B.20 SOI (2010)

GOVERNMENT SUPERANNUATION FUND AUTHORITY

STATEMENT OF INTENT FOR THE YEAR COMMENCING 1ST JULY 2010

CONTENTS

1. STATEMENT FROM THE BOARD

The Authority's Statement of Intent (**SOI**) for the year commencing 1 July 2010 is prepared pursuant to Part 4 of the Crown Entities Act 2004 (**Crown Entities Act**).

The Crown Entities Act requires the Government Superannuation Fund Authority (the **Authority**) to prepare a SOI each year. In addition, section 15N of the Government Superannuation Fund Act 1956 (the **Act**) requires the Authority to include in its SOI specific comments on the expected performance of the assets of the Government Superannuation Fund (**GSF,** the **Fund**) and the GSF Schemes (the **Schemes**) over the next financial year, as well as the risks to that performance and the steps being taken to manage those risks.

The Authority's mission is to use best practice to manage the Fund and administer the Schemes with the prime objectives of enabling –

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

The Authority seeks to achieve its mission through:

- setting an Investment Strategy for the Fund that is expected to deliver returns in excess of the after tax returns from New Zealand Government bonds over the longer term; and
- ensuring sustainable, cost effective management of the Schemes to enable accurate assessment, payment and reporting of members' entitlements.

Returns from investment markets improved in the 2010 financial year following two years of very poor returns in financial years 2008 and 2009 that resulted from the global liquidity and credit crisis. The good returns in 2010 were not sufficient to fully offset the poor returns of the previous two years, however, and the Fund's annualised return since inception is below the Investment Performance Measure (**IPM**) set by the Authority (see page 7). Annualised returns had exceeded the IPM for the six years to 2007.

It is important to emphasise that the Authority takes a long term view of the Investment Strategy and the IPM is measured over rolling ten year periods. The Authority has reviewed the Investment Strategy and believes it remains appropriate to achieve the IPM over the Fund's long term horizon.

Key tasks for the Authority over the next **three** years, that will contribute towards its mission and objectives, include:

- keeping under review the Fund's Investment Strategy, including the key investment and taxation assumptions, to ensure it remains efficient and consistent with the Investment Objective (see page 7);
- continuing to diversify the Fund's exposures to broad classes of market risk to improve returns, or reduce the investment risk;
- identifying potential sources of additional return through active management strategies and, if appropriate, implementing these to improve the Fund's performance;
- ensuring investment managers' ongoing suitability through careful selection, monitoring and assessment;

- reviewing the Fund's investments against the Board's Policies, Standards and Procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community;
- further developing and implementing strategies in conjunction with other Crown Financial Institutions that will contribute to meeting the aspirational principles of the United Nations Principles for Responsible Investment (**UNPRI**) in a cost effective way and where supported by a robust investment case;
- developing a new Business System, used for administering the Schemes, following the completion of a tender process and the decision to proceed to an elaboration stage;
- monitoring the administration of the Schemes by the scheme administrator to ensure contributions are collected and entitlements are paid accurately and on time and service levels are met in a cost effective manner;
- providing sufficient funding to the scheme administrator to ensure all entitlement payments are able to be made as they become due; and
- ensure all processes are managed in accordance with best practice.

For readers who are interested to learn about the Authority, its policies and operations, we invite you to visit our website at *www.gsfa.govt.nz*

Tim McGuinness
Chairman

David May
Deputy Chairman

12 May 2010

2. THE AUTHORITY

OPERATING ENVIRONMENT

(section 141 (1)(a) of the Crown Entities Act)

This section provides an overview of the Authority.

The Authority was established in 2001 to manage and administer the assets of the Fund and the Schemes in accordance with the Act. The Authority became an autonomous Crown entity under the Crown Entities Act.

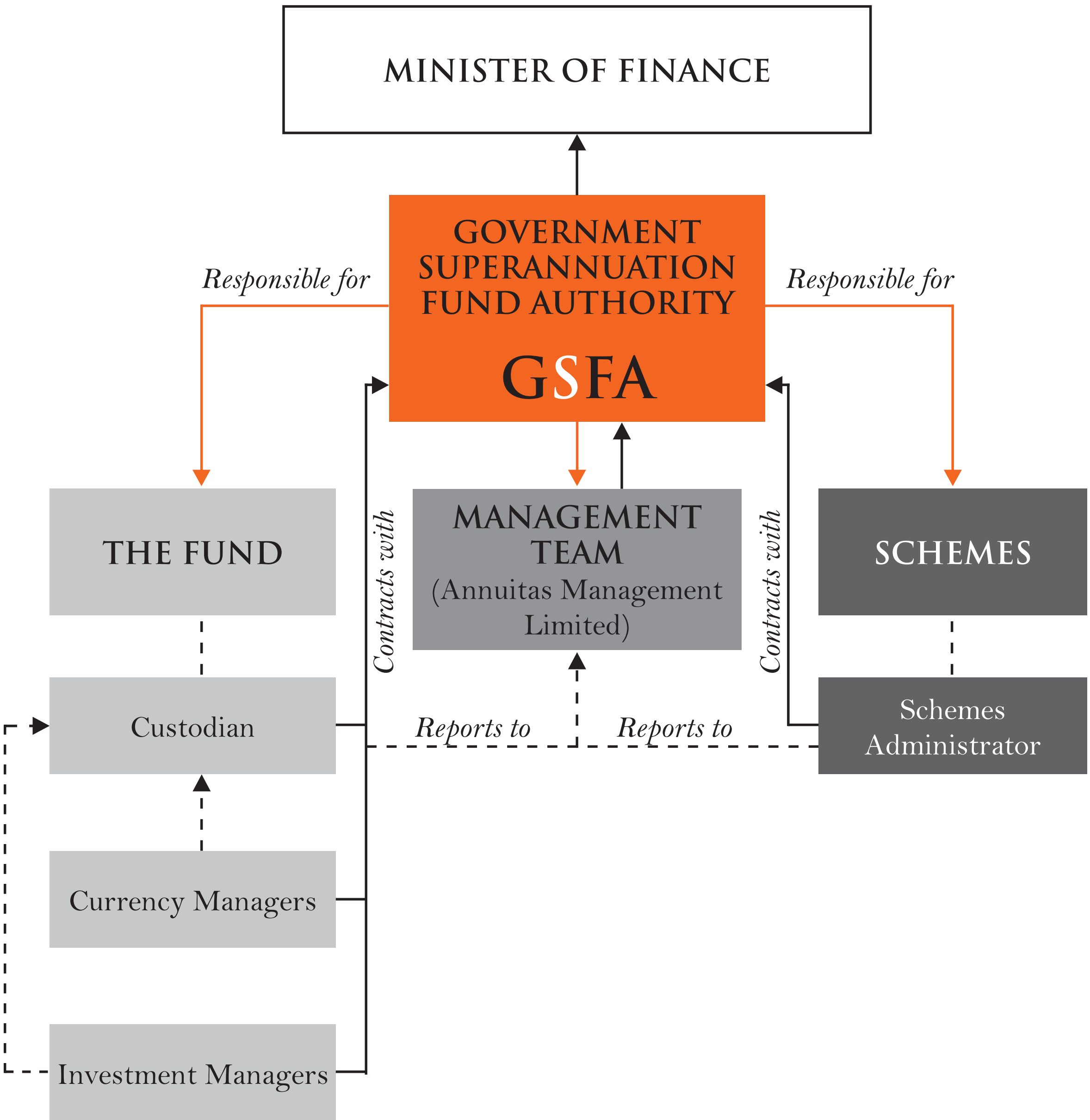
A Board, established by the Act, is the governing body of the Authority and determines the business of the Authority, either directly or by delegation.

To help minimise the Crown's contribution to GSF in the long term (and ultimately contribute to improving the Crown's overall economic position), since 2001 the Authority has developed an Investment Strategy based on investing the assets of the Fund in a diversified portfolio of investment assets and investment management techniques.

The Authority has adopted an outsourced model for the key activities of scheme administration and investment management (including custody of the Fund's assets).

The organisational structure is set out in Diagram 1. Further information on organisational structure is set out on page 17.

Diagram 1: Structure of the Government Superannuation Fund Authority and its operations



NATURE AND SCOPE OF FUNCTIONS

(section 141(1)(b) of the Crown Entities Act)

The Authority's functions, as set out in section 15D of the Act, are to manage and administer the assets of the Fund and the Schemes, in accordance with the Act. All decisions relating to the business of the Authority are made by the Board, in accordance with section 25 of the Crown Entities Act.

The Minister of Finance has the power to add to the Authority's functions and may direct the Authority to have regard to Government policy relating to its objectives and activities. The Minister may also direct the Authority in investing the Fund to meet the Government's expectations as to the Fund's performance, including the Government's expectations for risk and return, or not to invest in a specified investment or class of investments to which the Crown already has a direct or indirect exposure, for the purpose of limiting that exposure. No directions have been received from the Minister in terms of these powers.

The key activities of the Authority fall into the following two broad categories:

Investment

- management of the GSF assets (the Fund).

Schemes

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

Detail on the performance expectations against these activities can be found on pages 6–12 (Investment) and 13–15 (Schemes).

3. INVESTMENT

OBJECTIVES AND STRATEGY

(section 141(1)(c) and (d) of the Crown Entities Act)

The Authority contributes to an improvement in the Crown's overall economic position by endeavouring to minimise the contribution to GSF required from the Crown. The Authority does this through careful management of the assets of the Fund and by implementing an Investment Strategy designed to deliver returns significantly in excess of the after tax returns from New Zealand Government bonds over time (a proxy for the rate at which the Government could otherwise borrow money to pay entitlements).

The Authority's responsibilities with respect to investment of the Fund, as per section 15J(2) of the Act, are to:

> *"… 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."*

BEST PRACTICE PORTFOLIO MANAGEMENT

Best practice includes developing a set of Investment Beliefs, meeting certain operational principles and maintaining and adhering to investment policies, standards and procedures.

To provide a robust conceptual foundation for the Fund's Investment Strategy, and to communicate shared values about investment, the Authority has agreed a set of Investment Beliefs, summarised below:

- higher returns generally require acceptance of higher risks and diversification reduces total risk;
- setting a Reference Portfolio appropriate to the Fund's long term objectives is the most important investment decision as it determines the majority of the Fund's risk and return;
- markets vary in their efficiency and market inefficiencies offer skilful managers the opportunity to add value;
- market timing is not a reliable source of return in the short term because of the unpredictability of returns over short periods, but account should be taken of unusual asset price behaviour with respect to longer term indicators of relative reward for risk;
- investment opportunities should be considered net of all costs and taxes and having regard to their contribution to total fund risk and return; and
- costs and principal-agent risks should be controlled carefully, especially where managers are engaged to add value through their skill.

The Authority seeks to meet the following operational principles:

- implement the Investment Strategy efficiently and effectively;
- maintain a governance model that reflects clear responsibilities and promotes accountability;
- report clearly and communicate effectively with the Fund's stakeholders; and
- access advice, experience and guidance from a wide group of peer funds and experts.

Under the Act, the Authority must establish, and adhere to, investment policies, standards, and procedures that are consistent with its duty to invest the Fund on a prudent, commercial basis.

The Authority has prepared a Statement of Investment Policies, Standards and Procedures (**SIPSP**), which is reviewed and updated at least annually. The current version of the SIPSP is included on the Authority's website, *www.gsfa.govt.nz*

MAXIMISING RETURN WITHOUT UNDUE RISK TO THE FUND AS A WHOLE

Investment Objective

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

In seeking to achieve this objective over the longer term, the Authority makes a decision on the balance between the level of investment risk the Fund can accept and the expected excess return over New Zealand Government bonds. The Risk Parameter and Investment Performance Measure define this balance of risk and return.

Risk Parameter

The Risk Parameter, adopted in March 2010, is to have no more than a one in ten chance in any one year of a loss after tax greater than 9% of the total Fund.

Investment Performance Measure (IPM)

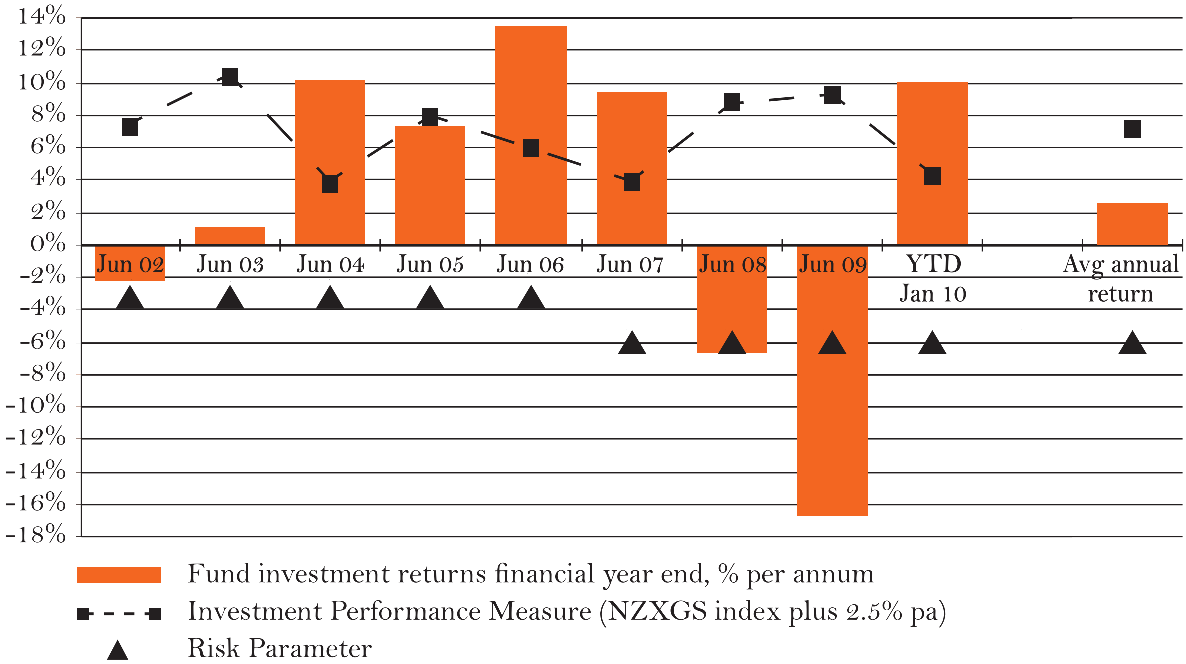
The performance of the Fund is assessed by comparing the after tax return with the NZX New Zealand Government Stock Gross Index return (after tax), plus at least 2.5% per annum, measured over rolling 10 year periods.

The Investment Strategy is to develop and maintain a diversified, efficient investment portfolio that will meet the Investment Objective. It is implemented by allocating the Fund's assets across an optimal mix of exposures to broad categories of market risk and return, expressed in a Reference Portfolio (the **Reference Portfolio**), and supplementing this with active, skill-based sources of return.

The Reference Portfolio is a simple, passively managed portfolio which could meet the IPM and Risk Parameter by investing in liquid public markets at low cost. It provides a benchmark against which the added value (net of fees) of allocations to alternative market exposures and skill-based strategies will be measured.

The Fund's overall performance is assessed by comparing its investment return with the IPM and the Risk Parameter as illustrated in Graph 1 on page 8.

Graph 1: After tax returns compared with the Investment Performance Measure and Risk Parameter



Graph 1 illustrates the Fund's after tax returns for each year (the orange bars) and compares these returns to the IPM (the dotted line). The triangles represent the Risk Parameter.

Returns from investment markets improved in the 2010 financial year following two years of very poor returns in 2008 and 2009 resulting from the global liquidity and credit crisis. The good returns in 2010 were not sufficient to fully offset the poor returns of the previous two years, however, and as a result the Fund's annualised return since inception is still below the IPM. Annualised returns had exceeded the IPM for the six years to 2007.

It is important to emphasise that the Authority takes a long term view of the Investment Strategy and the IPM is measured over rolling ten year periods. The Authority has reviewed its Investment Strategy and believes it remains appropriate to achieve the IPM over the Fund's long term horizon.

AVOIDING PREJUDICE TO NEW ZEALAND'S REPUTATION AS A RESPONSIBLE MEMBER OF THE WORLD COMMUNITY

The Authority has Responsible Investment Policies and has developed programmes to monitor the risk of investments to New Zealand's reputation, exclude prejudicial investments where practicable, engage companies on certain environmental, social and governance (**ESG**) issues and generally support greater integration into investment processes of analysis of material ESG issues.

The Authority is a signatory to the United Nations Principles for Responsible Investment (**UNPRI**). Where they are consistent with each signatory's fiduciary duties, signatories seek to address six aspirational principles established by UNPRI.

The Authority has entered into a Responsible Investment Resource Sharing agreement with other Crown Financial Institutions to help the Authority meet its Responsible Investment obligations, including its UNPRI commitments, while minimising cost and duplication of effort.

FORECAST SERVICE PERFORMANCE FOR 2010/2011

(section 142(1)(b) of the Crown Entities Act)

Investment Performance Expectations for 2010/2011

A key measure of the Authority's success in managing the GSF assets is the Fund's financial performance over the long term. The Fund is expected to exist for at least 60 years and, for this reason, the Authority's Investment Strategy is based on maximising returns, without undue risk, over the long term.

Section 15N of the Act, however, requires the Board to set out its expectations for the performance of the Fund over the 2010/2011 financial year in sufficient detail to enable meaningful assessment against those expectations at the end of the financial year.

The Board's forecast is for a surplus after tax from investment activities of $208.0 million for the Fund for the 2010/2011 year. This represents a forecast return of 6.9% after tax (equivalent to the assumed return on the NZX New Zealand Government Stock Gross Return Index after tax of 4.0% per annum for the same period, plus 2.9%) and is greater than the IPM. This does not include any added value from active managers and the actual return would therefore be expected to be higher.

The volatility of investment markets means that the forecast increase in assets from investing activities, included in the Forecast Income Statement, is inherently uncertain. Greater volatility and uncertainty exists about returns over 1 year than over 10 year periods. As a result, returns in any particular year are not necessarily indicative of the long term investment performance of the Fund. Actual returns from each asset class in the year may vary significantly from the long term return assumptions.

Significant Assumptions used in the Forecast of the Fund

Significant assumptions used in the forecast are listed in Table 1:

- the forecast depends on assumptions with respect to the after tax returns (before fees) from each major asset class in the current asset allocations and those expected to apply next year. These assumptions are long term (see Table 1) and actual returns from each asset class over the next year may vary significantly from the long term return assumptions used.
- the forecast assumes that the asset allocation is rebalanced periodically to the target asset allocation (see Table 1).

Table 1: Assumed after tax returns (before fees) and target asset allocation

ASSET CLASS	ASSUMED AFTER TAX ANNUAL RETURN	TARGET ASSET ALLOCATION
International equities	8.0%	47%
New Zealand equities	9.0%	10%
Real Estate	7.3%	7%
Multi - Asset Class	6.9%	7%
Fixed interest	4.0%	23%
Global Tactical Asset Allocation (GTAA)	5.5%	3%
Collateralised Commodities Futures (CCFs)	5.6%	3%

Note

The assumed after tax investment returns do not include any allowance for added value from active management.

The Authority seeks to enhance the assumed returns by undertaking active management where the Authority considers this will add value. If all the active managers achieved returns in line with their respective performance targets the Authority would expect added value of approximately 1.0% per annum, after deducting active management fees.

- in forecasting its expenses and budgets the Board allows for the payment of additional performance fees to some managers, if agreed performance targets are exceeded. In addition, actual returns from each asset class in the year may vary significantly from expected returns. Consequently actual fees may vary from those forecast. Investment management agreements detail return expectations and the corresponding methodology for calculating fees.
- currency hedging is in place for all international assets while leaving a degree of overall foreign currency exposure the Board considers is prudent. The forecast assumes no change in the value of the New Zealand dollar against other currencies;
- asset values as at 1 July 2010 are estimated based on 31 January 2010 asset values and projected returns to 30 June 2010;
- taxation is summarised in the Table 2;
- entitlement payments out of the Fund of $16 million per month.

Table 2: Expected Tax Impact

ASSET CLASS	TAX TREATMENT
International equities	Tax at 30% on 5% of the opening value of the Fund on a monthly basis, plus, in respect of "quick sales" during the year, taxation on the lesser of the gain on sale (including dividends) or 5% of cost.
New Zealand equities	0% on gains, and all dividends fully imputed.
Selected Australian equities	0% on gains, 30% on income.
Fixed interest and derivatives (including currency hedging)	30% on gains and income.

Other Investment Performance Measures and Standards

In addition to setting long term performance expectations, the Authority sets specific performance objectives. Achievement of these will assist the Authority to maintain a diversified, efficient and well managed investment portfolio that is expected to meet the Investment Objective.

Some performance objectives are ongoing, while others reflect specific Investment Strategy decisions and may be completed over a period beyond one year.

For the 2010/2011 year the Authority has identified the following performance outputs and measures:

OUTPUT	PERFORMANCE MEASURE
Maximise investment returns (without undue risk)	Over the long term the Fund return meets the Investment Performance Measure (IPM) and Risk Parameter (see page 7), by maintaining a diversified portfolio of assets, measured through: • independent assessments by external investment advisers; and • assessment by internal investment management, with monthly management reporting and quarterly reporting to the Board. Comparison of actual performance (returns and assessed risk) against the Reference Portfolio to determine the added value of alternative strategies (see page 7). Comparison of individual investment manager's actual performance against contracted mandates and return benchmarks measured through: • independent assessments by external investment advisers; and • assessment by internal investment management, with monthly management reporting and quarterly reporting to the Board.

<table>
<tr><th>OUTPUT</th><th>PERFORMANCE MEASURE</th></tr>
<tr><td>Maximise investment returns (without undue risk)</td><td>Compliance with policies and procedures, in particular:
• no unauthorised variations from the SIPSP (which may be varied by the Board from time to time) identified on annual review;
• actual allocations rebalanced to within rebalancing tolerances, monthly;
• investment manager risk remains in line with expectation through comparing investment managers' risk profile's against assessed risk; and
• review of quarterly scorecards to determine that custodian performance meets their Service Level Agreement.
Annual comparison of Fund performance and cost structure with similar organisations, prepared by an external party.</td></tr>
<tr><td>Meet the needs and reasonable expectations of stakeholders</td><td>No significant negative feedback from stakeholders.
Compliance with Responsible Investment Policies (including the Board's policies on ethical investment and the aspirational principles established by UNPRI).</td></tr>
<tr><td>Overall expected cost (Investment)</td><td>$20.8 million</td></tr>
</table>

Notes: overall expected costs (investment) include the expected investment management expenses and 70% of the Authority's expected general operating expenses (see page 26).

4. SCHEMES

BACKGROUND

The Schemes were established in 1948 to provide a way for public sector employees to save for their retirement.

The Schemes were closed to new members from 1 July 1992, except for people who were eligible for membership through their employment with certain Pacific Island governments. Membership was closed to these people in 1995.

There are seven Schemes, each of which is registered as a superannuation scheme under the Superannuation Schemes Act 1989.

Currently the Schemes have just over 63,000 members, made up of around 16,000 contributors and deferred annuitants, and around 47,000 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 60 years.

Contributors contribute a defined percentage of their salaries to the Fund on a regular basis. In return, they receive a retiring allowance based on average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non Crown employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund.

The Crown, as an employer, meets its share of its employees' retirement entitlements as they fall due for payment. Thus, the Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non Crown employers) being deemed by the Government Actuary to be sufficient to meet 25% of the entitlements at present (21% from 1 July 2010).

The actual and projected present values of the Unfunded Past Service Liabilities of the Fund have been calculated by the Government Actuary in his actuarial valuation as at 30 June 2009, dated August 2009. The results are set out in Table 3. The Unfunded Past Service Liabilities are estimates of the Crown contributions required to meet the past service liabilities of the Fund.

Table 3: Projected Unfunded Past Service Liabilities

	ACTUAL 30 JUN 09 $M	PROJECTED 30 JUN 10 $M	PROJECTED 30 JUN 11 $M
Past Service Liabilities	12,102	12,066	12,003
Net Assets	2,804	2,811	2,809
Unfunded Past Service Liabilities[1]	9,298	9,255	9,194

[1] The Unfunded Past Service Liabilities have been calculated by the Government Actuary using a net discount rate. The Unfunded Past Service Liabilities, calculated using a gross discount rate, are recorded in the Crown's financial statements.

[2] It should be noted that investment markets have risen slightly since the Government Actuary carried out his valuation. The Authority projects the net assets of the Fund to be $3,030 million as at 30 June 2010, and $3,106 million as at 30 June 2011.

The Authority is responsible for managing and administering the Schemes in accordance with the Act. The day to day administration of the Schemes is outsourced to Datacom Employer Services Limited (**Datacom**).

OBJECTIVES AND STRATEGY

(section 141(1)(c) and (d) of the Crown Entities Act)

The Authority aims to ensure sustainable, cost effective management of the Schemes, to enable accurate assessment, payment and reporting of members' entitlements. The Authority does this by ensuring contributions are collected and entitlements are paid accurately and in a cost effective and timely manner, and service levels are met.

The sustainability of the Business System, used for administration of the Schemes, is fundamental to achievement of this strategy. The Business System is more than 15 years old and incorporates technology that is no longer in common use in New Zealand. People with relevant technology skills are becoming scarce. While the current Business System is stable, and the Authority is confident it will perform adequately in the short term, following a tender process the Authority has decided to develop a new Business System which will be more relevant and sustainable over the longer term. Also key is the role of the scheme administrator, Datacom. The Authority has established and maintains a partnering relationship style with Datacom to ensure all issues relating to the administration of the Schemes are communicated early to the Authority and are managed and resolved in an open manner, taking into account the interests of the members and the Crown.

In communicating with members and employers, the Authority seeks to ensure information provided is both of a high standard and timely. This includes information on member entitlements and on the activities of the Authority.

The Authority interprets the provisions of the Act and the Policies, and exercises its discretionary powers, in relation to matters raised by members. The Authority seeks to achieve equity and consistency in its application of the provisions of the Act and the Policies.

FORECAST SERVICE PERFORMANCE FOR 2010/2011

(required under section 142(1)(b) of the Crown Entities Act)

The Authority's key activities in relation to the Schemes are:

- the management and administration of the Schemes, including the agreement between the Authority and the scheme administrator, Datacom; and
- interpretation of the provisions in the Act and exercising discretionary powers (set out in the Act).

Forecast performance outputs and performance measures for Schemes' activities for the 2010/11 year are set out below:

OUTPUT	PERFORMANCE MEASURE
Pay entitlements and process contributions correctly and on time and respond appropriately to stakeholders' inquiries.	Performance is in line with the Management Agreement between the Authority and the Scheme Administrator, specifically: • 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, measured through monthly reporting, with overall performance measured by monitoring the performance of the Administrator, with monthly reports and follow up. The Business System is relevant and supportive of the Schemes' requirements demonstrated through: • no major loss or corruption of data or functionality; and • the ability to access required data, assessed by periodic review. Complete papers are provided to the Appeals Board at least 14 days before each scheduled hearing, measured by: • the timely and efficient resolution of the appeals. Data required by Government Actuary and Treasury sent within agreed timescales, measured through: • minimal requests for missing or incomplete information.
Meet the needs and reasonable expectations of stakeholders	Regular updating of website, with information on schemes and investments, and sending annual Chairman's letter to members. Measured through achieving consistently good satisfaction scores in the annual survey of members and employers.
Overall expected cost (Schemes)	**$3.8 million**

Notes: Overall expected costs (schemes) include the expected scheme administration expenses and 30% of the Authority's expected general operating expenses.

5. ORGANISATIONAL HEALTH AND CAPABILITY

(required under section 141(1)(e) of the Crown Entities Act)

GOVERNANCE

The Board is the governing body of the Authority and is responsible for making all decisions relating to the Fund and the Schemes. The Board has all the powers necessary for managing, and for directing or supervising the management of, the business of GSF.

The Minister of Finance appoints the members of the Board. The members have a wide range of experience and expertise in the investment, financial and business sectors.

The Authority's Corporate Governance Statement incorporates legislative and regulatory requirements, as well as the policies and practices developed by the Board. This statement is available on the Authority's website, *www.gsfa.govt.nz*

The key policies and practices developed by the Board are set out below:

- the Authority's obligations with respect to the Fund and the Schemes are supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on a regular basis;
- the Board regularly reviews the activities of Management, to ensure that clear and proper sets of accountabilities remain in effect, delegations are properly implemented and reporting is comprehensive;
- the Board reviews its own performance annually and at all times aims to achieve best practice;
- the Board has established three committees
  - Audit and Risk Review
  - Investment
  - Responsible Investing

  to perform and exercise the functions and powers of the Board delegated to each committee, as applicable. Committees have written terms of reference and ensure that their activities remain consistent with the Crown Entities Act. Each committee reviews its performance annually and is also reviewed by the Board;
- the Board meets at least nine times per annum and ensures that it receives appropriate and reliable reporting on the Fund and the Schemes and the actions of its Management and other service providers;
- the Board regularly considers the resources required for the effective and proper management of the Fund and the administration of the Schemes and acts to ensure that resources available to the Authority, both internally and externally, align with these requirements. The Board aims to use resources of appropriate quality and capacity for its needs, at a reasonable cost. The Board ensures that comprehensive service level agreements are entered into with the major external service providers which specify reporting and compliance standards;
- the Board has a systematic compliance programme with its service providers and any breaches of compliance are reported to the Board; and

- the Board has established a risk management programme which is implemented and reviewed quarterly by Management. The Audit and Risk Review Committee monitors matters of risk management and reports to the Board.

ORGANISATIONAL STRUCTURE

The Authority has adopted an outsourced model for the key activities of scheme administration and investment management (including custody of the Fund's assets).

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 management and secretarial roles on behalf of the Authority and NPF. 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. Each month the Board receives reports from Management on all decisions made and matters determined under the delegations of authority.

The joint venture with NPF is seen to be the most appropriate way of providing the management and support required by the Board. The GSF and NPF schemes are closed to new members and both organisations have adopted an outsourced model for the major activities of investment, custody and scheme administration. Annuitas allows economies of scale and higher quality resourcing than could be justified if each organisation operated on a standalone basis.

The Authority has appointed:

- Datacom Employer Services Limited as the administrator of the Schemes. Datacom is responsible for the collection and processing of contributions to the Schemes, maintenance of member records, calculating, notifying, processing and paying of all entitlements under the Schemes, maintaining toll free lines and a Help Desk to log and process all oral and written enquiries, and maintaining the financial records of the Schemes. All interpretation issues and determinations, arising under the Act, must be referred by Datacom to the Authority for a decision;
- JP Morgan Chase Bank as the global custodian for the Fund. The custodian is responsible for the safekeeping of the assets of the Fund, settling transactions, and reporting on the performance and compliance of the investment managers appointed by the Authority; and
- specialist management organisations to undertake day to day investment decisions and trading, currency hedging and investment advice. The managers are listed on the Authority's website, *www.gsfa.govt.nz*

ORGANISATIONAL DEVELOPMENT

Board members are normally appointed for two terms of three years. Wherever possible the Board, through the Chairman, will look to work with the Minister of Finance to ensure an appropriate balance of skills and experience is maintained in the membership of the Board.

The Board generally sets aside two days per year, one for strategic planning and the other for an investment workshop. During the strategic planning day the Board reviews its mission and objectives in the context of the investment and superannuation environment.

It assesses whether its strategies remain appropriate, and the capabilities of the organisation to achieve the strategies. In particular, the Board reviews the robustness and sustainability of systems and technology and assesses whether appropriate resources and skills are in place for the Authority and Management to be best placed to achieve their accountabilities and responsibilities.

The investment workshop provides an opportunity for the Board and Management to receive presentations and discuss contemporary issues and new approaches relating to investment management, or other parts of the Authority's business. Board members are also encouraged to take advantage of training and development opportunities available in superannuation and investment.

The Authority maintains close working relationships with other Crown Financial Institutions and, where appropriate, seeks to liaise on matters of mutual interest.

Management of the Fund's assets and scheme administration will continue to be outsourced to specialist organisations. A key element of an outsourced model is to ensure each contracted manager, where appropriate, has in place a well planned and tested business continuity plan, including a disaster recovery programme (**DRP**). This is particularly important in the key areas of custody and scheme administration. The DRPs for the custodian and the scheme administrator are tested on a regular basis and reported to the Board.

As both the Authority and NPF employ an outsourced model for the major functions of administering and managing groups of large superannuation schemes the Management team is small. Senior managers are responsible for the key functions – Investment, Schemes, Finance and Chief Executive, and back up support is maintained to reduce the key person risk. Management is responsible for identifying and implementing appropriate strategies for the Authority to meet its obligations, under the Act, and its objectives.

Each year performance measures and standards are set for each of the key functions and senior members of Management, and progress on achieving these objectives is monitored by the Board on a regular basis.

The Annuitas Board has a key role to resolve any conflicts or priority issues that may arise between the Authority and NPF. It has not been necessary for the Annuitas Board to exercise this function as Management has been able to manage the workloads, achieve the performance objectives and meet deadlines to the satisfaction of both Boards.

The Chief Executive is responsible for development and training of all staff to ensure they are best placed to achieve their accountabilities and responsibilities to the Authority. To achieve this the Chief Executive identifies and implements individual training and personal development programmes for senior staff members with the overall objective of maintaining a high level of knowledge of investment, schemes and finance/accounting issues, and of best practice in investment and superannuation.

6. CONSULTATION AND REPORTING TO THE MINISTER

(required under section 141(1)(g) of the Crown Entities Act)

MATTERS REQUIRING CONSULTATION WITH THE MINISTER

The Authority is required to consult with the Minister on the following matters:

- the method for calculating interest on contributors' contributions, where the contributor is discharged or released from the regular forces in circumstances where no retiring allowance is payable (section 71K(b) of the Act);
- approval of any class of transactions which involve:
  - borrowing money;
  - mortgaging or charging any of the real property of the Fund, whether present or in the future, as security; or
  - entering into a derivative transaction, or amending the terms of that transaction (where derivative transaction includes swaps, options, futures and any combination of those things); and
- approval to operate bank accounts outside the provisions set out in section 158 of the Crown Entities Act.

Approvals have been sought and granted for some of the matters outlined above. With regard to derivative transactions, the Minister has given approval for the Authority to enter into such transactions where the use is consistent with the Authority's SIPSP.

No approvals from the Minister have been necessary with respect to section 71K(b), or to borrow money and mortgage real property.

REPORTING TO THE MINISTER

The financial statements of the Authority and the Fund are maintained and reported in accordance with the Act and the Crown Entities Act. The Act requires the Authority to report to the Minister on the Fund at intervals and include any information that the Minister requires. In addition to the annual reports of the Authority and the Fund, information is provided to the Minister for inclusion in the Crown's budget and economic updates. The Government Actuary calculates the Unfunded Past Service Liabilities for inclusion in the Crown's financial statements.

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

The Authority has introduced the Reference Portfolio (see page 7), against which the added value (after fees) of implementing alternative strategies, in particular the performance of active managers, can be measured. This will assist the Authority in ensuring that investment management fees represent the optimal level of fees to meet the Investment Objective, as noted in the Minister's Letter of Expectation received in January 2010.

7. PROCESSES IN RELATION TO ACQUISITIONS

(required under section 141(1)(h) of the Crown Entities Act)

Section 141 of the Crown Entities Act requires the Authority to report on any processes to be followed for the purpose of section 100 (Acquisitions of shares or interests in companies, trusts and partnerships).

The Authority believes that the intention of section 100 is to cover situations where the Authority buys shares to facilitate an acquisition strategy. The Authority has no plans to acquire shares for this purpose.

8. RISK MANAGEMENT

(required under section 141(1)(i) of the Crown Entities Act)

A summary of the Authority's assessment of the key risks to the business, including the key risks to the performance of the Fund, and actions being taken to manage those risks are set out below.

INVESTMENT RISKS

RISK	ACTION TO MANAGE
Investment strategy and asset allocation are inappropriate	• Diversify the assets and management techniques of the Fund. • Seek professional advice on the Investment Strategy and asset allocations. • Peer reviews of advice, and regular consultation with other Crown Financial Institutions and large investment funds. • Review annually the SIPSP, as required by section 15L of the Act.
Poor performance of investment managers	• Robust selection process for investment managers based on demonstrated ability. • Diversification among managers. • Mandates for active managers based on best practice portfolio management. • Regular monitoring and review of manager performance. • Management agreements, which provide for dismissal at the discretion of the Authority.
Overall investment management risk	• Specific mandate for each investment manager, based on best practice portfolio management. • Constraints to govern credit and liquidity risks. • Use of a custodian to record transactions, report on performance and monitor compliance of investment managers with mandates. • A comprehensive SIPSP developed and enforced by the Authority. • Clear separation of functions between investment management, custody, and overall supervision. • Appropriate resourcing of the Management team to conduct the oversight function.

RISK	ACTION TO MANAGE
Currency risk, for example the risk that the Fund will lose value through adverse exchange rate movements	• The engagement of currency managers to implement the Authority's foreign currency hedging policies. • Fully hedging currency exposures across the Fund's international fixed interest and real estate portfolios and hedging part of its international equities portfolio.
The assumed gross pre tax investment returns for each asset class are not achieved	• Adoption of a diversified asset allocation strategy for the Fund and appointment of investment managers, based on demonstrated ability. However, the volatility of investment markets means that the projected return from the Fund is inherently uncertain.
Major structural changes to investment markets and/or taxation environment	• Neither of these risks is within the control of the Authority. However, the Authority takes into account changes in these risks in its reviews of the Investment Strategy and asset allocations.

REPUTATION RISK

RISK	ACTION TO MANAGE
Avoiding prejudice to New Zealand's reputation	• Assessment of evolving practices in portfolio management, including review of their applicability to the Authority's business. • Determination of authorised investments (which may include authorised markets) in investment mandates.
The Authority's reputation risk	• Robust selection process for contracted managers. • Comprehensive management and service level agreements and clearly defined and agreed mandates and reporting standards. • Maintenance of an internal governance framework for appropriate fiduciary oversight, performance management and control of functions carried out by the Board and Management. • Implementation of a comprehensive risk management programme. • Sustainable management of the Schemes to enable accurate assessment, payment and reporting of members entitlements. • Clear communication with stakeholders.

SCHEMES RISKS

Liabilities

The Fund's liabilities arise from the defined benefit schemes specified in the Act. Risks that may affect the liabilities include:

- movements in the consumer price index (CPI) (all retiring allowances and spousal annuities are CPI indexed);
- the rate of increase in contributors' salaries, especially as it affects the last five years of contributory service;
- the discount rate used to value the liabilities;
- factors affecting retirement or cessation of contributors, including state sector restructuring and privatisations;
- patterns of entitlement selection on retirement; and
- mortality rates.

None of the above risks is within the control of the Authority. The Authority will, however, ensure that accurate and timely information is provided to the Government Actuary to enable preparation of actuarial projections of the liabilities in accordance with the provisions of the Act.

RISK	ACTION TO MANAGE
The provisions for the Schemes are not complied with and discretions relating to the Schemes are inappropriately applied	• Monitoring the performance of Datacom and the resolution of any issues of interpretation of the legislation. • Ensuring all discretionary decisions are exercised in accordance with the Policies. • Ensuring any changes to the Policies are made only after taking into account the interests of relevant persons, including the Crown, in accordance with the Act.

Administration

The Authority is responsible for the management and administration of the Schemes. Day to day administration duties are carried out by Datacom in accordance with an agreement that expires on 25 April 2011. In administering the Schemes, heavy reliance is placed on the Business System owned by the Authority.

RISK	ACTION TO MANAGE
Poor performance by Datacom	• Having a detailed scheme administration management agreement in place with Datacom, backed by a parent company guarantee. • Maintaining a close liaison with Datacom. • Monitoring Datacom's performance against the service standards. • Carrying out an annual survey that assesses, amongst other things, the level of satisfaction of members and employers with the service provided by Datacom. • Taking remedial action on any issues identified in the survey.
Serious information technology problems	• Ensuring any system modifications are approved by the Authority and that the system is well maintained. • Ensuring that Datacom has in place back up systems and a fully tested business continuity plan and disaster recovery plan and that systems reliability is regularly monitored.
Following a tender process, the Authority decided to proceed to an elaboration stage for the development of a new Business System, used for administering the Schemes. The elaboration stage is expected to be completed in the 2010/2011 year.	

9. FORECAST FINANCIAL STATEMENTS

FORECAST FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2010

THE AUTHORITY

(required under section 142(1)(a) of the Crown Entities Act)

- forecast income statement;
- forecast balance sheet;
- forecast statement of cash flows;
- forecast reconciliation of net operating result to net operating cash flows; and
- statement of accounting policies.

THE FUND

(required under section 15N of the Act)

- forecast income statement;
- forecast balance sheet;
- forecast statement of cash flows;
- forecast reconciliation of income statement to net operating cash flows; and
- statement of accounting policies.

GOVERNMENT SUPERANNUATION FUND AUTHORITY

FORECAST FINANCIAL STATEMENTS

Forecast Income Statement

Estimate 2009/10 $000			Forecast 2010/11 $000
26,446	Transfer from the Government Superannuation Fund		24,598
23	Other revenue		21
26,469	**Total revenue**		**24,619**
2,660	Schemes administration		2,700
20,430	Investment management	*note 5*	18,111
3,379	Operating expenses	*note 6*	3,808
26,469	**Total expenses**	*note 7*	**24,619**
-	**Net operating result**		**-**

Forecast Balance Sheet

Estimate as at 30 June 2010 $000		Forecast as at 30 June 2011 $000
	Tax payers' equity	
-	General funds	-
-	**Total tax payers' equity**	**-**
	Represented by	
	Current assets	
110	Cash	150
2,860	Receivables and prepayments	2,320
2,970	**Total assets**	**2,470**
	Current liabilities	
2,970	Payables and accruals	2,470
2,970	**Total liabilities**	**2,470**
-	**Net assets**	**-**

FORECAST FINANCIAL STATEMENTS - CONTINUED

Forecast Statement of Cash Flows

Estimate 2009/10 $000		Forecast 2010/11 $000
	Cash flows from operating activities	
	Cash was provided from	
30,040	Government Superannuation Fund	25,138
7	Interest	8
41	Other	13
	Cash was disbursed to	
(30,317)	Operating expenses	(25,119)
(229)	**Net cash flows from operating activities**	**40**
(229)	Net (decrease)/ increase in cash held	40
339	Opening cash brought forward	110
110	**Closing cash balance**	**150**

Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows

Estimate 2009/10 $000		Forecast 2010/11 $000
-	**Net operating result**	-
	Add/ (less) movements in working capital items	
3,704	Decrease in receivables and prepayments	540
(3,933)	Increase in payables and accruals	(500)
(229)	**Net cash flows from operating activities**	**40**

GSFA

GOVERNMENT SUPERANNUATION FUND AUTHORITY

STATEMENT OF ACCOUNTING POLICIES AND SIGNIFICANT ASSUMPTIONS

1. Reporting entity and statutory base

The Government Superannuation Fund Authority (the **Authority**) was established as a Crown entity by section 15A of the Government Superannuation Fund Act 1956 as amended (the **Act**). The core business of the Authority is to manage and administer the Government Superannuation Fund (the **Fund**) and the Schemes.

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes (the **Schemes**) as prescribed in the Act. A separate financial forecast has been prepared for the Fund. Pursuant to section 19H of the Act, the Schemes are registered under the Superannuation Schemes Act 1989.

The forecast financial statements have been prepared on the basis that the Authority is a going concern. The Authority is an Autonomous Crown Entity for legislative purposes and, as the primary objective is not to make a financial return, the Authority has designated itself a Public Benefit Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**).

2. Basis of preparation

Statement of compliance

The forecast financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004, which include the requirements to comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**). The forecast financial statements comply with other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities.

These forecast financial statements have been prepared for the special purpose of the 2010/2011 Statement of Intent of the Authority for the Minister of Finance. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period are likely to vary from the information presented.

Impact of adoption of NZ equivalents to International Financial Reporting Standards

From 1 July 2007 the Authority adopted NZ IFRS for financial reporting purposes. As the Authority operates without Equity or investments, the adoption of NZ IFRS has no impact on its financial performance and financial position.

Measurement base

The forecast financial statements are prepared on the historical cost basis.

Functional and presentation currency

The reporting currency of the Authority forecast financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars ($000). The functional currency of the Authority is New Zealand dollars.

3. Particular accounting policies

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

a. Forecast figures

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

b. Revenue

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of consideration received/or receivable.

Revenue from the Fund is recognised as earned and reported in the financial period to which it relates.

c. Goods and Services Tax

The Authority is principally an exempt supplier in respect of Goods and Services Tax (**GST**), as it manages superannuation schemes. GST is imposed on imported services if those services would be a taxable supply in New Zealand. The affected transactions for the Authority are fees incurred in relation to the custody of assets and investment reports undertaken overseas. GST on services is not reclaimable and GST is therefore included in expenditure.

d. Statement of Cash Flows

The Forecast Statement of Cash Flows has been prepared using the direct approach.

e. Taxation

As a Public Benefit Entity, in terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

f. Accounting for associates

The Authority has a 50% ownership in Annuitas Management Limited ('Annuitas'). Staff employed by Annuitas act in management roles on behalf of the Authority. Reimbursement of Annuitas costs, calculated on a time basis, are included in the operating expenses of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

4. Changes in accounting policies

All policies have been applied on bases consistent with those used in the year ended 30 June 2009.

5. Investment management expenses

Investment management fees (including custody costs) are forecast to reduce from $20.4 million in 2010 to $18.1 million in 2011. This is primarily due to a reduction in assumed performance fees.

6. Operating expenses

The forecast operating expenses does not include any expenditure on the Business System project. The cost of the project will be capitalised and amortised over 7 years from completion of the project.

7. Recovery of expenses

The forecast expenses of the Authority for the management and administration of the Fund and the Schemes for the 2010/2011 year are $24.62 million. These expenses, net of other revenue of $0.02 million are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers the payments made to the Authority (forecast $24.60 million) partly from the Crown, under a Permanent Legislative Authority (PLA), and partly from non Crown employer contributions.

The payments to the Authority by the Fund are recovered from the Crown and from non Crown employer contributions in proportions determined by the Government Actuary. The Fund currently recovers 79.3% of the payments to the Authority from the Crown and 20.7% from non Crown employer contributions. The Government Actuary has determined that, from 1 July 2010, the Crown's share will be 79.0% (forecast $19.43 million) and the share to be met from the non Crown employer contributions 21.0% (forecast $5.17 million).

The expenses of the Authority include:

- management of the GSF assets (the Fund);
- expenses related to investment management, custodial arrangements and fees for implementing processes for avoiding prejudice to New Zealand's reputation as a responsible member of the world community;
- management of the Schemes, including the agreement between the Authority and the scheme administrator;
- interpretation of the provisions of the Act and the exercising of discretionary powers (set out in the Act); and
- the fee paid to Annuitas under the Management Services Agreement between the Authority and Annuitas.

GOVERNMENT SUPERANNUATION FUND

FORECAST FINANCIAL STATEMENTS

Forecast Income Statement

Estimate 2009/10 $000		Forecast 2010/11 $000
	Increase in assets from:	
460,809	**Investing activities**	247,544
	Operating activities	
26,446	Operating revenue	24,598
(26,446)	Funding the GSF Authority	(24,598)
460,809	**(Deficit)/surplus before tax and membership activities**	**247,544**
(84,016)	Tax	(39,578)
376,793	**(Deficit)/surplus after tax and before membership activities membership activities**	**207,966**
	Membership activities	
623,166	Contributions - Government	678,809
54,982	Contributions - members	47,339
14,102	Contributions - Other entities	13,132
(843,623)	Benefits paid	(870,674)
(151,373)	**Net benefits paid**	**(131,394)**
225,420	**(Deficit)/surplus after tax and after membership activities**	**76,572**
2,804,083	Opening assets available to pay benefits	3,029,503
3,029,503	**Net assets available to pay benefits**	**3,106,075**

FORECAST FINANCIAL STATEMENTS - CONTINUED

Forecast Balance Sheet

Estimate as at 30 June 2010 $000		Forecast as at 30 June 2011 $000
3,071,346	**Investments**	3,081,046
	Other assets	
191,647	Cash and Cash equivalents	170,645
91,178	Receivables and prepayments	106,017
282,825		276,662
3,354,171	**Total assets**	**3,357,708**
	Less	
322,905	Other payables	249,145
1,763	Benefits accrued	2,488
324,668		251,633
3,029,503	**Net assets available to pay benefits**	**3,106,075**
	Estimated actuarial present value of Promised Retirement Benefits	
12,066,000	Gross liability	12,003,000
9,036,497	Deficit	8,896,925
3,029,503	**Net assets available to pay benefits**	**3,106,075**

Note – Deficit

The actuarial present value of promised Retirement Benefits (Gross Liability) is the present value of the expected payments by the fund to existing and past members, attributable to the services rendered. The present value has been calculated by the Government Actuary using a net discount rate.

The Deficit shown in the Forecast Balance Sheet differs slightly from that calculated by the Government Actuary in his actuarial valuation of the Fund, as at 30 June 2009, under NZ IAS26, dated August 2009. The Government Actuary projected a lower value for the assets of the Fund compared with the forecast made by the Authority.

There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes. Reliance is placed by the Authority on the provisions of section 95 of the Act which requires the Minister of Finance to appropriate funds from public money to ensure that sufficient funds are available, or will be available, to pay benefits as they fall due.

FORECAST FINANCIAL STATEMENTS - CONTINUED

Forecast Statement of Cash Flows

Estimate 2009/10 $000		Forecast 2010/11 $000
	Cash flows from operating activities	
	Cash was provided from	
648,894	Contributions - Government	699,109
55,124	Contributions - members	48,188
19,651	Contributions - other entities	18,424
31,429	Income tax refunded	-
61,105	Interest	81,833
	Cash was disbursed to	
(838,506)	Benefits payments	(868,352)
	Income tax	(39,638)
(30,040)	Operating expenses	(25,138)
(52,343)	**Net cash outflows from operating activities**	**(85,574)**
	Cash flows from investing activities	
	Cash was provided from	
5,492,396	Maturities and sales of investment assets	4,237,574
8	Mortgage repayments	
	Cash was disbursed to	
(5,565,422)	Purchase of investment assets	(4,173,002)
(73,018)	**Net cash inflows from investing activities**	**64,572**
(125,361)	Net increase in cash held	(21,002)
317,008	Opening cash brought forward	191,647
191,647	**Closing cash balance**	**170,645**

FORECAST FINANCIAL STATEMENTS - CONTINUED

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

Estimate 2009/10 $000		Forecast 2010/11 $000
225,420	**Net (decrease)/increase in net assets**	76,572
	Non-cash items	
87,536	Deferred tax assets	
(2)	Capitalised interest	
1	Mortgage management expense	
87,535		0
	Add/(less) movements in working capital items	
14,700	(Increase)/decrease in receivables and prepayments	(24,826)
11,365	Decrease in other payables	(52,150)
(307)	(Decrease)/increase in benefits accrued	725
25,758		(76,251)
	Add/(less) items classified as investing activities	
1,609	Increase in accrued interest portion of fixed interest bonds	4,345
(398,872)	Increase in net market values of investment assets	(165,112)
25,466	Increase in investment receivables	23,659
(19,259)	(Decrease)/increase in investment payables	51,213
(391,056)		(85,895)
(52,343)	**Net cash outflows from operating activities**	**(85,574)**

STATEMENT OF ACCOUNTING POLICIES

1. Reporting entity and statutory base

The Government Superannuation Fund (**the Fund**) was established by section 13 of the Government Superannuation Fund Act 1956 (**the Act**). It consists of the assets held in respect of various defined benefit superannuation schemes (**the Schemes**) prescribed in the Act. Pursuant to section 19H of the Act, the Schemes are registered under the Superannuation Schemes Act 1989.

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

As the primary objective of the Fund is to make a financial return, the Authority has determined the Fund is a profit oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

2. Basis of preparation

Statement of Compliance

The forecast financial statements meet the requirements of section 15N of the Act and comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**).

The forecast financial statements also comply with New Zealand equivalents to NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (IFRS).

These forecast financial statements have been prepared for the special purpose of the 2010/2011 Statement of Intent of the Authority for the Minister of Finance. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

Impact of adoption of NZ equivalents to NZ IFRS

From 1 July 2007 the Fund adopted NZ IFRS for financial reporting purposes.

Taxation Adjustment

Under NZ IFRS (NZIAS 12 Income Taxes), deferred tax is calculated and provided using the liability method. This may result in temporary differences arising between the carrying amounts of assets and liabilities used for accounting purposes and the amounts used for tax purposes.

Measurement Base

The forecast financial statements have been prepared on the basis of historical cost with the exception that certain assets and liabilities are measured at fair value.

Functional and presentation currency

The reporting currency of the Fund is New Zealand dollars. All values are rounded to the nearest thousand dollars ($000). The functional currency of the Fund is New Zealand dollars.

3. Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of changes in net assets, net assets and cash flows, have been consistently applied:

a. Reporting requirements

The forecast financial statements have been drawn up in accordance with all relevant New Zealand equivalents to NZ IFRS. NZ IFRS including Standard NZ IAS 26: *Accounting and Reporting by Retirement Benefit Plan*, and with the provisions of relevant legislative requirements.

b. Investments

Investments are recorded on a trade date basis and are stated at fair value.

c. Actuarial valuation

The actuarial present value of promised retirement benefits is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered.

d. Financial instruments

The Fund is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, receivables and payables. Financial instruments, including derivatives that are hedges of specific assets, are recognised on the same basis as their underlying hedged assets. All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Income Statement.

Investments are recorded at fair value and all other financial instruments are shown at their estimated fair value.

e. Other receivables

Receivables are stated at their estimated realisable value.

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

f. Investment income and expenses

Dividend income is recorded on the ex dividend date. Interest is recorded on an accrual basis.

Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses, at the end of the year, are included in the Income Statement.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered in accordance with section 15E of the Act.

g. Operating revenue

In terms of section 15E(1) of the Act, the administration expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Both the Crown and other employers reimburse the Fund under section 95 of the Act for the Authority's expenses.

h. Contributions and benefits

Contributions are recognised in the Income Statement, when they become receivable, resulting in a financial asset for amounts receivable from both employees and employers.

Benefits are recognised in the Income Statement when they become payable, resulting in a financial liability for current payments owing.

i. Taxation

Income taxation expense includes both the current year's provision and the income tax effects of temporary differences, calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all temporary differences. A balance in the deferred tax account, arising from temporary differences or income tax benefits from income tax losses, is only recognised where there is virtual certainty of realisation.

j. Statement of Cash Flows

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

Operating activities include all transactions and other events that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.

Cash and other cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund and its managers invest as part of its day to day cash management.

k. Consolidation

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

4. Changes in accounting policies

There are no significant changes in accounting policies.

5. Tax

For the 2010 financial year, the Fund is estimating a surplus from investing activities of $460.8 million. A tax asset of $87.5 million was recognised in 2009 resulting from the loss incurred in that year. The expectation is that the tax asset will be fully offset against future taxable income in the 2010 financial year.