 survey, satisfaction with decisions made by, and information provided by, the Authority to members and employers remained high and reasonably stable (82% and 78% respectively). Similarly, satisfaction with services and information provided by the scheme administrator to members remained high and reasonably stable (85% and 80% respectively). • Employer satisfaction with decisions made by the Authority and confidence in investment arrangements whilst lower than levels in 2013 were consistent with 2012 levels. The numbers, who were dissatisfied, or not at all confident, remained low. • Employer satisfaction with communication provided by the Authority and services provided by the scheme administrator remained consistently high and stable. • In the year to 30 June 2015, one appeal was heard by the Appeals Board. The papers were provided to the Appeals Board at least 14 days before the scheduled hearing date. There are no outstanding issues.

GOVERNMENT
SUPERANNUATION
FUND

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 2015. The report is made in accordance with section 93B of the Government Superannuation Fund Act 1956 (**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 Actuary, at the amount necessary to fund the balance of their employees' entitlements. The Government 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, and other matters required by the GSF Act. Commentary on the investment performance of the Fund starts on page 7 of the Authority's Annual Report.

Information on the Authority can be found commencing on page 3.

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 are set out on pages 30-31.

Keith B Taylor
Chairman
Government Superannuation Fund Authority Board

2 September 2015

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 2015:

- On the basis of evidence available, all contributions required to be made to the Fund, in accordance with the GSF Act, have been made or accrued.
- All benefits required to be paid from the Fund under the GSF Act have been paid.
- 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 $8,592 million (2014: $9,149 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.

Keith B Taylor
Chairman
Government Superannuation Fund Authority Board

2 September 2015

Membership Commentary

Movement in contributors during the past five years:

Year ended 30 June	Total	Change Contributors	% Change
2011	13,433	(1,154)	(7.91)
2012	12,453	(980)	(7.30)
2013	11,464	(989)	(7.94)
2014	10,580	(884)	(7.71)
2015	**9,767**	**(813)**	**(7.68)**

Number of contributors, by scheme:

GSF Scheme	2015	% of Total	2014
General Scheme	**9,298**	95.20	10,061
Armed Forces	**133**	1.36	137
Police	**280**	2.87	313
Prisons Service	**46**	0.47	54
Judges and Solicitor-General	**5**	0.05	8
Parliamentary	**5**	0.05	7
Total contributors at end of year	**9,767**	**100.00**	10,580

Movement in the number of contributors during the year:

	2015	2014
Contributors at beginning of year	**10,580**	11,464
Cessation of employment before retirement	**(54)**	(61)
Death before retirement	**(16)**	(10)
Retirements	**(738)**	(804)
Transfer to other schemes	**(0)**	(8)
Withdrawals	**(5)**	(1)
Total contributors at end of year	**9,767**	10,580

Movement in the number of annuitants during the past five years:

Year ended 30 June	Total Annuitants	Change	% Change
2011	46,839	(16)	(0.03)
2012	46,638	(201)	(0.43)
2013	46,568	(70)	(0.15)
2014	46,359	(209)	(0.44)
2015	**45,967**	**(392)**	**(0.85)**

Movement in number of annuitants during the year:

	2015	2014
Annuitants at beginning of year	**46,359**	46,568
New retiring allowances	**738**	804
New allowances to spouses	**735**	649
Allowances deferred	**295**	278
Discontinued allowances	**(2,160)**	(1,930)
Total annuitants at end of year	**45,967**	46,359

There were 4,827 deferred pensions at 30 June 2015 (2014: 5,122).

Movement in total number of members during the past five years:

Year ended 30 June	Total Contributors	Total Annuitants	Total Deferred Pensions	Total Members	Decrease During Year
2011	13,433	46,839	5,875	66,147	(1,244)
2012	12,453	46,638	5,677	64,768	(1,379)
2013	11,464	46,568	5,390	63,422	(1,346)
2014	10,580	46,359	5,122	62,061	(1,361)
2015	**9,767**	**45,967**	**4,827**	**60,561**	**(1,500)**

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

	2015	%	2014	%
Contributors	**9,767**	18	10,580	19
Annuitants	**45,967**	82	46,359	81
	55,734	**100**	57,939	100

Granting a charge over contributions

In the year to 30 June 2015, 7 charges (2014: 12) were registered by the Fund in favour of charge holders as security over individual contributor's contributions.

Financial Statements

GOVERNMENT SUPERANNUATION FUND

Statement of Responsibility

The Financial Statements of the Fund for the year ended 30 June 2015 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 judgements 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 87, have been complied with.

In our opinion, the attached Financial Statements present a true and fair view of the net assets, as at 30 June 2015, and the changes in net assets and the cash flows of the Fund, for the year ended 30 June 2015.

Keith B Taylor
Chairman
Government Superannuation Fund Authority Board

Simon R Tyler
Chief Executive

2 September 2015

GOVERNMENT SUPERANNUATION FUND

Statement of Changes in Net Assets

For the year ended 30 June 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Change in assets from:				
Investing activities				
Interest, dividends and other income	1	**120,301**	90,000	111,300
Increase in fair value of investment assets through profit or loss	2	**380,188**	218,000	379,191
		500,489	308,000	490,491
Operating activities				
Operating expenses	3			
Funding for the Authority	14	**(31,249)**	(35,024)	(31,578)
Surplus before tax and membership activities		**469,240**	272,976	458,913
Income tax benefit/(expense)	4	**41,311**	(49,653)	(95,651)
Surplus after tax and before membership activities		**510,551**	223,323	363,262
Membership activities				
Contributions				
Government	5	**717,673**	748,000	730,076
Members		**37,307**	35,000	41,118
Other employers		**21,532**	23,000	21,944
Total contributions		**776,512**	806,000	793,138
Benefits paid	6	**(876,500)**	(915,000)	(861,096)
Net membership activities		**(99,988)**	(109,000)	(67,958)
Net increase in net assets		**410,563**	114,323	295,304
Opening net assets available to pay benefits		**3,676,899**	3,614,216	3,381,595
Net assets available to pay benefits		**4,087,462**	3,728,539	3,676,899

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 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Current assets				
Cash and cash equivalents		**305,836**	55,521	263,647
Derivative assets		**11,591**	3,148	30,354
Income tax receivable		**19,608**	-	-
Trade and other receivables	7	40,620	83,423	43,458
Total current assets		**377,655**	142,092	337,459
Non current assets				
Investments				
Commodities		**83,565**	-	-
Derivative assets		**2,988**	1,050	1,534
Equities - NZ		**371,834**	365,738	345,461
Equities - International		**2,189,325**	2,066,076	1,882,571
Global fixed interest		**589,441**	568,660	639,679
Insurance-linked assets		**363,993**	313,002	271,865
Multi-asset and Global tactical asset allocation		**387,076**	366,123	309,298
Property – NZ		**6,537**	15,298	15,261
Other investments		**1,034**	2,406	18,388
Total investments		**3,995,793**	3,698,353	3,484,057
Deferred tax assets	4	**45,067**	-	-
Work in progress – Business System	8	**19,059**	6,720	8,563
Total non current assets		**4,059,919**	3,705,073	3,492,620
Total assets		**4,437,574**	3,847,165	3,830,079

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

Statement of Net Assets (continued)

As at 30 June 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Less liabilities				
Current liabilities				
Trade and other payables	9	**69,259**	90,083	111,518
Income tax payable		**-**	3,965	32,712
Derivative liabilities	13h	**254,312**	18,433	5,933
Total current liabilities		**323,571**	112,481	150,163
Non current liabilities				
Derivative liabilities	13h	**26,541**	6,145	3,017
Total non current liabilities		**26,541**	6,145	3,017
Total liabilities		**350,112**	118,626	153,180
Net assets available to pay benefits		**4,087,462**	3,728,539	3,676,899
Promised retirement benefits				
Gross liability for promised retirement benefits	12	**12,679,000**	13,651,000	12,826,000
Deficit		**8,591,538**	9,922,461	9,149,101
Net assets available to pay benefits		**4,087,462**	3,728,539	3,676,899

The Financial Statements were approved by the Authority Board on 2 September 2015.

Keith Taylor
Chairman
Government Superannuation Fund Authority Board

Cecillia Tarrant
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

2 September 2015

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

GOVERNMENT SUPERANNUATION FUND

Statement of Cash Flows

For the year ended 30 June 2015

	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Cash flows from operating activities			
Cash was provided from:			
Government contributions - members	**695,045**	716,070	699,368
Government contributions - expenses	**27,932**	30,821	33,095
Members' contributions	**37,167**	35,084	40,918
Other employers' contributions - members	**17,772**	18,829	18,436
Other employers' contributions - expenses	**3,730**	4,203	4,530
Interest and dividends	**114,291**	90,692	109,183
Cash was disbursed to:			
Benefit payments	**(876,644)**	(914,980)	(863,107)
Income tax	**(52,800)**	(49,271)	(51,737)
Operating expenses	**(31,150)**	(36,124)	(32,568)
Net cash flows from operating activities	**(64,657)**	(104,676)	(41,882)
Cash flows from investing activities			
Cash was provided from:			
Maturities and sales of investment assets	**4,588,882**	2,230,554	4,843,715
Cash was disbursed to:			
Purchase of investment assets	**(4,472,436)**	(2,131,652)	(4,732,483)
Business System	**(9,600)**	-	(540)
Net cash flows from investing activities	**106,846**	98,902	110,692
Net increase in cash held	**42,189**	(5,774)	68,810
Opening cash and cash equivalents	**263,647**	61,295	194,837
Closing cash and cash equivalents	**305,836**	55,521	263,647

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

Statement of Changes in Deficit

For the year ended 30 June 2015

	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Opening deficit at the beginning of the year	**(9,149,101)**	(10,144,784)	(10,476,405)
Change in liabilities amount	**147,000**	108,000	1,032,000
Change in Net Assets	**410,563**	114,323	295,304
Closing deficit at the end of the year	**(8,591,538)**	(9,922,461)	(9,149,101)

Note – Deficit

- The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) – refer note 12 - is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered. The present value was calculated by the Authority's Actuary, as at 30 June 2015, under NZ IAS26, using a net discount rate.
- The Deficit is the value of the Gross Liability less the value of the Net Assets of the Fund.
- There is no requirement on the Crown to fully fund the Deficit in relation to the GSF Schemes. The Crown pays its share of the Deficit on a cash flow (pay as you go) basis.
- Reliance is placed by the Authority on the provisions of section 95 of the Act which requires the Minister to appropriate funds from public money to ensure that sufficient funds are available, or will be available, to pay entitlements as they fall due.

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

Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows

For the year ended 30 June 2015

	2015 $000	2014 $000
Net increase in net assets	**410,563**	295,304
Non – cash items		
Deferred tax receivable	**(45,067)**	-
	(45,067)	-
Movements in working capital items		
Benefits payable	**-**	(2,229)
Government contributions received in advance	**1,877**	(356)
Income tax payable	**(32,712)**	32,712
Income tax receivable	**(19,608)**	9,021
Investment payables	**(44,900)**	38,542
Investment receivables	**2,052**	23,658
Receivables and prepayments	**785**	3,169
Trade and other payables	**764**	(1,047)
	(91,742)	103,470
Changes in items classified as investing activities		
Accrued interest portion of bonds	**(175)**	(597)
Accrued payments for Business System	**(896)**	(175)
Change in fair value of investment assets	**(380,188)**	(377,684)
Investment settlement receivables	**(2,052)**	(23,658)
Investment settlement payables	**44,900**	(38,542)
	(338,411)	(440,656)
Net cash out flows from operating activities	**(64,657)**	(41,882)

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

Judges and Solicitor-General Superannuation

Statement of Changes in Net Assets

For the year ended 30 June 2015

	2015 $000	2014 $000
Income from operations*		
Government contributions	**16,282**	15,126
Members' contributions	**-**	-
	16,282	15,126
Expenditure*		
Benefits paid:		
Retirements	**12,469**	12,590
Allowances capitalised	**1,705**	655
Spouses and children	**2,108**	1,881
	16,282	15,126
Net changes in net assets	**-**	-

* 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.

Parliamentary Superannuation

Statement of Changes in Net Assets

For the year ended 30 June 2015

	2015 $000	2014 $000
Income from operations*		
Government contributions	**4,933**	4,163
Members' contributions	**66**	86
	4,999	4,249
Expenditure*		
Benefits paid:		
Retirements	**3,738**	3,575
Allowances capitalised	**618**	-
Spouses and children	**643**	674
	4,999	4,249
Net changes in net assets	**-**	-

* 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.

Statement of Accounting Policies

The following significant 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 Government Superannuation Fund Act 1956 (**GSF Act**) and incorporate the Judges and Solicitor-General 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 (**GSF 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 incorporated the requirements of *NZ IAS-26: Accounting and Reporting by Retirement Benefit Plans* with the provisions of relevant legislative requirements. The Fund is a profit-oriented entity domiciled in New Zealand (NZ).

(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. The Financial Statements comply with International Financial Reporting Standards (**IFRS**).

(iii) Critical accounting estimates and judgements

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. Judgement has been applied in selecting the accounting policy to designate assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. Further detail on the material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets are discussed in Note 13 (Financial Instruments). However as with all investments their value is subject to variation due to market fluctuations. Judgement has also been applied in assessing the capitalisation costs and valuation (potential for impairment) of the Business System (see Note 8).

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

(iv) Measurement base

The measurement base adopted is that of historical cost modified by the revaluation of investment assets, which are measured at fair value.

(v) 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**), rounded to thousands (**$000**) except as indicated. These Financial Statements are presented in NZD as that is the currency of the primary economic environment in which the Fund operates. The Fund's presentational and functional currency is NZD.

(vi) Accounting policies

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

Investment income

Interest income is recognised using the effective interest rate of the instrument. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Realised and unrealised gains or losses on financial instruments are recognised in the Statement of Changes in Net Assets. Interest income on assets, designated at fair value through profit or loss, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex-dividend date.

Benefits

Benefits are recognised in the Statement of Changes in Net Assets when they become payable.

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 balance date. Gains and losses arising on translation are included in the Statement of Changes in Net Assets for the year.

Expenses

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

Tax

For taxation purposes, the Fund is classified as a portfolio investment entity (**PIE**). The income tax expense represents the sum of the tax liability for the year and includes deferred tax (if any). The taxation 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 never taxable or deductible, and it further excludes items that are taxable or deductible in other years.

Gains and losses on equities are non-taxable to the Fund. Taxable profit also requires that the Fair Dividend Rate (**FDR**) calculation method be applied to investments in overseas equities, which deems taxable income to arise regardless of the increase or decline in value of the investments. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance 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.

Financial instruments

Financial assets and financial liabilities are recognised in 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. The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expires.

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.

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 exit price on the exchange on which the investment is quoted without any deduction for future selling costs. If a quoted market price is not available on a recognised stock exchange, the fair value of the instrument is estimated using accepted valuation techniques. Investments in units of pooled investment funds are valued at the closing price, or the value advised by the relevant investment manager.

Government Superannuation Fund Business System

All directly attributable costs for the Government Superannuation Fund Business System (**Business System**) have been capitalised and classified as work in progress. These costs will be amortised on completion of the project.

Securities lending

Securities lending transactions are collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the Statement of Net Assets if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third-party agent. Recourse of those securities is only available in the event of default by the borrower and, as such, the non-cash collateral is not recognised in the Statement of Net Assets. Collateral advanced by the borrower in the form of cash is recognised in the Statement of Net Assets as an asset, along with a corresponding liability to repay the cash collateral to the borrower, once the securities have been returned.

Impairment

All assets, including any assets under construction, that are stated at amortised cost are reviewed at balance date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is determined and any impairment loss is the difference between the asset's carrying amount and the recoverable amount.

The Business System, referred to in note 8 to the financial statements, has been reviewed for impairment against *NZ IAS 36:Impairment of Assets* and it has been determined that no provision for impairment will be made at this stage.

Trade and other receivables

Trade and other receivables are carried at amortised cost and may include sales of securities and investments that are unsettled at balance 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 balance date from the time of last payment.

Trade and other payables

Trade and other payables are not interest-bearing and are carried 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 balance date, are included in payables.

Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose values are derived from changes in one or more underlying financial instruments or indices. The Fund's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates. The Fund may use foreign exchange forward contracts, commodity swaps and interest rate swap contracts to hedge these exposures. The Fund does not use derivative financial instruments directly for speculative purposes.

Derivative instruments are initially recognised at fair value through profit or loss on the date on which a derivative contract is entered into. They are subsequently re-measured at each balance date using either quoted sales prices or appropriate valuation techniques. Any gains or losses are taken to the Statement of Changes in Net Assets in the period in which they occur. Transaction costs are expensed on initial recognition.

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

The Fund does not adopt hedge accounting.

Goods and Services Tax

The Fund is not registered for Goods and Services Tax (**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*

  These comprise cash balances held with banks in New Zealand and overseas. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments. Only items that have a maturity of three months or less are classified as cash and cash equivalents.

- *Investing activities*

  These comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

- *Operating activities*

  These include any activities that are the result of normal business activities.

(vii) Forecast figures

The forecast figures are those presented in the Fund's 2014 Statement of Intent, being for the period 1 July 2014 to 30 June 2018. The forecast figures were prepared in accordance with the accounting policies adopted by the Fund for the preparation of the Financial Statements.

(viii) Standards issued but not yet effective

Various standards, interpretations and amendments have been issued by the External Reporting Board but have not been adopted by the Fund because they are not yet effective. The Fund expects to adopt the applicable standards and interpretations in the period in which they become mandatory.

The standard which has not yet been adopted because it is not yet effective is: *NZ IFRS 9 'Financial Instruments'*. This standard is effective for annual reporting periods beginning at or after 1 January 2017.

(ix) Consistency in presentation

The same presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Fund's Financial Statements for the year ended 30 June 2014.

(x) Changes in accounting policies

There have been no material changes to accounting policies during the year.

Notes to the Financial Statements

For the year ended 30 June 2015

1. Interest, dividends and other income

	2015 $000	2014 $000
Global fixed interest	**35,041**	30,535
Short term and call deposits	**871**	349
Equities - NZ	**15,176**	13,191
Equities - International	**46,747**	42,115
Property - NZ	**7,452**	-
Multi-asset and Global tactical asset allocation	**901**	11,583
Insurance linked assets	**4,322**	-
Other income	**9,791**	13,527
Total interest, dividends and other income	**120,301**	111,300

2. Changes in fair values of investment assets through profit or loss*

	2015 $000	2014 $000
Global fixed interest	**2,835**	15,680
Short term investments	**(173)**	3,107
Equities - NZ	**23,167**	50,924
Equities - International	**272,118**	296,027
Property - NZ	**(4,080)**	1,459
Commodities	**3,559**	(222)
Multi-asset and Global tactical asset allocation	**80,093**	(19,759)
Insurance-linked assets (net)	**2,669**	31,975
Total changes in fair values of investment assets through profit or loss	**380,188**	379,191

* Includes changes resulting from hedging (where applicable)

3. Operating 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 Actuary, the Government contributed 88% (2014: 86%) of the Authority's administrative expenses reimbursed by the Fund. Other employers contributed the balance of 12% (2014: 14%).

4. Income tax

	2015 $000	2014 $000
Reconciliation to statement of changes in net assets		
Surplus before tax and membership activities	**469,240**	458,913
Add imputation credits	**4,595**	3,640
Net taxable income	**473,835**	462,553
Tax expense at 28%	**132,674**	129,514
Tax effect:		
Non deductible (gain)	**(207,873)**	(56,477)
Foreign Investment Fund income	**35,671**	30,747
Prior period adjustment	**(44)**	(3,923)
Imputation credits	**(4,595)**	(3,640)
Withholding tax credits	**-**	(570)
Forfeited withholding tax credits	**2,856**	-
Income tax (benefit)/expense	**(41,311)**	95,651
Income tax (benefit)/expense comprises:		
Current tax	**3,800**	99,574
Deferred tax	**(45,067)**	-
Prior period adjustment	**(44)**	(3,923)
Income tax (benefit)/expense	**(41,311)**	95,651
Movement in deferred taxation		
Opening balance	**-**	-
Current year movement	**45,067**	-
Deferred tax asset*	**45,067**	-

*The deferred tax asset relates to unused tax losses and tax credits

5. Government and Employer contributions

	2015 $000	2014 $000
Government service superannuation contributions	**668,958**	683,630
Judges and Solicitor-General superannuation contributions	**16,282**	15,126
Parliamentary superannuation contributions	**4,933**	4,163
Government Superannuation Fund Authority expenses	**27,500**	27,157
Total Government contributions	**717,673**	730,076

5. Government contributions *(continued)*

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.

GSF Scheme	Member Contribution %	Employer Contribution for year ended 30 June 2015 %
General Scheme:		
- Non-funding employers*	6.5	11.8
- Funding except Islands**	6.5	between 11.6 and 14.7
- Islands	6.5	12.1
Armed Forces	7.6	19.7
Police	7.5	15.6
Prisons Service	8.5	Nil

* Not receipted by the Fund

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

The employer contribution rates were reviewed as part of the Statutory Actuarial Valuation of the Fund as at 30 June 2014. As a result some changes to employer contribution rates were implemented with effect from 1 July 2015 (see Note 11).

6. Benefits and refunds paid

	2015 $000	2014 $000
Benefits:		
Pension entitlements	**730,603**	719,895
Allowances capitalised	**25,299**	28,030
Spouses and children	**111,911**	109,998
Refunds:		
Transfers to other schemes	**2,187**	1,154
Cessation of membership	**5,239**	1,296
Death	**1,261**	723
Total benefits and refunds paid	**876,500**	861,096

7. Trade and other receivables

	2015 $000	2014 $000
Government contributions - benefits	**-**	3,195
Government contributions - expenses	**-**	232
Government Superannuation Fund Authority	**-**	13
Members' contributions	**1,026**	976
Other employers' contributions - expenses	**19**	-
Other employers' contributions - benefits	**1,587**	1,578
Interest and dividends	**6,934**	4,472
Investment settlements receivable	**29,547**	31,599
Prepaid benefits	**136**	125
Past service contributions	**1,131**	1,077
Pension entitlements	**240**	191
Total trade and other receivables	**40,620**	43,458

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

8. Business System

The Business System is used for the administration of the GSF Schemes. It supports the core business functions of the GSF Schemes including contributions management, benefit calculation and payment, scheme administration, financial accounting and scheme reporting. The Authority is currently developing a new Business System. As at 30 June 2015 $19.059 million* (2014: $8.563 million) of capital costs for the new system were allocated as Work in Progress on the Statement of Net Assets.

Work on the Business System is continuing. This project has taken longer and cost more than originally planned however the costs to date have been reviewed against NZ IAS 36: Impairment of Assets and it has been determined no provision for impairment will be made at this stage. It is expected the Authority will commence amortisation during the 2016 calendar year.

* $89,182 of this was paid to Deloitte for non audit related services (2014: $56,300).

9. Trade and other payables

	2015 $000	2014 $000
Members' contributions in advance	**341**	62
Government Superannuation Fund Authority	**4,076**	3,591
Government contributions in advance - benefits	**1,677**	-
Government contributions in advance – expenses	**200**	-
Investment settlements payable	**62,965**	107,865
Total trade and other payables	**69,259**	111,518

10. Actuarial valuations of the Fund

Statutory actuarial valuation

Section 94 of the GSF Act requires that the Authority must obtain a report from an actuary that examines the financial position of the Fund as at dates determined by the Minister of Finance, being dates that are no more than 3 years apart. On 22 August 1999, the Minister directed annual valuations be carried out.

The latest published statutory valuation was undertaken by the Authority's actuary, Matthew Burgess, (FNZSA, FIAA), Director, Russell Actuarial, Russell Employee Benefits Pty Limited as at 30 June 2014. The report was tabled in Parliament on 20 February 2015. More information on the results of the valuation is provided in Note 11.

New Zealand International Accounting Standards NZ IAS 26 actuarial valuation

An actuarial valuation of the Fund was undertaken by the Authority's Actuary, Matthew Burgess, (FNZSA, FIAA), Director, Russell Actuarial, Russell Employee Benefits Pty Limited as at 30 June 2015 to determine the value of the promised retirement benefits, in accordance with NZ IAS 26, for the Financial Statements of the Fund – refer Note 12.

11. Statutory actuarial valuation as at 30 June 2014

Details of the statutory actuarial valuation, as at 30 June 2014, are included for information only. The statutory valuation is used to determine the employer subsidy rates and to apportion entitlements between the Fund and Government.

Significant assumptions, used in the statutory valuation were:

Discount rate	6.0% per annum (2013:5.5%)
Consumer Price Index	2.5% per annum (2013:2.5%) (long term)
Salary growth	3.0% per annum (2013:3.0%)

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 2014 statutory valuation are:

	2014 $ million	2013 $ million
Past service liabilities		
Armed Forces contributors	6	8
General Scheme contributors (excluding Islands)	2,345	2,789
General Scheme contributors (Islands only)	58	63
Police contributors	204	237
Prisons Service contributors	17	21
Judges and Solicitor-General	17	21
Parliamentary	8	10
Pensioners	9,335	9,983
Deferred pensioners	823	724
Total past service liabilities*	12,813	13,858
Less value of Fund assets	3,677	3,382
Unfunded past service liability*	9,136	10,476

* Total may not add up due to rounding.

11. Statutory actuarial valuation as at 30 June 2014 *(continued)*

Vested benefits are calculated as the amount payable in the event that all contributors ceased membership as at the valuation date. 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.

Scheme/Group	2014 As a percentage of past service liability	2014 $ million	2013 $ million
Vested Benefits			
Contributors:			
Armed Forces	100%	6	8
General Scheme-excluding Islands	112%	2,620	3,115
General Scheme-Islands	106%	61	69
Police	97%	198	190
Prisons Service	101%	17	22
Judges and Solicitor-General	112%	19	24
Parliamentary	100%	8	8
Total Contributors	110%	2,930	3,437
Pensioners:			
Pensioners	100%	9,335	9,983
Deferred pensioners	100%	823	724
Total Pensioners	100%	10,158	10,708
Grand total		13,088	14,144
Less net assets		3,677	3,382
Shortfall		9,411	10,382

* The above figures are rounded and so may not appear to add exactly.

The Fund has been closed to new entrants since 1992. Members with ten 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 these pensions for all members, as at the valuation date, is the vested benefits.

Members will retire at dates later than 30 June 2014. The pension they receive at their actual retirement date can be split into that part accrued at the valuation date and that part which will accrue after the valuation date. The net asset value of the Fund was used as the actuarial value of the assets.

The valuation revealed the Fund was in deficit at the date of the valuation. The benefits payable from the Fund are underwritten by the Government. The Actuary recommended that from 1 July 2015, the Government pays 77.7% of each benefit paid (2013: 80.3%).

Employer contribution rates, including employer superannuation contribution tax at 33% (if applicable), are as follows:

- for funding employers (employers of those contributors who are paid from money that is not public money) the employer contribution rate has been calculated on an employer by employer basis, based solely on the members employed by each employer;

11. Statutory actuarial valuation as at 30 June 2014 *(continued)*

- for employers that are the Public Services of the Cook Islands, Niue or Tokelau, the employer contribution rate is certified as 13.0% of contributor salaries; and
- for funding employers other than the Public Services of the Cook Islands, Niue or Tokelau, contributions are calculated on an employer by employer basis only on the contributors employed by that employer. Contribution rates include employer superannuation contribution tax (**ESCT**) and an allowance for expenses. A sample of average contribution rates at selected ages is set out in the follow table by age and gender:

Age	Males	Females
45	12.4%	13.0%
50	12.9%	13.5%
55	13.2%	13.9%
57	13.1%	13.9%
59	12.9%	13.7%
61	12.6%	13.5%
63	11.9%	12.8%
65	10.6%	11.4%
67	11.0%	12.1%

For non-funding employers (employers of those contributors who are paid from money that is public money) the employer contribution rate has been determined under a notional funding approach. The employer contribution rates recommended in the statutory actuarial valuation report as at 30 June 2014 are as follows:

- for the Armed Forces Scheme: a rate of 16.2% of contributor salaries;
- for the General Scheme: a rate of 10.7% of contributor salaries;
- for the Police Scheme: a rate of 13.8% of contributor salaries;
- for the Prisons Service Scheme: a rate of 0% of contributor salaries;
- for the Judges and Solicitor-General Scheme: an amount equal to the benefits payable; and
- for the Parliamentary Scheme: an amount equal to the benefits payable.

12. Gross liability for promised retirement benefits as at 30 June 2015

The Actuary has valued the promised retirement benefits in accordance with NZ IAS 26, as at 30 June 2015, for the purposes of the Fund's Financial Statements.

Significant assumptions, used in the valuation, were:

Discount rate	5.5% per annum
Consumer Price Index	2.5% per annum (long-term)
Salary growth	3.0% per annum

12. Gross liability for promised retirement benefits as at 30 June 2015 *(continued)*

Movement in promised retirement/past service benefit liability	**2015 $ million**	**2014 $ million**
Opening gross promised retirement/past service benefit liability	**12,826**	13,858
Movements in liability		
Expected changes	**(107)**	(99)
Experience (gains)/losses	**(101)**	117
Assumption changes:		
Change in discount rate and Consumer Price Index	**61**	(1,050)
Change in demographic assumption (including mortality improvement)	**-**	-
Closing gross promised retirement/past service benefit liability	**12,679**	12,826

Vested benefits – 30 June 2015

Vested benefits are calculated as the amount payable in the event that all contributors ceased membership as at the valuation date. The vested benefit values, as at 30 June 2015, are shown in the following table, where contributors include the inactive members.

Vested benefits	**2015 $ million**	**2014 $ million**
Contributors	**2,676**	2,963
Pensioners:		
Current pensioners	**9,401**	9,335
Deferred pensioners	**800**	823
Total pensioners	**10,201**	10,158
Total vested benefits	**12,877**	13,121
Less net assets	**(4,087)**	(3,677)
Shortfall*	**8,790**	9,444

* Total may not add up due to rounding.

13. 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 the global custodian on behalf of the Authority. They provide services including safekeeping of assets, settlement of trades, collection of investment income, 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

13. Financial instruments *(continued)*

in respect of each class of financial asset and financial liability, are disclosed in the Statement of Accounting Policies.

c) Capital risk management

The investment strategy, Reference Portfolio and Target Portfolio are reviewed regularly by the Authority, in conjunction with its advisors (see page 8). The Authority reviews the cash requirements and funding of the GSF Schemes, each month, in the context of maintaining the Target Portfolio, and redeems or invests funds as appropriate.

d) Categories of financial instruments

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

	2015 $000	2014 $000
Financial assets at fair value	**4,007,384**	3,514,411
Financial liabilities at fair value	**280,853**	8,950
Financial assets at amortised cost	**346,456**	307,105
Financial liabilities at amortised cost	**69,259**	111,518

e) Fair value measurements recognised in the Statement of Net Assets

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets to identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

13. Financial instruments *(continued)*

2015	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value through profit or loss				
Derivative financial assets	**-**	**14,579**	**-**	**14,579**
Investments in cash				
New Zealand & Australia	**-**	**-**	**-**	**-**
North America	**1,034**	**-**	**-**	**1,034**
Investments in fixed interest				
New Zealand & Australia	**29,735**	**-**	**-**	**29,735**
North America	**317,121**	**33,300**	**-**	**350,421**
Asia	**39,125**	**-**	**-**	**39,125**
Europe	**153,070**	**-**	**-**	**153,070**
Rest of the world	**17,090**	**-**	**-**	**17,090**
Investments in equities				
New Zealand & Australia	**367,038**	**-**	**43,942**	**410,980**
North America	**852,994**	**508,017**	**34,352**	**1,395,363**
Asia	**274,237**	**-**	**-**	**274,237**
Europe	**460,213**	**-**	**-**	**460,213**
Rest of the world	**20,366**	**-**	**-**	**20,366**
Investments in property				
New Zealand	**-**	**-**	**6,537**	**6,537**
Investments in commodities				
New Zealand	**-**	**83,565**	**-**	**83,565**
Multi-asset and Global tactical asset allocation				
North America	**-**	**387,076**	**-**	**387,076**
Insurance-linked assets				
New Zealand & Australia	**-**	**57,088**	**-**	**57,088**
North America	**-**	**-**	**95,783**	**95,783**
Rest of the world	**-**	**-**	**211,122**	**211,122**
	2,532,023	**1,083,625**	**391,736**	**4,007,384**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	**-**	**280,853**	**-**	**280,853**
	-	**280,853**	**-**	**280,853**

13. Financial instruments *(continued)*

2014	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value through profit or loss				
Derivative financial assets	-	31,888	-	31,888
Investments in cash				
New Zealand & Australia	14,913	-	-	14,913
North America	3,475	-	-	3,475
Investments in fixed interest				
New Zealand & Australia	34,898	-	-	34,898
North America	282,015	29,067	-	311,082
Asia	29,017	-	-	29,017
Europe	263,289	-	-	263,289
Rest of the world	1,393	-	-	1,393
Investments in equities				
New Zealand & Australia	337,648	-	40,221	377,869
North America	793,660	404,802	17,175	1,215,637
Asia	201,913	-	-	201,913
Europe	414,519	-	-	414,519
Rest of the world	18,094	-	-	18,094
Investments in property				
New Zealand	-	-	15,261	15,261
Multi-asset and Global tactical asset allocation				
North America	-	309,298	-	309,298
Insurance-linked assets				
New Zealand & Australia	-	35,435	-	35,435
North America	-	-	66,301	66,301
Rest of the world	-	-	170,129	170,129
	2,394,834	810,490	309,087	3,514,411
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	8,950	-	8,950
	-	8,950	-	8,950

Movement of assets

There were no transfers of assets between level 2 and 3 during the 2015 year.

13. Financial instruments *(continued)*

Transactions during the year, within level 3 investments are outlined in the table below.

2015 Level 3 Investments	Insurance Linked Assets	Property	Private Equity
Opening balance Level 3	**236,430**	**15,261**	**57,396**
Purchases during the year	**3,618**	**-**	**16,041**
Gains/(losses) for the year*	**84,905**	**(4,080)**	**13,838**
Less sales during the year	**(18,048)**	**(4,644)**	**(8,981)**
Closing balance at 30 June 2015	**306,905**	**6,537**	**78,294**

2014 Level 3 Investments	Insurance Linked Assets	Property	Private Equity
Opening balance Level 2	220,790	13,812	39,443
Transferred to Level 3 Investments	220,790	13,812	39,443
Purchases during the year	25,089	-	16,214
Gains/(losses) for the year*	3,482	1,460	1,739
Less sales during the year	(12,931)	(11)	-
Closing balance at 30 June 2014	236,430	15,261	57,396

* Income and dividends for these investments are shown within the Interest dividends and other income category on the Statement of Changes in Net Assets. The changes in fair value are shown within the increase in fair values of investment assets through profit or loss on the Statement of Changes in Net Assets.

Valuation techniques and inputs

For fair value measurements categorised within Level 2 and 3 of the fair value hierarchy, an entity is required to disclose a description of the valuation technique and the inputs used in the fair value measurement. These are disclosed below.

Financial Asset	Fair Value as at 30 June 2015		Fair Value as at 30 June 2014		Significant unobservable input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to Fair Value
	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000			
Derivative assets	**14,579**	**-**	31,888	-	Valuation is derived using the Discounted cash flow techniques based on market exchange rates and interest rates	Not applicable	Not applicable
Multi-asset and Global technical asset allocation	**387,076**	**-**	309,298	-	Discounted cash flow techniques using broker quotes, forward contracts and spot rates	Not applicable	Not applicable
International equities	**508,017**	**-**	404,802	-	Discounted cash flow techniques using account comparable markets and advice from specialised advisories	Not applicable	Not applicable

13. Financial instruments *(continued)*

Financial Asset	Fair Value as at 30 June 2015		Fair Value as at 30 June 2014		Significant unobservable input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to Fair Value
	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000			
Fixed interest	**33,300**	**-**	29,067	-	Discounted cash flow techniques using forward interest rates and trading spreads	Not applicable	Not applicable
Insurance linked assets	**57,088**	**-**	35,435	-	Discounted cash flow techniques and option pricing models with reference to the current Fair Value of similar instruments	Not applicable	Not applicable
	-	**95,783**	-	66,301	Discounted cash flow techniques	Mortality multiples and market rates for life settlement practices	The lower the mortality multiple the higher the Fair Value
	-	**211,122**	-	170,129	Internal Valuation Committee pricing through the utilisation of Broker dealer pricing sheets	Seasonality curves provided through independent third party modelling software	The higher the curve the greater the Fair Value (and greater the risk)
Property	**-**	**6,537**	-	15,261	Use of independent qualified valuer assessments taking into account market trends and yields	Local market conditions	The higher the latest sale returns the higher the Fair Value
Private equity	**-**	**78,294**	-	57,396	Discounted cashflow and earnings multiple techniques	Revenue, earnings and associated valuation multiples Local market conditions Indicative quotes	The higher the latest sale returns and quotes of similar products the higher the Fair Value
Commodities	**83,565**	**-**	-	-	Discounted cashflow techniques using broker quotes	Not applicable	Not applicable
	1,083,625	**391,736**	810,490	309,087			

13. Financial instruments *(continued)*

f) Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's risk management and investment policies, approved by the Authority, seek to minimise the potential adverse effects of these risks on the Fund's financial performance.

These policies may include the use of certain financial derivative instruments to manage risk to within the approved limits.

The Authority outsources the investment management 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 and monitored by the Authority. The Fund invests principally in a portfolio of equities and fixed interest securities (2015: 71%, 2014 75%). Exposure to market risks is diversified by direct investment in private equity, insurance linked assets, a multi-asset fund and global tactical asset allocation. The Fund may also invest in derivative instruments such as futures and options.

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 the market value of its assets. Compliance with policies and exposure limits is reviewed by the Authority on a continuous basis.

g) 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 direct debt 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. There is a limit in the amount that can be invested below BBB- with a minimum of CCC. Credit risk associated with receivables is considered minimal. The largest 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.

The Fund does not have any significant credit risk exposure to any single counterparty, or any group of counterparties having similar characteristics.

It is the opinion of the Authority that the carrying amounts of the financial assets represent the maximum credit risk exposure at balance date.

As at 30 June 2015, the Fund does not have any single underlying investment exceeding 5% of the net assets (2014: nil).

During the year the Fund continued securities lending as a means of earning additional income from its investments. As at 30 June 2015, the Fund had approximately $165 million (2014: $129 million)

13. Financial instruments *(continued)*

lent out to counterparties. These assets have remained in the name of the Fund and were lent out against specific collateral provided by the Custodian which amounts to 102% of the market value of securities lent and to which the Fund has direct access in the event of default.

h) Liquidity risk

The Authority's approach to managing liquidity for the Fund is to ensure that it will always have sufficient liquidity to meet the Fund's liabilities as they fall due. The Fund is therefore exposed to the liquidity risk of meeting its share of the benefit payments. The Fund's listed equities and fixed interest securities are considered to be realisable over a reasonable period of time, although with a market risk.

The Fund's liquidity risk is managed in accordance with the Authority's investment strategy. 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 seeking to match the maturity profiles of financial assets and liabilities. The Authority's overall strategy to manage liquidity risk remains unchanged from the previous year.

The following tables summarise the maturity profiles of the Fund's financial liabilities based on contractual maturities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2015				
Unsettled purchases	**62,965**	**–**	**–**	**62,965**
Derivative liabilities	**254,312**	**25,696**	**845**	**280,853**
Other financial liabilities	**6,294**	**–**	**–**	**6,294**
Total	**323,571**	**25,696**	**845**	**350,112**
2014				
Unsettled purchases	107,865	–	–	107,865
Derivative liabilities	5,933	602	2,415	8,950
Other financial liabilities	4,879	-	-	4,879
Total	118,677	602	2,415	121,694

i) 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 Fund manages market risk by outsourcing its investment management; the investment managers manage the market risk in accordance with investment mandates.

The Fund's investment strategy is to invest in a diversified portfolio of equities and fixed interest securities and it may also invest in derivative instruments such as futures and options. Exposure to market risks is diversified by direct investment in private equity, insurance-linked assets, a multi-asset fund and global tactical asset allocation.

13. Financial instruments *(continued)*

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 exposure to interest rate risk.

The following tables detail the Fund's exposure to interest rate risk on financial assets, based on contractual maturities, at the financial statement date. Interest rate risk is managed by the investment managers.

Financial assets: Interest rate instruments

	Weighted average interest rate %	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2015					
Cash and cash equivalents	**2.31**	**305,836**	**-**	**-**	**305,836**
Fixed interest securities	**3.46**	**23,244**	**200,843**	**365,354**	**589,441**
Receivables for securities	n/a	**29,547**	**-**	**-**	**29,547**
Total		**358,627**	**200,843**	**365,354**	**924,824**
2014					
Cash and cash equivalents	2.03	263,647	-	-	263,647
Fixed interest securities	3.25	38,752	241,973	358,954	639,679
Receivables for securities	n/a	31,599	-	-	31,599
Total		333,998	241,973	358,954	934,925

Interest rate sensitivity

A significant change to interest rates will have a significant effect on the value and income of many of the assets within the Fund. It is difficult to quantify the affect of a change in interest rates in many of the asset classes such as the equity portfolios. The assets directly affected by a change in interest rates would be the Global Fixed Interest assets, Insurance linked assets and the Fund's currency hedging portfolio.

The Global Fixed Interest portfolio has benchmark duration of 6.5 years and at the end of the year the portfolio was valued at NZD 589 million. A 1% rise in interest rates would devalue the portfolio in the order of NZD 38 million (before tax) and conversely a 1% fall would increase the value by a similar amount.

The Fund hedges the foreign currency risk of its foreign assets back to NZD and has a benchmark of having 20% of the Fund in Foreign Currency. The Fund uses 3 month forward contracts and longer term (maximum 5 year) swaps to hedge the foreign assets. These swaps are sensitive to the spread between 90 day interest rates in NZ and other foreign currencies. A 1% change in the spread will change the accrual of income in the order of NZD 29 million (before tax) over a year.

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 exchange rates.

13. Financial instruments *(continued)*

The Fund undertakes certain transactions and holds investment assets denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Foreign currency exposures are managed within approved policy limits and parameters set out in the SIPSP. The Fund enters into contracts designed to hedge some or all of its exposure to foreign currencies.

The Authority has a benchmark exposure to foreign currencies of 20% of the total Fund on an after tax basis. The Authority adjusts the Fund's foreign currency exposure in accordance with its limits set in its Foreign Currency Tilting Strategy. This Strategy moves the Fund's foreign exchange exposure according to defined tilting rules that reflect the prevailing valuation of the NZD. The Strategy is implemented by adjusting the before-tax hedge ratio on the International equities' portfolio so that the total Fund foreign currency exposure is at the required after tax level. The benchmark foreign currency hedge ratios for the Fund's asset classes are set out on the following table:

Foreign currency risk management

Asset Class	Before-tax Benchmark Hedge Ratio	After-tax Benchmark Hedge Ratio
Commodities	100%	100%
International equities	106%	76%
Global fixed interest	100%	100%
Multi asset class	0%	0%
Absolute return*	100%	100%
Catastrophe risk	139%	100%
Life settlements	100%	100%

* Absolute return comprises global tactical asset allocation. The global tactical asset allocation manager invests tactically in a range of liquid public market securities, including developed and emerging market equities, bonds, currencies and commodities.

The Fund's total exposure to foreign currencies at the reporting date (after hedging) before tax was $6 million before tax (2014: $724 million). On an after tax basis the total exposure to foreign currencies was equivalent to 20% of the Fund (2014: 40%). The Fund's foreign exchange exposure, before taking into account hedging was $2,886 million (2014: $2,720 million).

Foreign currency sensitivity

The Fund is mainly exposed to the Australian Dollar, United States Dollar (**USD**), British Pound, Japanese Yen and Euro.

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 by a specialist manager back to the NZD within the limits approved by the Authority.

The following table details the Fund's sensitivity to a 5 per cent decrease in the NZD on the unhedged exposure to foreign currencies.

13. Financial instruments *(continued)*

	Changes in NZD	Effect on surplus/(deficit) after-tax and before membership activities	
		2015 $000	2014 $000
Exchange rate risk	- 5%	**40,875**	73,538

When the NZD weakens against other currencies there is an increase in the surplus after tax (and before membership activities). For a strengthening of the NZD against other currencies there would be an equal and opposite impact on the surplus, and the amounts above would be negative.

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

Market price risk

Market price 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 exposes 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 revenue and net assets from possible long term changes in market price risk on equities that the Fund was exposed to at reporting date:

	Changes in variable	Effect on surplus/(deficit) after-tax and before membership activities	
		2015 $000	2014 $000
Market price risk	+ 5%	**120,478**	100,178

14. 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. During the year the Fund had business transactions with the Government, Crown Entities, and State-owned Enterprises, together with a number of other public sector entities.

The Authority manages the Fund's assets and administers the GSF Schemes. For the year ended 30 June 2015, the Fund paid the Authority $31,249,000 (2014: $31,578,000) for operating expenses, as detailed in the Statement of Changes in Net Assets. In turn, the Fund was reimbursed by the Government for 88% being $27,932,000 (budget 2015: $30,821,000) and other employers for 12% being $3,730,000 (budget 2015: $4,203,000). Refer also Notes 3 and 15 and achievements for the year detailed on pages 20-26. As at 30 June 2015 $4,076,000 was payable by the Fund to the Authority for expenses incurred but not yet paid (2014: $3,324,000). One member of the Board receives an annuity from the Fund.

15. Actual versus forecasts

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

Funding for the Authority for operating expenses was below that forecast. This was the result of lower manager fees and operating costs.

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 inflation, early retirements, redundancies, unexpected salary changes, or transfers to other superannuation schemes.

16. Contingent assets, liabilities and capital commitments

As at 30 June 2015 capital commitments were in place for the building of a new Business System and to several Investment Managers. These are summarised as follows:

	2015 $000	2014 $000
Non-cancellable contractual commitments		
Less than one year	**34,485**	49,718
Between one and two years	**34,455**	40,490
Total non-cancellable contractual commitments	**68,940**	90,208

There are no contingent assets or liabilities (2014: Nil).

17. Subsequent events

There have been no material events after balance date that require adjustments to, or disclosure in, the Financial Statements (2014: Nil).

Deloitte.

INDEPENDENT AUDITOR'S REPORT

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

FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of the Government Superannuation Fund (the Fund). The Auditor-General has appointed me, David J Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Fund on her behalf.

We have audited the financial statements of the Fund on pages 34 to 66, that comprise the statement of net assets as at 30 June 2015, the statement of changes in net assets and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

In our opinion the financial statements of the Fund on pages 34 to 66:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Fund's:
  - net assets as at 30 June 2015; and
  - statement of changes in net assets and cash flows for the year ended on that date.

Our audit was completed on 2 September 2015. This 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 Government Superannuation Fund Authority Board (the Board) and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Fund's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Authority;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Fund's net assets, statement of changes in net assets and cash flows.

The Board is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board's responsibilities arise from the Government Superannuation Fund Act 1956.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, the provision of advisory services in relation to the Business System Refresh project and services related to an assessment of the data transfer process from the Department of Internal Affairs, we have no relationship with or interests in the Fund.

David J Shadwell

Deloitte

On behalf of the Auditor-General
Wellington, New Zealand

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Responsibility

The Financial Statements of the Authority, for the year ended 30 June 2015, 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 judgements 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 Statement of Service Performance set out on pages 20-26 clearly reflects the objectives of the Authority. The attached Financial Statements for the financial year fairly presents the financial position, as at 30 June 2015, and the operations and cash flows of the Authority for the year ended 30 June 2015.

Keith Taylor
Chairman
Government Superannuation Fund Authority Board

Cecillia Tarrant
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

2 September 2015

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Revenue				
Interest received		**43**	8	10
Transfer from the Government Superannuation Fund	1	**31,249**	35,024	31,578
Total revenue		**31,292**	35,032	31,588
Expenses				
Scheme administration		**3,175**	4,290	3,081
Investment management and custody	2	**24,476**	26,700	25,005
Operating	3	**3,641**	4,042	3,502
Total expenses		**31,292**	35,032	31,588
Net profit for the year		**-**	-	-
Other comprehensive income		**-**	-	-
Total comprehensive income for the year		**-**	-	-

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

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Financial Position

As at 30 June 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Equity				
General fund		**-**	-	-
Total equity		**-**	-	-
Represented by:				
Current assets				
Cash and cash equivalents		**250**	160	406
Trade and other receivables	4	**4,212**	3,196	3,367
Total current assets		**4,462**	3,356	3,773
Total assets		**4,462**	3,356	3,773
Current liabilities				
Trade and other payables	5	**4,462**	3,356	3,773
Total current liabilities		**4,462**	3,356	3,773
Net assets		**-**	-	-

The Financial Statements were approved by the Government Superannuation Fund Authority Board on 2 September 2015.

Keith Taylor
Chairman
Government Superannuation Fund Authority Board

Cecillia Tarrant
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

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

Statement of Cash Flows

For the year ended 30 June 2015

	Note	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Cash flows from operating activities				
Cash was provided from:				
Government Superannuation Fund	1	**30,497**	36,124	32,511
Interest		**43**	8	10
		30,540	36,132	32,521
Cash was disbursed to:				
Total expenses		**(30,696)**	(36,252)	(32,275)
Net cash flows from operating activities		**(156)**	(120)	246
Net (decrease)/increase in cash held		**(156)**	(120)	246
Opening cash and cash equivalents		**406**	280	160
Closing cash and cash equivalents		**250**	160	406

Reconciliation of net operating result to net cash flows from operating activities

	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Net operating result	-	-	-
Movements in working capital items:			
Trade and other receivables	**(845)**	388	1,275
Trade and other payables	**689**	(508)	(1,029)
Net cash flows from operating activities	**(156)**	(120)	246

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

Statement of Changes in Equity

For the year ended 30 June 2015

	2015 $000 Actual	2015 $000 Forecast	2014 $000 Actual
Equity at beginning of the year	-	-	-
Total comprehensive income for the year	-	-	-
Equity at end of the year	-	-	-

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

Statement of Accounting Policies

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

(i) Reporting entity

The Government Superannuation Fund Authority (the **Authority**) was established in October 2001, as a Crown entity by section 15A of the Government Superannuation Act 1956 (**GSF Act**) (and subsequent amendments) and became an autonomous Crown entity under the Crown Entities Act 2004 in January 2005.

The Authority's primary function is to manage the Government Superannuation Fund (the **Fund**) and administer the GSF Schemes. The Authority does not operate to make a financial return and is domiciled and operates in New Zealand.

The Authority has designated itself as a public benefit entity (**PBE**) for financial reporting purposes.

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

(ii) Basis of preparation

The financial statements have been prepared on a going concern basis, and all accounting policies, other than reference to the PBE accounting standards, have been applied consistently to all periods presented in these financial statements.

Statement of compliance

The financial statements of the Authority have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (**NZ GAAP**).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards, and comply with those standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There are no material adjustments arising on transition to the new PBE accounting standards.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars (**NZD**) and all values are rounded to the nearest thousand (**$000**).

Standards issued but not yet effective

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Authority has applied these standards in preparing the 30 June 2015 financial statements.

(iii) Measurement base

The measurement base adopted is that of historical cost.

(iv) Accounting policies

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

Revenue

Revenue is recognised on an accrual basis. Interest income is accrued at balance date using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Expenses

All expenses recognised in the Statement of Comprehensive Revenue and Expense are accounted for on an accruals basis.

Foreign currencies

Transactions in overseas currencies are recorded in NZD at the rates of exchange prevailing on the dates of the transactions with any currency gain or loss included in the Statement of Comprehensive Revenue and Expense.

Tax

In terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

Financial instruments

Financial instruments include both financial assets and financial liabilities. 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.

Financial assets include various bank term deposits, receivables from related parties and other receivables. Financial liabilities, measured at amortised cost, include trade, and other payables.

Measurement

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

Goods and Services Tax

As the Authority manages superannuation schemes, its supplies are principally exempt for Goods and Services Tax (**GST**) purposes. GST is payable on certain overseas fees that would otherwise be subject to GST if received in New Zealand. GST on these items is included within operating expenditure.

Impairment

Financial assets are reviewed at each balance date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense 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. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Accounting for Joint Ventures

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 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 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.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach. The following are definitions of the terms used in the Statement of Cash Flows.

- *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 interest income, and payments of expenses.

- *Investing activities*

  These comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

- *Financing activities*

  Financing activities relate to changes in equity capital structure.

(v) 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 for the year commencing 1 July 2014. The forecast figures were prepared in accordance with NZ GAAP, and are consistent with the accounting policies adopted by the Board for the preparation of the Financial Statements.

(vi) Changes in accounting policies

There have been no material changes to accounting policies during the year.

Notes to the Financial Statements

For the year ended 30 June 2015

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.

2. Investment management and custody expenses

	2015 $000	2014 $000
Investment management expenses	**22,980**	23,608
Custody expenses	**1,496**	1,397
Total investment management and custody expenses	**24,476**	25,005

3. Operating expenses

	2015 $000	2014 $000
Audit of financial statements	**207**	207
Board fees and expenses	**213**	224
Other expenses *	**937**	910
Management fees - Annuitas	**2,284**	2,161
Total operating expenses	**3,641**	3,502

* This includes $12,000 paid to Deloitte for a review of the Births, deaths and marriages data transfer assignment.

4. Trade and other receivables

	2015 $000	2014 $000
Annuitas Management Limited	**126**	-
Government Superannuation Fund	**4,076**	3,324
Other receivables and prepayments	**10**	43
Total trade and other receivables	**4,212**	3,367

5. Trade and other payables

	2015 $000	2014 $000
Business System related costs	**1,163**	267
Government Superannuation Fund	**-**	13
Investment management fees	**2,769**	3,101
Professional services and operating expenses	**494**	364
Other creditors	**36**	28
Total trade and other payables	**4,462**	3,773

6. Financial Instruments

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, 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 amounts due from the Fund, which in turn is funded by the Government in terms of section 15E of the Act.

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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Given that transactions in overseas currencies are recorded in NZD at the rates of exchange prevailing on the date of payment the total exposure to currency risk is minimal.

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.

Liquidity risk

The Authority manages liquidity risk by maintaining cash and cash equivalents and through the continuous monitoring of forecast and actual cash flows. The Authority's overall strategy to liquidity risk remains unchanged from the previous year.

All the Authority's financial liabilities are expected to be paid within the next 12 months.

Fair values

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

7. Board fees

Board members were paid the following fees during the year:

	2015 $	2014 $
Chairman		
Keith Taylor	**46,400**	46,400
Deputy Chairman		
Cecilia Tarrant	**29,000**	29,000
Members		
Craig Ansley	**25,520**	23,393
Toni Kerr *(retired 31 May 2015)*	**25,520**	26,680
Steve Napier *(retired 30 June 2014)*	-	24,553
Michelle van Gaalen	**23,200**	23,200
Shelley Cave *(appointed 1 July 2014)*	**23,200**	-
	172,840	173,226

The Authority also met Board members' travel and other expenses, where applicable, to attend Board meetings, and for travel on matters directly related to the business of the Authority. Travel and other expenses totalled $22,096 in 2015 (2014: $22,801).

The Authority continued with Directors' and Officers' insurance cover for Board members and members of Management, and company reimbursement insurance in respect of any claims made by Board members, or members of Management, under indemnities provided by the Authority. The total cost of the insurance for the year was $15,218 (2014: $27,025).

8. Related party information

The Authority is an autonomous Crown entity.

The principal function of the Authority is to manage and administer the Government Superannuation Fund (GSF) and the associated Schemes. For the year ended 30 June 2015, the Authority received $31,249,000 (2014: $31,578,000) for operating expenses as detailed in the Statement of Comprehensive Revenue and Expense. As at 30 June 2015, $4,076,000 was due from GSF for expenses incurred (2014: $3,324,000).

The Authority also entered into various transactions with Government entities on an arm's length basis in the normal course of business. The Authority continued with the resource sharing agreement with the Guardians of New Zealand Superannuation (the **Guardians**) to work jointly, on Responsible Investing Policies. Craig Ansley is a member of the Guardians Board.

The Authority has appointed Board members, Keith Taylor and Cecilia Tarrant 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 $2,284,000 (2014: $2,160,705). The amount owed by Annuitas to the Authority at year end was $126,000 (2014: Nil).

The Board, through Management, monitors the performance of the external 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. One member of the Board receives an annuity from the Fund.

9. Actual versus forecast

Investment revenues are subject to the volatile nature of investment markets, this being the main reason for the variance between the forecast and actual changes in fair value of investment assets.

Funding for the Authority for operating expenses was below that forecast. This was the result of lower manager fees and operating costs (see Note 2).

10. Contingent assets and liabilities

There are no contingent assets or liabilities at 30 June 2015 (2014: Nil).

11. Commitments

The Authority has commitments for the administration of the GSF schemes, the provision of actuarial services and for the provision of Management services from Annuitas. These commitments are summarised as follows:

	2015 $000	**2014 $000**
Non-cancellable contractual commitments		
Less than one year	**5,244**	4,733
Between one and two years	**4,969**	2,363
Between two and five years	**2,132**	4,313
Total non-cancellable contractual commitments	**12,345**	11,409

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority are reimbursed by the Fund. The expenses referred to in the above table are therefore reimbursed by the Fund as they are incurred.

12. Subsequent events

There have been no material events after balance date that require adjustments to, or disclosure in, the financial statements (2014: Nil).

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF
GOVERNMENT SUPERANNUATION FUND AUTHORITY'S
FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION
FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of the Government Superannuation Fund Authority (the Authority). The Auditor-General has appointed me, David J Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements and performance information of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 69 to 80, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Authority on pages 69 to 80.

Opinion

In our opinion:

- the financial statements of the Authority:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity International Public Sector Accounting Standards.
- the performance information:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2015, including:
    - for each class of reportable outputs:
      - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of service performance for the financial year; and
      - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure.
  - Complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 2 September 2015. This 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 Government Superannuation Fund Authority Board (the Board) and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Authority's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported performance information within the Authority's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Authority's financial position, financial performance and cash flows; and
- fairly reflect the Authority's performance.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, the provision of advisory services in relation to the Business System Refresh project and services related to an assessment of the data transfer process from the Department of Internal Affairs, we have no relationship with or interests in the Authority.

David J Shadwell

Deloitte

On behalf of the Auditor-General, Wellington, New Zealand

Directory

AS AT 2 SEPTEMBER 2015

Government Superannuation Fund Authority Board

Craig Ansley
Shelley Cave
Ainsley McLaren
Cecilia Tarrant *(Deputy Chair)*
Keith Taylor *(Chairman)*
Michelle van Gaalen

Management

Annuitas Management Limited

Simon Tyler	Chief Executive
Euan Wright	Chief Financial Officer
Philippa Drury	General Manager, Schemes
Paul Bevin	General Manager, Investments
Fiona Morgan	Manager Finance

Executive Office

Level 12, The Todd Building
95 Customhouse Quay
PO Box 3390
Wellington 6140

Scheme Administrator

Datacom Employer Services Limited

Custodian

JP Morgan Chase Bank NA

Investment Adviser

Russell Investment Group Limited

Tax Adviser

PricewaterhouseCoopers

Actuary

Matthew Burgess
Russell Employee Benefits Pty Ltd

Directory (continued)

Auditor

David J Shadwell
Deloitte, on behalf of the Auditor-General

Bankers

Bank of New Zealand *(Authority)*
ANZ Bank New Zealand Limited *(Fund)*

Legal Adviser

DLA Piper New Zealand Limited

INVESTMENT MANAGERS

Commodities

AMP Capital Investors (NZ) Ltd

Global Fixed Interest

Ashmore Investment Management Limited
Brandywine Global Investment Management LLC

Pacific Investment Management Company LLC

Wellington Management Australia Pty Ltd

Global Tactical Asset Allocation

AQR Capital Management, LLC

Insurance-Linked Assets

Apollo Global Management, LLC
Nephila, LLC
Credit Suisse Securities (Europe) Limited
Fermat Capital Management, LLC

International Equities

Arrowstreet Capital Limited Partnership
Genesis Emerging Markets Investment Company
Lazard Asset Management, LLC
Marathon Asset Management, LLP
PanAgora Asset Management, Inc
Pzena Investment Management, LLC
Russell Investment Management Ltd

Multi-Asset Class and Global Private Equity

Makena Capital Management (Cayman), LLC

Directory *(continued)*

New Zealand Equities

ANZ Investments Limited
Harbour Asset Management Limited

New Zealand Private Equity

Direct Capital IV GP Limited
Pencarrow Private Equity Management Limited
Pioneer Capital Management Limited

New Zealand Unlisted Property

Willis Bond and Company Management Limited

Foreign Exchange Hedging

ANZ Bank New Zealand Limited
State Street Global Advisors, Australia, Limited

All correspondence relating to the GSF Schemes should be addressed to:

Datacom Employer Services Ltd
GSF Schemes Administration
PO Box 3614
Wellington 6140

or

Chief Executive
Government Superannuation Fund Authority
PO Box 3390
Wellington 6140

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Investment Policies, Standards and Procedures

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 01 July 2015. 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) avoiding prejudice to New Zealand's reputation as a responsible member of the 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 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, 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 to perform and exercise the functions and powers of the Board delegated to the committee. The committee has written terms of reference and ensures that its activities remain consistent with the Crown Entities Act. The committee review its performance annually and is also reviewed by the Board.

The Board is supported by a Management team (employed by Annuitas Management Limited (**Annuitas**) – see below) who act in management, operational and secretarial roles on behalf of the Authority. Clear separation of the governance and operational functions is 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 until 30 September 2011 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 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.govt.nz*

The Authority and the Board of Trustees of the National Provident Fund (**NPF**) have formed a joint venture company, 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 are regularly reviewed against the criteria above to determine their ongoing suitability for their role.

3 Statement of Investment Beliefs

3.1 Policies

The Authority has established a set of Investment Beliefs to provide a robust foundation for its investment strategy and to communicate shared values about investment. These Beliefs comprise the Authority's views about the sources of investment risk and return and how these can be captured cost effectively. They are reviewed annually.

3.2 Standards

a) Because the Crown guarantees the Schemes' pension obligations and meets the major share of them, the Fund can adopt a higher risk profile than otherwise to improve returns and the Crown's economic position.

b) The Fund expects to earn higher returns for investing in markets or assets with higher risks of loss.

c) The aggregate degree of exposure to higher risk sources of return is the most important investment decision as it creates the majority of the Fund's additional risk and return.

d) Diversification among various uncorrelated return sources improves the Fund's reward-to-risk ratio. Conversely, concentration of risk requires sufficient additional return to compensate.

e) Although closed to new investors, the Fund's long horizon means it can afford to invest in some illiquid assets when the expected return is attractive.

f) A large proportion of most return sources can be captured by investing passively in low-cost, market-representative baskets of securities.

g) Some investment markets are more efficient than others and their relative efficiency varies over time and it is possible to exploit this using skilled managers.

h) Moderate market timing is appropriate because risk premia vary over time and there is some evidence they are mean-reverting.

i) Investment opportunities should be considered net of all costs and taxes and having regard to their contribution to total fund risk and return.

j) Costs and principal-agent risks should be controlled carefully, especially where managers are engaged to add value through their skill.

k) Responsible Investment encompasses not only maximising return for risk, but also broadly accepted global standards of ethical conduct in relation to business governance, environmental and social risks.

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) **Equities** comprising equity securities and securities convertible into equities and includes partly paid ordinary and preference shares. The asset class includes large, mid and small capitalisation equities, emerging market and unlisted equity investments. The Fund may also lend its equities securities with the intention of earning extra return.

b) **Property** 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.

f) **Insurance-linked assets**, including securities providing exposure to natural catastrophe risks and longevity risks.

The Fund may invest in these asset classes through direct ownership of the assets or through investing in collective investment vehicles that hold the assets or through derivative securities, such as futures, forward contracts, options and swaps.

The Fund's investments may be traded on recognised public exchanges, or may be traded on private markets.

Private market assets and securities are generally less liquid than their public market counterparts. They 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. Private market assets are generally valued by appraisal.

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, which may cover one or more of the asset classes above and is 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

Investment Objective

Maximise the Fund's excess return relative to New Zealand Government Stock (before New Zealand tax) with a one in four chance of under-performing New Zealand Government Stock by 10% cumulatively measured over rolling ten year periods.

Under current assumptions, the expected excess return of the Reference Portfolio over the next 10 years is 2.5% per annum. The Board will monitor investment performance against that expected excess return as well as against the Reference Portfolio.

5.2 Standards

a) Reference Portfolio

The Board has adopted a Reference Portfolio for accountability and performance measurement purposes. The Reference Portfolio is a simple portfolio that could be managed at low-cost and meet the Fund's return and risk objectives. The Reference Portfolio also provides a benchmark to measure the Authority's performance in generating value-added returns. The Board reviews the composition of Reference Portfolio at least every three years.

With effect from 1 July 2014, the Reference Portfolio will comprise:

Table 1: Reference Portfolio and Benchmarks

Asset Class	Weight (%)	Benchmark
International equities	60	MSCI All Country World Index
New Zealand equities	10	NZX50 Gross Index including imputation credits
Fixed interest	30	Barclays Capital GlobalAggregate Index
Total Assets	**100**	
Foreign currency exposure (after-tax)	20	

b) Target Portfolio

The Authority seeks to out-perform the Reference Portfolio on a net of fees basis in two main ways:

- By taking on exposure to sources of return that are considered to be systematic, are rewarded for bearing risk of loss and are not represented in the Reference Portfolio. These 'better beta' sources of return include property, private equity and insurance-linked risks for example; and
- By capturing returns, attributable to manager skill rather than systematic risk bearing, ie 'alpha'. Alpha does not add materially to systematic risk.

The Authority manages the Fund to a Target Portfolio that incorporates better beta and alpha strategies and is expected to be a more efficient portfolio than the Reference Portfolio, ie improve risk-adjusted returns after fees and tax. The Target Portfolio is also expected to deliver the Fund's Investment Objective.

The current Target Portfolio is set out in Table 2.

Table 2: Target Portfolio Allocation

Asset Class/Strategy	Target Allocation (%)
International equities	54.7
New Zealand equities	9.3
Fixed interest	16.3
Global tactical asset allocation	3.0
Multi-asset class	7.0
Natural catastrophe risks	6.0
Longevity risks	3.7
Total Assets	**100.0**
Foreign currency exposure (after-tax)	20.0

The actual weightings of the asset classes/strategies are based on the valuations of those assets/strategies determined using the policies, standards and procedures set out in Section 12.

c) Dynamic Asset Allocation

From time to time the Authority may take temporary positions away from the Target Portfolio allocations in response to relative valuation signals. Those positions are expected to add returns as relative valuation returns to normal levels. The limits that each asset class may be tilted away from its Target Portfolio Allocation are shown in Table 3.

Table 3: DAA Limits

Asset Class/Strategy	Limit versus Target Allocation (%)
Cash v Equities v Bonds	+/- 10
DM Equities v EM Equities	+/- 5
Global Equities v Low Volatility Equities	+/- 5
DM Bonds v EM Bonds	+/- 5
Currency Hedge Ratio	+/- 20
Currency Majors v NZD	+/- 10
HY Credit v Govts v IG Credit	+/ - 5
Opportunistic	+/- 5

d) Rebalancing and Reset Ranges

Rebalancing ranges define the extent to which the capital allocation to an asset class is permitted to deviate from the intended allocation (the Target Portfolio Allocation set out in Table 2 plus any temporary changes in the target allocation as a result of Dynamic Asset Allocation decisions) before rebalancing trades are required.

Reset ranges show the extent to which an asset class is rebalanced having breached the rebalancing ranges.

Some asset classes (for example, the multi-asset class) or components of asset classes (e.g. private equity within New Zealand equities and private property within property) are not able to be readily traded. Those assets are not subject to formal rebalancing ranges but are monitored to ensure the exposure does not become unacceptable.

The rebalancing and reset ranges are shown in Table 4.

Table 4: Rebalancing and Reset Ranges

Asset Class	Rebalancing Range (%)	Reset Range (%)
International equities	49.7 to 59.7	52.7 to 56.7
New Zealand equities	7.3 to 11.3	8.3 to 10.3
Fixed Interest	12.3 to 20.3	14.3 to 18.3

e) Foreign exchange exposure and hedging policies

The Authority addresses its foreign currency exposures in a total portfolio context. The Authority's overall objective is to have an after-tax exposure to foreign currencies of 20% of the total Fund. The hedge ratio for International equities is varied to deliver the desired total Fund foreign currency exposure and takes into account any foreign currency tilting as discussed further below in Section 5.3 (d). Before tax hedge ratios depend on the tax treatment of the currency hedge and is determined by the tax treatment of the underlying assets, which may be on a comparative value or fair dividend rate basis.

5.3 Procedures

a) Review of Investment Objective and Reference Portfolio

The Reference Portfolio is reviewed at least every three years taking into account the investment 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 the Target Portfolio taking into account known cash flows for the following month. The rebalancing ranges are set as a trade-off between the costs of being exactly at the Target Portfolio against the risk that variations in exposures will compromise the Fund's investment objectives. Rebalancing takes into account investments that are relatively illiquid, such as equity interests in collective investment vehicles that are not traded and have contractual restrictions on redemptions.

c) Significant Asset Allocation Changes

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.

d) Dynamic Asset Allocation

Dynamic asset allocation tilts are generally implemented by the physical movement of assets (selling the asset to be under-weighted and buying the asset to be over-weighted). In the case of currency tilts where there is a well-developed derivatives market forward currency contracts and basis swaps are used.

Dynamic asset allocation decisions within limits approved by the Board are determined by the Management's Strategic Tilting Committee. Those decisions and their investment performance impact are reported to the Investment Committee and to subsequent Board meetings.

e) Foreign Currency Tilting Strategy

The Authority adjusts the Fund's foreign currency exposure periodically in accordance with its Foreign Currency Tilting Strategy. This Strategy moves the Fund's foreign exchange exposure according to defined tilting rules that reflect the prevailing valuation of the New Zealand dollar. The Strategy is implemented by adjusting the before-tax hedge ratio on the International equities' portfolio so that the total Fund foreign currency exposure is at the required after-tax level.

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 Reference Portfolio and Target Portfolio for the Fund. The Fund's performance is assessed by comparing its before New Zealand tax investment return with its expected excess return compared to New Zealand Government Stock. The performance of individual asset classes or strategies is assessed by comparing their pre-tax performance with their respective benchmarks (see sections 5.1 and 5.2).

6.2 Standards

a) Actual Portfolio

Under current assumptions, the expected excess return of the Reference Portfolio over the next 10 years is 2.5% per annum. The investment performance of the actual portfolio is monitored relative to that expected excess return as well as against the Reference Portfolio.

b) Asset Class and Strategy Benchmarks

For the purposes of assessing asset class or strategy performance, the benchmarks set out in Table 4 are adopted.

Table 4: Asset Class and Strategy Benchmarks

Asset Class/Strategy	Benchmark
International equities	MSCI All Countries World Index
New Zealand equities	NZX50 Gross Index including imputation credits
Fixed interest	Barclays Global Aggregate Index
Commodities (Collateralised commodities futures)	Bloomberg Commodity Index
Global tactical asset allocation	US 3 month Libor + 6%
Multi-asset class[1]	Reference Portfolio (unhedged)
Natural catastrophe risks	Swiss Reinsurance Catastrophe Bond Total Return Index
Dynamic asset allocation	Target Portfolio

1 A single portfolio comprising a diversified range of both public markets' and private markets' assets including global equities, fixed interest, property and private equity, and absolute return strategies.

No benchmark is specified for the longevity risk (life settlements) investments because these are long term, idiosyncratic investments for which there is no reliable benchmark.

Generally, managers within an asset class have the same benchmark as the asset class. Managers may have specific benchmarks depending on their specific mandates, for example in the case of International equities the MSCI All Country World Index Investible Markets Index, MSCI ACWI, the MSCI World Index and the MSCI Emerging Markets Index are used.

6.3 Procedures

a) The Fund's performance is assessed by comparing its return before New Zealand taxes with the New Zealand Government Stock index return. Under current assumptions that excess return is expected to be 2.5% p.a. over a ten year horizon. The Authority recognises that, from year to year, investment returns may not meet that expected excess return.

b) The Board monitors the before-tax after-fees return of:

   (1) The Fund's actual portfolio relative to the Reference Portfolio;

   (2) the Fund's Target Portfolio relative to the Reference Portfolio; and

   (3) the Fund's actual portfolio relative to the Target Portfolio.

c) 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' performances are 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, for each asset class and for each investment manager, the custodian provides the reports required by the Board 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 on 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 Minister 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. A forecast for investment performance is 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 service level agreement.

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 Policies

As noted in the Authority's Investment Beliefs (section 3.2) Responsible Investment encompasses more than maximising return for risk.

The Authority's RI Policies encompass:

a) 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.

Where an investment is found to contravene the Authority's RI Policies, the Board may engage with the issuer, exercise its voting discretion, or exclude or divest it from the Fund. Exclusion or divestment decisions may be reversed where subsequent advice indicates that the investment complies with the RI Policies.

In addition to the application of its RI Policies to the investments held in the Fund, the Authority:

- encourages the adoption of good corporate governance practices, including exercising voting entitlements consistent with maximising shareholder value and RI policies where possible;
- encourages investment managers to consider its RI policies and to integrate environmental, social and governance (ESG) factors into their investment analysis and/or engage with corporate entities as part of their investment process, where it improves investment performance; and
- works with similar investors to enhance the effectiveness of its RI policies, which may include supporting collaborative initiatives.

8.2 Standards

Standards encompass direct investment in corporate securities (equity and debt), public debt and collective investment vehicles (CIVs).

The Authority excludes from the Fund direct interests in companies that are involved in the:

- manufacture of cluster munitions
- testing of nuclear explosive devices
- manufacture of anti-personnel mines
- manufacture of tobacco; and
- processing of whale meat.

These activities either contravene New Zealand law or international agreements to which New Zealand is a signatory or are clearly inconsistent with Government policy.

The Authority may also engage with or exclude investment in entities believed, on the basis of credible evidence from publicly available sources, to have participated in serious infringements of relevant international standards relating to human rights, labour and employment, severe environmental damage, bribery and corruption or infringements of international security and disarmament accords.

The Authority may also exclude companies for severe beaches of the Fund's RI standards where engagement was unlikely to be effective due to the context of the company's operations or to a lack of responsiveness from the company to the issue.

Investment in CIVs may be a practicable and cost effective way of achieving exposure to some investment opportunities. The Authority usually has little influence, however, over the structure of the CIV, the individual securities it holds or its individual voting decisions. In applying the RI Policies to a CIV the Authority assesses value to the Fund of the CIV as a whole rather than each security it may hold. The Authority communicates its RI policies to managers of CIVs in which it invests and encourages them to consider whether its policies are appropriate for the CIV. In addition, the Authority may review its investment if there is a material change in its mandate or strategy.

Investment managers are delegated responsibility to exercise voting rights on behalf of the Authority but the Authority retains the ultimate voting right. Managers are required to vote in the interests of the Fund and their voting record is monitored. New Zealand managers are required to advise the Authority of their voting intent where the issue is likely to be publicly contentious, against the recommendation of an approved proxy voting service or give rise to a conflict of interest. In such cases, Management may direct the manager's votes under delegation from the Board. Managers' voting record is summarised on the website every six months.

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

8.3 Procedures

The Board is accountable for the Authority's RI Policies. The Authority has a collaborative agreement with the Guardians of New Zealand Superannuation (**GNZS**) and the Accident Compensation Corporation, which have similar RI obligations and are all signatories to the United Nations Principles for Responsible Investment[2]. The agreement encompasses policy development, identification and analysis of high RI risks, co-ordination of engagement and exclusion activities, engagement of research providers, research sharing and communications. The parties to the agreement meet regularly to review current engagements and exclusions, high risk securities, research and policy development.

[2]The UN principles for Responsible Investment can be viewed at *www.unpri.org*

With the assistance of GNZS, the Authority implements its RI policies by:

- monitoring high risk issues and securities;
- monitoring portfolio investments against the RI policies;
- analysing RI issues and appropriate responses;
- excluding securities as appropriate;
- communicating the Authority's policies and decisions to investment managers;
- participating in collaborative engagements with other investors;
- monitoring managers' voting records; and
- publishing its RI policies and exclusion decisions (individual company engagements may be confidential).

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 Investment Objective and the Authority's risk management procedures described in section 9.3. 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 Reference Portfolio, Target Portfolio 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 Investment Objective. 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.)

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 at current and prospective market prices to ensure the Fund remains within permitted risk limits at all times.

c) **Manager risk**
The Authority retains professional managers to implement its investment strategy and, in many cases, deliver superior returns through skilled active management. Managers' 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 Investment Objective 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 Reference Portfolio and Target Portfolio described in section 5 and a range of investment management techniques for the Fund;
- seeking professional advice on the investment strategy, the Reference Portfolio and the Target Portfolio;
- 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; and
  - 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 Reference Portfolio and Target Portfolio 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 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 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 benchmarks; 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.

10.2 Policies

Derivatives may be entered into by the Authority or its managers and custodians on behalf of the Fund. Where managers or custodians use derivatives, their use must be specified in each investment management agreement, or be consistent with the terms governing collective investment vehicles. Where the Authority is a counter-party to a derivative, the terms and conditions of the derivative must be specified in appropriate industry standard documentation.

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 Reference Portfolio and Target Portfolio).

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 Section 5.2.

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.

Rebalancing ranges are set out in section Table 4, page 98.

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 custodian in accordance with accepted industry best practice. Investments that are not regularly traded at a public exchange are valued according to the policies, standards and procedures in this section 12 at least annually.

Where investments are not traded on recognised exchanges, but can be independently priced by the custodian, the Authority, in conjunction with the custodian, determines fair valuation on these investments through an objective or independent process where possible. Examples of investments that are not traded on recognised exchanges but that can be independently priced are: some 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.

For private market investments, that are either:

- not able to be independently priced by the custodian; or
- can be priced independently by the custodian but at a cost, determined by the Authority to be unreasonable, the Authority relies on the valuation provided by the investment manager using generally accepted industry standards that has either:
    - been undertaken by a reputable, suitably qualified professional valuer, who is independent of the investment manager; or
    - been determined by reference to observable market variables obtained from sources independent of the manager.

The Authority may seek independent advice from a suitably qualified professional valuer to verify or confirm the reasonableness of any valuation provided by an investment manager.

12.2 Standards

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 generally accepted industry standards. 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 Board'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.

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