Annual Report 2019

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

Weaving together the past, present and future

Investing now

on behalf of the next generation of New Zealanders…
to help grow a more prosperous tomorrow.

OUR MISSION:

Maximise the Fund's return over the long-term, without undue risk, so as to reduce future New Zealanders' tax burden.

2018/19 MAJOR ACHIEVEMENTS:

- Increased Fund size by NZD3.7 billion and added NZD261 million over our passive benchmark, the Reference Portfolio.
- Developing our 'long-term target state' strategy to prepare us for future growth in the size of the Fund.
- Shifted our IT infrastructure to the cloud, with opportunities identified to add value to how we operate.

PRIORITIES FOR 2019/20:

- Review the composition of the Fund's Reference Portfolio.
- Establish an integrated framework for the talent life cycle to improve our ability to build and maintain a great team.
- Establish a framework for control effectiveness assessments and key risk indicators for our top risks.

FUND SIZE

$43,113,076,000

(AFTER COSTS, BEFORE NZ TAX)

2018/19 RETURN

7.02%

(AFTER COSTS, BEFORE NZ TAX)

INCREASE IN FUND SIZE 2018/19

$3.7b

(BEFORE NZ TAX)

VALUE ADDED IN 2018/19

$261m

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

VALUE ADDED SINCE INCEPTION

$8.32b

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

FUND RETURNS
As at 30 June 2019

ACTUAL FUND RETURN
(after costs, before NZ tax)

- 10.15% p.a.
- 14.04% p.a.
- 7.02%

VALUE ADDED BY GUARDIANS
(compared with passive Reference Portfolio benchmark)

- 1.43% p.a.
- 2.62% p.a.
- 0.67%

NET RETURN
(returns over and above the 90-day Treasury Bill return – the Government's marginal cost of debt)

- 6.25% p.a.
- 11.63% p.a.
- 5.36%

● Since Inception (September 2003) ● 10 Years ● 1 Year

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HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards core option. It describes the performance of the New Zealand Superannuation Fund (the 'Fund') and the Guardians of New Zealand Superannuation (the 'Guardians'), the Crown entity that manages the Fund, over the 2018/19 financial year.

The Overview of the Guardians and the Fund section includes a performance summary, who we are and what we do, key achievements and future priorities. For more depth, the remainder of the report details four important aspects of the Guardians and the Fund: investment performance and activities, governance, an overview of operations during the year and financial statements.

An overview of the report and supplementary information is available on www.nzsuperfund.nz. The overview includes video interviews with our Chair and Chief Executive Officer. The supplementary information includes a GRI Index and a list of the Fund's global equity holdings as at 30 June 2019.

Previous annual reports, including the last report (2017/18), are available on www.nzsuperfund.nz/publications/annual-reports.

We welcome feedback to help us improve our reporting. Comments can be directed to enquiries@nzsuperfund.co.nz.

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OVERVIEW OF THE GUARDIANS AND THE FUND

This section provides high-level information on the purpose and mandate of the Guardians and the Fund, including a snapshot of our performance and key highlights from the 2018/19 financial year. It also provides detail on our people-related initiatives.

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INVESTMENT REPORT

Following on from the information provided in the Overview, the Investment Report provides details on the Fund's performance, including comparisons with previous years. This section also contains investment case studies, a feature on our climate change strategy and a Responsible Investment Report.

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GOVERNANCE

This section provides detailed information on the Guardians' governance structure and principles. We discuss our risk management approach and provide detail on our remuneration and discretionary incentive scheme.

04

OPERATIONAL REPORT

Information on our operational activities, as well as our environmental performance, is covered in the Operational Report.

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STATEMENT OF PERFORMANCE

This section provides a report on our performance, benchmarked against our Statement of Performance Expectations and information on our external managers and custodians.

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FINANCIAL STATEMENTS

As well as the financial statements for the Guardians and the Fund, this section provides an overview of key elements such as tax and a five-year financial summary.

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APPENDIX

Where possible, we have tried to avoid the use of industry-specific words and language. In some cases, however, in the interest of brevity and clarity, these words are unavoidable. Industry terms are explained in our Glossary. This section also provides our compliance statements.

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Overview of the Guardians and the Fund

He Tiro Whānui ki ngā Kaitiaki me te Tahua

01

OVERVIEW

Investing for the long term

The Guardians invests money, on behalf of the Government, to help pay for the increased cost of universal superannuation payments (New Zealand Superannuation) in the future.

WHAT IS THE CHALLENGE THE FUND IS HELPING TO SOLVE?

All New Zealanders aged 65 and over are eligible to receive New Zealand superannuation payments (also known as the pension, National Super, Government Superannuation or Super). The Government pays for these through taxes paid by today's taxpayers. In a nation such as New Zealand with an ageing population, the burden of funding a pay-as-you-go national superannuation scheme falls on a proportionally shrinking group of working-age New Zealanders. These demographic changes mean that in order to keep funding universal superannuation, future generations face a much higher tax burden than their predecessors.

HOW DO WE FIT IN?

The Fund was created as a means of partially pre-funding (save-as-you-go) future retirement benefits to help smooth the cost of New Zealand superannuation between today's taxpayers and future generations. The New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

- the New Zealand Superannuation Fund (the Fund), a pool of assets on the Crown's balance sheet; and
- the Guardians of New Zealand Superannuation (the Guardians), a Crown entity charged with managing the Fund.

Between 2003 and 2009, the Government contributed NZD14.88 billion to the Fund. Contributions were suspended in 2009, during the Global Financial Crisis, and were restarted in December 2017. The Government contributed NZD1 billion to the Fund in 2018/19 and is projected to contribute a further NZD3.58 billion over the next two years. Full funding, as per the formula in the Act, is projected to commence from 2022.

From around 2035/36, the Government is expected to begin to withdraw money from the Fund to help pay for New Zealand superannuation. On current forecasts, a larger, permanent withdrawal period will commence in 2053/54. The Fund is expected to peak in size as a percentage of GDP in the early 2070s (see **www.treasury.govt.nz/government/assets/nzsf/** for the contribution rate model for projections by New Zealand Treasury).

On current Treasury projections, capital withdrawals from the Fund will be meeting 10% of the net cost of superannuation by 2066, peaking at 12.7% in 2077, and averaging 11.2% for the 30 years to 2090. The Fund will also be paying tax to the Government in addition to the capital withdrawals. At the Fund's peak, the capital withdrawals and tax payments combined will total 21.2% of the total net cost of New Zealand Superannuation and more than 45% of the incremental cost increase due to the rising proportion of retirees in the population.

In this way, the Fund adds to Crown wealth, improves the ability of future Governments to pay for superannuation and, ultimately, reduces the tax burden on future New Zealanders.

WHAT DO WE DO?

The Guardians invests the money the Government has contributed in a growth-oriented and diversified global portfolio of investments: the Fund. The Guardians has operational independence from the Government regarding its investment decisions.

September 2018 marked 15 years since the Guardians began investing with an initial contribution of NZD2.4 billion from the Government. Returns since then have averaged 10.15% per year (after costs, before NZ tax), significantly ahead of both the Government's cost of debt and our passive benchmark, meaning the burden on future taxpayers of the cost of superannuation has been materially reduced as a result of the existence and performance of the Guardians and the Fund.

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Our mandate

By serving its mandate, the Fund adds to Crown wealth, improves the ability of future governments to pay for superannuation and reduces the tax burden of the cost of superannuation on future generations of New Zealanders.

OUR MANDATE

Under the Act, the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- best-practice portfolio management;
- maximising return without undue risk to the Fund as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

OUR MISSION

Maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.

OUR VISION

A great team building the best portfolio.

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Our values

The past year saw the introduction of a new set of values.

Our previous values had been in place for many years, formed before most of our current staff arrived to work at the Guardians. Having marked our 15th anniversary in September 2018, we felt it was time to rethink and develop a new set of values to guide our culture over the next decade.

A values project team was assembled to lead the project, with all staff asked to provide stories and narratives about their experiences over the course of their employment with the Guardians. The project team reviewed each individual story to identify clusters and common themes. Eventually, a set of four provisional values were identified, which were then work-shopped with staff. In early June 2019, we launched our four final, agreed-on organisational values.

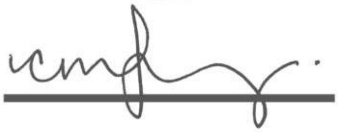
Our values:

- ***We Stand Strong***: We are transparent and clear in our purpose and approach. We lean into the hard times and keep a clear head during the good times. In a world of sudden change and unexpected events, there is often pressure to change our minds or yield to the immediacy of the situation. Our foundations are deep but not fixed. We stand strong, together.
- ***We Support Each Other***: We look out for each other and make sure we succeed together. Our job is often difficult, and we must respond quickly to disruption. We understand that our work lives are busy; we celebrate the good times and support each other in the hard times.
- ***Future Focused***: We take a long-term view. Every decision we make today will have an impact in years to come. In a world that is often constrained by short-term thinking, we rise above the noise of the present and consider the future. What would the future me think of this decision?
- ***Team Not Hero***: Success is determined by the strength of our team. We succeed and fail together. None of us is perfect, and our ability to pick each other up and learn from our mistakes makes us stronger. Teamwork is a force multiplier. We debate constructively – trust and communication are the cornerstones of our work.

CHAIR'S STATEMENT
TE TAUĀKĪ A TE KAIHAUTU

For the next generation

Mō te Whakatupuranga Hou



CATHERINE SAVAGE
CHAIR

E manawareka ana anō ahau ki te pūrongorongo i ngā mahi a Ngā Kaitiaki i te tau pūtea kua taha ake nei. Ka āta arohia e mātou ko aku hoa o te Poari, tae atu ki ngā kaimahi kei roto i te ohu o Ngā Kaitiaki tō mātou haepapa hei kaitiaki mō te puna o ngā rawa a te motu e pēnei ana te nunui.

TE WHAI HUA O TE TAHUA

E pērā tonu ana te kaha o ngā hua haumi, otirā, e 7.02% te rahi o ngā hua i hoki mai ki te Tahua (i muri i ngā whakapaunga pūtea, i mua i te tangohanga o ngā tāke i Aotearoa) i tēnei tau pūtea tino totoa nei, i te tau 2018/19. E 261 miriona tāra Aotearoa nei, ko te 0.67% rānei te tuhene i te Paerewa Tūāpapa, i tō mātou paeraro e takoto noa ana.

Nā tēnei hua pai, kua piki ngā hua haumi o te Tahua, mai i tōna tīmatanga i te tau 2003 ki te 10.15% i te tau. – E 8.3 piriona tāra Aotearoa nei te tuhene i te paeraro o te Paerewa Tūāpapa. Tirohia te whārangi 44 e kitea ai ngā taipitopito e pā ana ki te āhua o tā mātou puta ki tua o te paeraro, tirohia hoki te whārangi 122 e kitea ai te whai hua o te Tahua i tā CEM rangahau i te paeraro i runga i te utu ā-ao me te tāpiri uara.

E TAKATŪ ANA KIA TUPU

Nā te tautini o te tūnga o Ngā Kaitiaki me te Tahua, e whai tikanga ana tā mātou aromātai i tā mātou whāinga matua i ōna wā, me tā mātou arotake mehemea rānei e tutuki haere ana i a mātou taua whāinga. Ehara i te mea e māmā ana te ū tonu ki te tirohanga pae tawhiti; tērā tonu ka tūpono mau i te koke ā-ūpane (te whakaaro wā-poto) i ā mātou kōwhiringa rautaki. Nō reira, ko tētahi o ngā arotahi matua a te Poari mō ngā tau torutoru e haere ake nei, ko te aromātai i te 'āhua o te whakamau ki te pae tawhiti' mō te whakahaere. I tēnei tau, i pātai mātou me pēhea tā Ngā Kaitiaki whakapakari i ōna pūkenga me te whakawhānui i ngā

Once again, I am pleased to report on the activities of the Guardians over the past financial year. My fellow Board members, along with the team of staff that makes up the Guardians, take our responsibility as stewards of such a significant pool of the nation's capital very seriously.

FUND PERFORMANCE

Continuing its run of strong investment returns, the Fund returned 7.02% (after costs, before NZ tax) over what was a very volatile 2018/19 financial year, exceeding the Reference Portfolio, our passive benchmark, by NZD261 million or 0.67%.

This good result brings the Fund's return since inception in 2003 to 10.15% p.a., NZD8.3 billion more than the Reference Portfolio benchmark. See page 44 for more detail on how we beat the benchmark and page 122 for our performance in CEM's global cost and value-add benchmarking study.

PREPARING FOR GROWTH

Given the long lifespan of the Guardians and the Fund, it is important that periodically we take stock of our ultimate goal and assess whether we are on track to achieve it. Holding true to a long-term view is not always easy; we do risk being captured by incrementalism (short-term thinking) in our strategic choices. Therefore, a key focus for the Board over the next few years will be an assessment of the 'long-term target state' for the organisation. This year, we considered how the Guardians should build capabilities and capacity to ensure we remain fit for purpose to fulfil our mandate over the long term, confirming the building blocks of our investment strategy, including what we should do more or less of. More detail on our long-term target state planning can be found on page 72.

āhuatanga o roto i te whakahaere, e hāngai ai mātou ki te kaupapa e tū nei mātou hei whakatutuki i te take i whakatūria ai mātou, i ngā tau roa, me te whakaū i te tūāpapa o tā mātou rautaki haumi, tae atu ki ngā mahi me nui ake te whai, me iti iho rānei te whai. Ka kitea ētahi taipitopito anō e pā ana ki ā mātou mahi whakamahere i te āhua o te whakamau ki te pae tawhiti, ki te whārangi 72.

TE AROTAKE MOTUHAKE

I ia rima tau, ka rere tētahi arotake motuhake i Ngā Kaitiaki me te Tahua. He here tēnei kei te ture nāna mātou i whakatū, ā, ko tā te arotake he tirotiro mēnā e ū ana mātou ki ngā herenga ā-ture kei runga i a mātou, mēnā hoki e tika ana tā mātou tiaki i te pūtea a te motu (ngā penanga pūtea). He huarahi whai tikanga te arotake motuhake hei whakamātau i ā mātou kaupapa here, i ā mātou tukanga me ō mātou whakaaro i te taha o ngā tikanga pai katoa e whāia ana i te ao whānui. Mā konei e noho māoriori ai te Kāwanatanga me ngā tāngata o Aotearoa whānui i runga i te mōhio e tika ana ngā pūkenga o Ngā Kaitiaki, hei whakahaere whānui, e pā ana ki ngā tāngata, ki ngā anga hautū me ngā hangarau. I tēnei tau, nā Willis Towers Watson i whakahaere te arotake motuhake. Ko te whakatau i te arotake, e whakatutuki ana a Ngā Kaitiaki i ngā mahi i ngā taumata o ngā tikanga pai katoa ā-ao whānui, ka mutu, e whakaae ana a Willis Towers Watson kua tika ngā whakapaunga kaha me te whaihua o tā Ngā Kaitiaki whakatutuki i te take i whakatūria ai ia me tāna whāinga. Ka kitea te matapakihanga o tā Willis Towers Watson arotake motuhake ki te whārangi 75. Kei tā mātou pae tukutuku anō hoki tētahi kape o te arotake.

NGĀ PANONITANGA I TE POARI

I te pito tōmua o te tau pūtea, tokotoru ngā mema hou i whakatauria ai e mātou ki te Poari: Ko Simon Botherway tētahi, i piri mai rā ki te Poari i a Ākuhata, 2018; ko Henk Berkman rāua ko Catherine Drayton ērā atu. I tīmata a Henk i a Oketopa, ā, i tīmata a Catherine i a Noema, 2018. Kua kawea mai e ō mātou mema hou ngā mātauranga mātuatua e pā ana ki te haumi pūtea, ngā tirohanga hou me ētahi momo wheako. Māringanui ana mātou i tō rātou piringa mai. Kei te whārangi 23 ngā haurongo whānui o ō mātou mema hou o te Poari e takoto ana. Me mihi hoki, ka tika, ki a Lindsay Wright rāua ko Dr Craig Ansley, ki ngā mema tūroa o te Poari i rītāia rā i roto i te tau pūtea kua taha ake nei.

TE MANA KŌKIRI I NGĀ HAUMITANGA KI NGĀ KAUPAPA WHAIHUA NUI

I a Mei i tēnei tau, i pānuitia e te Kāwanatanga tana takune kia whakaritea he tahua hou mō ngā haumitanga ki ngā kaupapa hou, e 300 miriona tāra Aotearoa nei te rahi, hei whakahaere mā Ngā Kaitiaki i runga i tētahi mana kōkiri e hou ana. I te tauira e marohitia ana e te Kāwanatanga, mā Ngā Kaitiaki e tohu te New Zealand Venture Investment Fund (NZVIF) ki te whakahaere i tētahi huinga tahua, ā, māna, mā NZVIF e tohu ētahi kaiwhakahaere tahua hei haumi ki ngā kaupapa hou i te rāngai tūmataiti. Mā aua kaiwhakahaere tahua, nō Aotearoa, nō te ao whānui anō hoki, e kōwhiri ngā kamupene hei taunga mō ngā haumitanga. I te tau kua taha ake nei, e whakarite ana a Ngā Kaitiaki i te ture, i te anga haumi me ngā tawhā o te mana kōkiri o te tahua hou i te taha o ngā māngai o te Kaitohutohu Kaupapa Rawa, o Hīkina Whakatutuki me NZVIF. He tohu te mana kōkiri e hou ana nō te whakapono ki te mātau o Ngā Kaitiaki me ngā hua kua puta i a ia, ā, e anga whakamua ana ki te whakataranga hou.

INDEPENDENT REVIEW

Every five years there is an independent review of the Guardians and the Fund. It is a requirement in our founding legislation, and operates as a check that we are complying with our statutory obligations and that we are looking after the nation's pūtea (savings) as we should. The independent review is a valuable opportunity to test our policies, processes and thinking against global best practice. It allows the Government and New Zealanders generally to gain assurance that the Guardians as a whole has the right capabilities in terms of people, governance structures and technologies. This year, the independent review was carried out by Willis Towers Watson. The review concludes that the Guardians is operating at global best-practice levels, with Willis Towers Watson satisfied with the efficiency and the effectiveness of the Guardians in being able to achieve its mandate and mission. A discussion of the Willis Towers Watson independent review is available on page 75. A copy of the review is also available on our website.

BOARD CHANGES

Early on in the financial year, we welcomed three new Board members: Simon Botherway, who joined the Board in August 2018, and Henk Berkman and Catherine Drayton, who began in October and November 2018 respectively. Our new members have brought significant investment knowledge, fresh perspectives and a diverse array of experience. We are fortunate to have them join us. Full biographies of our new Board members are set out on page 23. Great thanks are due to Lindsay Wright and Dr Craig Ansley, two long-standing Board members who retired over the past financial year.

VENTURE CAPITAL MANDATE

In May this year, the Government announced its intention to create a new NZD300 million venture capital fund administered by the Guardians under a new mandate. Under the model proposed by the Government, the Guardians would appoint the New Zealand Venture Investment Fund (NZVIF) to manage a fund-of-funds, with NZVIF in turn appointing a number of private sector venture capital fund managers. These fund managers, which will include both domestic and international managers, will select the companies to invest in. Over the past year, the Guardians has been working on the legislation, investment structure and mandate parameters of the new fund alongside representatives from Treasury; the Ministry of Business, Innovation and Employment; and NZVIF. We see the new mandate as a vote of confidence in the Guardians' expertise and track record and look forward to the new challenge.

CHAIR'S STATEMENT
TE TAUĀKĪ A TE KAIHAUTU

HE KUPU WHAKAKAPI

E hiahia ana ahau ki te whakamihi ake i ngā rawa e tukua tonuhia mai ana ki te Tahua e te Kāwanatanga o Aotearoa, i tīmata anō rā i a Tīhema 2017, i muri i te whakatārewatanga mō ngā tau e waru. Ā mohoa, kua tukua mai e te Kāwanatanga te 16.38 piriona tāra Aotearoa nei ki te Tahua. I muri i te tāke kua utua e te Tahua ki te Kāwanatanga, ko te rahi o ngā tukunga, ko te 9.9 piriona tāra Aotearoa nei. I te 30 o Hune, 2019, e 43.11 piriona tāra Aotearoa nei te rahi o te Tahua, e 6.25% te rahinga ake o tēnei i te hua e hoki mai ana i te New Zealand Treasury Bill (he inenga tēnei i te utu o tā te Kāwanatanga tuku rawa mai ki te Tahua, tēnā i tāna whakamahi kē i aua moni hei utu i ngā pūtea taurewa).

I taku tūranga hei Toihau, e anga whakamua ana ahau ki te mahi ngātahi me ngā hunga whai pānga, tae atu ki te Kāwanatanga o Aotearoa, haere ake nei. He wāhi nui tō te Tahua hei whakaū i te kaha o Aotearoa ki te utu i ngā penihana Kāwanatanga whānui hei ngā tau kei te heke mai. I tā mātou tū roa hei kaihaumi pūtea, e mōhio ana mātou ko tā mātou he whakarite taiao haumi e horomata ana, ka ora tautini anō hoki. E takatū nei mātou ki te āwhina, i te taha o te ratonga tūmatanui o Aotearoa, e noho ai ngā whakatupuranga hou o ngā tāngata o Aotearoa i runga i te whai rawa, i te whai tikanga me te whai take.

CONCLUDING REMARKS

I would like to acknowledge the continuing capital contributions made to the Fund by the Government, resumed in December 2017 after an eight-year suspension. To date, the Government has contributed NZD16.38 billion to the Fund. Net of the tax the Fund has paid to the Government, contributions are NZD9.9 billion. As at 30 June 2019, the Fund stands at NZD43.11 billion (after costs, before NZ tax), outperforming the New Zealand Treasury Bill return (a measure of the cost to the Government of contributing capital to the Fund, instead of using the money to repay debt) by 6.25% p.a.

As Chair I look forward to working closely with our key stakeholders, including the Government. The Fund has an important role to play in safeguarding New Zealand's ability to fund universal superannuation payments in the future. As a long-term investor, we acknowledge our role in creating a virtuous and sustainable investment environment. We stand ready to assist, along with the rest of the New Zealand public service, in helping to ensure that future generations of New Zealanders have the opportunity to live lives of prosperity, purpose and meaning.

CHIEF EXECUTIVE OFFICER'S STATEMENT
TE TAUĀKĪ A TE TUMU WHAKARAE

We stand strong, together

Tū pakari, tū ngātahi

MATT WHINERAY
CEO

Ko te Hune kua taha ake nei te tohu o te paunga o taku tau tuatahi hei Tumu Whakarae mō Ngā Kaitiaki. Kua waimarie ahau ki te ārahi i tētahi ranga e whai pūmanawa ana, e herea ana i runga i te kaha o te ū ki te kaupapa.

He nui te pukumahi o te ranga i tēnei tau. I whai wā mātou ki te huritao i a mātou anō hei whakahaere, nāwai ka whakaputaina he huinga uara hou hei ārahi i a mātou ki anamata (tirohia te whārangi 11 mō ngā kōrero e pā ana ki ō mātou uara hou). I whakatauria e mātou tētahi Āpiha Haumi Matua, a Stephen Gilmore (tirohia te whārangi 25 mō te haurongo o Stephen). I a mātou ka tupu hei whakahaere, e whakapae ana au ka tino whai hua ki a mātou ngā wheako me te tirohanga o Stephen. I whakapakari tonu mātou i ō mātou pūkenga hei whakahaere, i kitea hoki he kokenga i ā mātou whakapaunga kaha i tā mātou anga tūraru, i ngā whakaritenga pūmanawa, i te whakahaere raraunga me te hangarau. Ahakoa he tau uaua tēnei i te wāhi tauhokohoko, me te noho mōrearea i ētahi wā, i whai hua ā mātou rautaki haumi mōrea nui i runga ake i tō mātou paeraro e takoto noa ana, i te Paerewa Tūāpapa.

TE WHAKARITE I NGĀ TŪRARU ME NGĀ HUA HAUMI

I tā mātou Pūrongo ā-Tau o mua i tēnei, i matapaki mātou i te āhua o tā mātou whakarite i ngā tūraru o te wāhi tauhokohoko me te noho mōrearea, tae atu ki te whānuitanga o ngā hua haumi tērā tonu ka hoki mai i roto i ngā tau tini. Nā te roa o te takahi e tae ai ki te pae tawhiti me tō mātou mōhio ki te noho wātea mai o te moni ki a mātou – e mōhio ana mātou ki te wā e tīmata ai te Kāwanatanga ki te tango pūtea i te Tahua – ā, e tutuki ai te mahi i whakatūria ai mātou, arā, "kia nui rawa atu ngā hua haumi ka hoki mai, me te kore i noho mōrearea noa", kua āta whakaritea kia rawa whaihua nui te nuinga o tā mātou huinga haumi. He tauira pai tēnei tau nō te noho mōrearea kua puta i tā mātou kōwhiringa kia rawa whaihua nui te nuinga o tā mātou huinga haumi. E rua ngā wāhanga matua i puta ake. Nā te tōraro o ngā

This June marks my first year as Chief Executive of the Guardians. To lead a team of talented people, bound together by a strong sense of purpose, has been a privilege.

It has been a busy year for the team. We spent some time reflecting on ourselves as an organisation, leading to the development of a new set of values to help guide us into the future (see page 11 for more about our new values). We welcomed a new Chief Investment Officer, Stephen Gilmore (see page 25 for Stephen's biography). As we grow as an organisation, I expect Stephen's experience and vision will prove invaluable. And we continued to strengthen our capability as an organisation, with progress made across our risk structure, talent planning, data management and technology efforts. Despite a challenging year in the markets, including several bouts of volatility, our active investment strategies delivered value over and above our passive benchmark, the Reference Portfolio.

MANAGING RISK AND RETURN

In our last Annual Report, we discussed how we manage market risk and volatility and the range of possible returns we expect over the long run. Because of our long-term horizon and our known liquidity profile, we know when the Government will start to make withdrawals from the Fund – and in order to meet our mandate of 'maximising returns without undue risk', our portfolio is deliberately weighted towards growth assets. This year has been a good example of the volatility inherent in our choice of a portfolio weighted towards growth assets. It was literally a game of two halves. Negative returns from growth assets over the first half of the year saw the Fund decline to a low point on Christmas Day 2018, before rebounding strongly to finish the year just over 7%.

CHIEF EXECUTIVE OFFICER'S STATEMENT
TE TAUĀKĪ A TE TUMU WHAKARAE

hua i puta mai i ngā rawa whaihua nui i heke ai te Tahua ki tētahi paeraro i te Rā Kirihimete, 2018, kātahi ka kaha te piki kia paku neke atu i te 7% tōna pae whakamutunga mō te tau.

Nā te whakaae ki te noho mōrearea i te wāhi tauhokohoko i te āhua o ngā rawa whaihua nui, e mōhio ana mātou tērā tonu ka mōrearea i te kaha hekenga o ngā uara i te wāhi tauhokohoko. E toitū ana te Tahua ki te kaupare i aua hekenga, nā te mea kāore he take o te tango moni i reira i roto i te wā poto. He putanga e tāria ana te noho mōrearea o te hua haumi o te Tahua mō te wā poto, nā tō mātou huinga haumi e mātotoru ana i ngā rawa whaihua nui. Ka noho aua hekenga hei "nama ā-pepa" me te torutoru o ngā pānga tūroa ki te kaha o tā te Tahua whakatutuki i tāna kaupapa, mehemea rā ka ū ki te tirohanga pae tawhiti ahakoa ngā ākinga i te wā poto.

I te āhua o te wāhi tauhokohoko, ki te kore ētahi atu āhuatanga e puta ake, e matapaetia ana e mātou ka iti iho ngā hua haumi ka puta i te huinga haumi hei ngā tau torutoru e haere ake nei i ngā hua haumi tino nui kua kitea e mātou mai i te Tauheke Ōhanga o te Ao, ā, tērā pea ka iti iho i tō mātou tau-toharite tūroa. Tirohia te whārangi 46 e kitea ai he pārongo anō. E noho tonu nei mātou i runga i te ngākau arohaehae ki ngā whakapaunga haupū rawa, ka arotahi ki ngā haumitanga ka tautoko i tā mātou tū hei kaihaumi tūroa, me te whai anō i ngā huarahi hei hoko rawa pai i te wā e noho mōrearea ana te wāhi tauhokohoko.

TE WHAKAMAHI HAUPŪ RAWA E HURI AI

He nui rawa ngā wā ka ākina ngā kamupene e ō rātou kāhui whai hea me ngā kaituku pūtea taurewa kia arotahi atu ki te uara wā poto. Ko te hua ka puta pea i tēnei, ka iti iho te arohia o te whakahaerenga o ngā tūraru ā-taiao o anamata me ngā tūraru ā-hapori tēnā i ngā hua ā-hauwhā tau, i te hekenga o te aronga ki te tupuranga tūroa kia piki ai ngā inenga ā-pakihi wā poto. Ka whakawhānuihia ngā whakapaunga kaha a te Sustainable Finance Forum i te whārangi 63. He rōpū tēnei e hautū tahingia ana e māua ko Karen Silk nō Westpac.

Ko te pūtea tautini e hāngai pū ana ki te wā roa – arā, ko te tō mai i ngā pānga tūroa o ngā mahi ā-pūtea ki ngā whakatau o nāianei e pā ana ki te haumi me te tuku pūtea taurewa, ko te whakaū hoki i ngā haumitanga e tau ai te uara i roto i ngā tau roa. Me mātua whai tēnei mātanga mō te whakapaunga pūtea me te whakahaere pakihi e kitea ai he rongoā ukiuki mō ngā whakataranga tino mātuatua kei te aroaro o tō tātou motu: ko te mahana haeretanga o te ao, ko te tūkinotanga o te taiao, ko te pōharatanga me te tuakokatanga. He wāhi nui tō ngā pēke, tō ngā kaihaumi, tō ngā kaituku inihua anō hoki ki te whakahaere i te rerenga o te pūtea ki ngā kaupapa me ngā tenenga me whai e tutuki ai ā mātou whāinga mō te whanaketanga tautini.

Kua whakatakoto mātou i te kokenga o te whakawhanaketanga, i kitea rā i tēnei tau, o tā mātou rautaki haumi mō te mahana haeretanga o te ao ki te whārangi 54. Kua whakahāngaihia ngā tīpokanga mō te mahana haeretanga o te ao ki ngā rawa ā-hea katoa o te Tahua e āta kōwhiria ana hei whai, e whakatauria ana rānei. Kua hangā hoki e mātou tētahi huinga horopaki mō te mahana haeretanga o te ao hei wāhi mō te anga whakatau uara mō te mahana haeretanga o te ao i hangā ai e mātou i tērā tau.

By taking on the market risk associated with growth assets, we accept the risk that markets may experience sharp drops in value. The Fund is well placed to withstand such losses as there is no immediate need to withdraw capital from it. Short-term volatility in the Fund's return is an expected outcome of our growth-oriented portfolio. These fluctuations can be treated as 'paper losses' with few long-term ramifications for the Fund's ability to fulfil its purpose, so long as the ability to look through the short term is maintained.

All else being equal, given the market environment, we expect returns from the portfolio over the next few years to be lower than the very strong returns we have seen since the Global Financial Crisis, and possibly lower than our long-term average (see page 46 for more information). We remain discerning about deploying capital, focusing on investments that play to our advantages as a long-term investor and looking for good buying opportunities in the midst of market volatility.

MOBILISING CAPITAL FOR CHANGE

Too often companies are encouraged by their shareholders and lenders to focus on short-term value. In practice, this can mean that the management of future environmental and social risks is given a lower priority than quarterly results, as long-term growth is traded off in favour of short-term metrics. On page 63 we detail the efforts of the Sustainable Finance Forum, a forum that I am co-chairing alongside Westpac's Karen Silk.

Sustainable finance is ultimately about the long term – bringing the long-term consequences of financial practices into today's investment and lending decisions and making investment commitments where the value will be realised over the long-term. This expenditure and business expertise is needed if we are to find lasting solutions to the very significant challenges facing our country: climate change, environmental degradation, poverty and homelessness. Banks, investors and insurers play a vital role in facilitating the flow of capital to the projects and innovations needed to achieve our sustainable development goals.

On page 54 we set out the progress we made this year in further developing our Climate Change Investment Strategy. Climate change-related exclusions have now been applied across almost all of the Fund's equity holdings, both passive and actively managed. We have also developed a set of climate change scenarios as a part of the valuation framework we developed last year.

NGĀ PANONITANGA Ā-WHAKAHERE

I muri i te whakataunga kāore he painga taketake o mātou i te haumitanga whakahaere pakihi ki tāwāhi, ā, me arotahi kē mātou ki te whakatairanga i ngā hononga o ō mātou kaiwhakahaere o waho hei whakaū i aua haumitanga, pērā i ngā hanganga haumi ngātahi, i whakakorea rā e mātou te rōpū International Direct, me te aha, kotahi te tūranga mahi i whakamutua.

I tohaina ngā haepapa i te huinga haumi me ngā kaimahi e noho tonu ana ki te rōpū Externally Mangaged Investments and Partnerships me te rōpū NZ Direct Investment, e kīia nei ināianei ko te rōpū Direct Investment. Nā ēnei panonitanga, kua wātea ngā kaimahi ki te whai wāhi atu ki te whānuitanga ake o ngā haumitanga, ā, kua whakatūria ētahi tūranga hou, hei whakahōhonu i te puna, otirā, o te hunga kaitātari. E tū tonu ana te Tahua hei pou toko whai-hea i tana huinga o ngā haumitanga whakahaere pakihi i tāwāhi, ā, e whakahaere tonu ana mātou i aua haumitanga i roto i te pakihi.

141 ngā tāngata kei roto i te ohu o Ngā Kaitiaki ināianei. He pikinga tēnei i te 130 i te mutunga o tērā tau. I te whakahaere e tupu tonu ana, e ū tonu nei mātou ki te whakarite i tētahi ahurea i te wāhi mahi e whai take ana, ki te poapoa i ngā tāngata mātau me te whakawhānui i ngā pūkenga me te kaha o ō mātou tāngata. Ka noho tonu tēnei arotahi ki tō mātou ahurea me ō mātou tāngata hei kaupapa mātāmua ki te Ohu Kaiārahi i te roanga o te tau 2019/20.

HE KUPU WHAKAKAPI

Hei whakamutu ake, me kōrero te tūāhua i puta i a Maehe, 2019. I te tatūnga o te puehu o te whakaeke mōrikarika a te kaiwhakatuma i Ōtautahi, i tīmata tā tātou āta titiro ki a tātou anō hei iwi. Ko tētahi o ngā putanga i tēnei, ko te mōhio ake ehara tātou i te hapori manaaki i ngā iwi katoa ahakoa koirā pea te manako. Hei wāhanga mō tā mātou urupare, me mutu tō tātou whakatōngā ki te whakapātaritari, otirā, ki te whakapātaritari i te kaikiri matanui me te kaikiri noa nei. Ko te mōreareatanga i muri i tētahi parekura pēnei, hei muri tata tonu i te tokonga ake o te tumeke, o te pōuri me te aroha ki te hapori Muhirama, ka hoki noa tātou ki tō tātou āhua o mua. He whakapātaritari mātuatua tēnei, ahakoa kāore i te paku māmā.

Kei te whārangi 61 ētahi pārongo anō mō tā mātou urupare ki te whakaeke a te kaiwhakatuma i Ōtautahi me tā mātou pāhekoheko ngātahi ki ngā kamupene pāho-pori nā rātou ngā whakaahua mōrikarika o te whakaeke i pāho, i tuku anō hoki. E ngākau tapatahi ana te Poari me te Ranga Whakahaere ki te whakaū i tā mātou whai wāhitanga atu ki te manaakitanga a tō tātou motu i ngā iwi katoa o roto.

ORGANISATIONAL CHANGES

After coming to the view that we did not have an origination advantage in international direct investment and that we should focus instead on leveraging our external managers' relationships to secure these opportunities, such as through co-investment structures, we disestablished the International Direct team, resulting in one redundancy.

Portfolio responsibilities and remaining staff were reallocated across the Externally Managed Investments and Partnerships team and the NZ Direct Investment team, now known as the Direct Investment team. The changes have given staff the opportunity to work across a broader range of investments, and a number of new roles have also been added, giving us more depth, especially at the analyst level. The Guardians remains a supportive shareholder of its existing portfolio of direct offshore investments, and we are continuing to manage these in-house.

The Guardians team now totals 141 people, up from 130 at the end of last year. As the organisation continues to grow, we remain committed to fostering a constructive workplace culture, attracting top talent and investing in the skills and capability of our people. This focus on our culture and people will continue to be a top priority for the Leadership Team over 2019/20.

CONCLUDING REMARKS

Finally, I must acknowledge the events of March 2019. As the full horror of the Christchurch terrorist attack sank in, we began to revisit our view of ourselves as a nation. One of the outcomes of this is recognising that we are not nearly as inclusive a society as we might hope to be. Part of our response must be to overcome our national reticence to challenge, and in particular, to challenge overt and casual racism. The danger in the aftermath of a crisis such as this is after the immediate outpouring of shock, grief and compassion towards the Muslim community, we simply revert to past ways. It is a vital, but in no way easy, challenge.

More information about our response to the Christchurch terrorist attack and our collaborative engagement with the social media companies who livestreamed and distributed the horrific images from that attack is available on page 61. The Board and management are committed to ensuring we play our part in ensuring our nation is an inclusive society.

PROGRESS AGAINST OUR STRATEGIC PLAN

Here we provide an overview of the progress we made during 2018/19 against our strategic activities for the year.

We also set out how each activity contributes to our medium-term and long-term 'target states', showing how successfully implementing these strategic activities will help us to achieve our ultimate goal: to maximise the Fund's return over the long term, without undue risk, so as to reduce future New Zealanders' tax burden.

LONG-TERM TARGET STATE

OBJECTIVE:

Prepare for the growth of the Fund, given the restart in government contributions and the assumption that the Fund achieves expected long-term returns.

OUTCOME:

The long-term target state in respect of our investments was reviewed. We considered how we should build capabilities and capacity to ensure we remain fit for purpose to fulfil our mandate, including what we should do more or less of. These discussions were informed by a *Strengths, Weaknesses, Opportunities and Threats* (SWOT) assessment undertaken by the Board and management, as well externally-led strategy discussions on 'Asset Owners of the Future'. Long-term target state strategic conversations are expected to continue into 2020 as we explore the potential range of options available for the strategic choices we make.

See page 72 for more information.

MEDIUM-TERM CONTRIBUTION:

Strong leadership throughout the Guardians; disciplined progress to achievement of Fund purpose; scalable and flexible processes.

LONG-TERM CONTRIBUTION:

Appropriate risk appetite for our purpose; team size and balance of general and specific skills remain fit for purpose.

STRATEGIC LEADERSHIP

OBJECTIVE:

Enhance strategy formulation and value-creation skill sets both among staff and within our pool of externally appointed directors. Build within the external directors' pool a deep understanding of our values and investment beliefs.

OUTCOME:

A blueprint for strategic development and execution was developed through a series of workshops with the investment team and investee company directors. The blueprint has been integrated into periodic reporting to the Investment Committee and the Board. A web portal has also been created and launched for directors of our investee companies to act as our knowledge sharing platform.

See page 51 for more information.

MEDIUM-TERM CONTRIBUTION:

Strong leadership throughout the Guardians; best practice governance.

LONG-TERM CONTRIBUTION:

Market leadership in best practice governance; ongoing commitment to continuing director education; acting as a catalyst for identifying and creating new investment opportunities.

INNOVATION AND DISRUPTION

OBJECTIVE:

Strengthen our internal capabilities to source, execute and manage opportunities and threats from innovation and disruption.

OUTCOME:

We considered different approaches to managing innovation and disruption for the Guardians, noting that there is no template for this type of model and we expect it to evolve as we go. While the Guardians can readily point to examples of innovative practice, and has a number of supporting elements in place (e.g. values and culture), we believe there is value in exploring a more systematic approach. From the portfolio perspective, we already address the opportunities and threats from innovation through the business-as-usual activities of our portfolio managers and the NOAH (New Opportunities Assessment Hub). An innovation model has been proposed, with feedback sought from the Leadership Team and Heads. The model draws on lessons from peer and forum interactions and from the Guardians' previous activities in promoting more focus on innovation, including an Investment Operations team robotic process automation proof of concept.

See pages 52 and 102 for more information.

MEDIUM-TERM CONTRIBUTION:

Best practice governance and information management; and frameworks that guide efficient operations by managing uncertainties.

LONG-TERM CONTRIBUTION:

Flexibility in our active investment strategies; a clear understanding of risk management; extending our reach through peers and managers.

Reducing future New Zealanders' tax burden

DIVERSITY AND INCLUSIVENESS

OBJECTIVE:
Continue to embed the Diversity and Inclusiveness Policy through people-related initiatives.

OUTCOME:
We are undertaking a wide range of activities to embed our diversity and inclusiveness intentions. These activities have spanned recruitment (job advertising, shortlisting, selection), training (including unconscious bias training, inclusion workshops and domestic violence awareness training), and the implementation of our revamped leave and benefits programmme.

See page 28 for more information.

MEDIUM-TERM CONTRIBUTION:
Diversity of perspectives encouraged, understood and used; better decisions, culture and values strongly defined and identified with.

LONG-TERM CONTRIBUTION:
A strong, constructive culture; motivated staff with organisational buy-in.

CLOUD IT

OBJECTIVE:
Migrate to the cloud; identify opportunities to leverage cloud capabilities for business value-add.

OUTCOME:
We successfully migrated our systems to the Azure Cloud (the cloud computing service managed by Microsoft) in October 2018. A benefits realisation plan has been completed and approved by the Leadership Team, with ongoing focus on delivering our technology and data/information roadmap to help meet business objectives through the cloud applications that are now available to us.

See page 102 for more information.

MEDIUM-TERM CONTRIBUTION:
Scalable and flexible processes, increased security.

LONG-TERM CONTRIBUTION:
Reduced support and hardware needs; stronger collaboration; mobility and continuity capabilities.

DATA MANAGEMENT

OBJECTIVE:
Establish a clear investments-led data strategy and roadmap to guide development of our investment data capabilities.

OUTCOME:
To ensure we continue to focus on projects offering the most benefit to us, over the past year representatives from the IT and Corporate Strategy teams have met with each business area to reconfirm their technology and data priorities. This has also involved a number of conversations with the Leadership Team to confirm the short to medium term technology roadmap, which forms the basis for several projects to enhance our data management capabilities. These projects include training users on business analysis tools to enable them to self-service their data requirements, and improvements in data governance.

See page 102 for more information.

MEDIUM-TERM CONTRIBUTION:
Better interfaces to access data in a self-service manner; current gaps in our information sets addressed.

LONG-TERM CONTRIBUTION:
Best practice data architecture; strong support and use by the business.

103–1
103–2
103–3

MATERIALITY

In this section, we identify, explain and rank the topics that are material to the Guardians and the Fund.

THE MATERIALITY PROCESS

Materiality is a key feature of best practice reporting and looks at what we, as well as our stakeholders, consider important when evaluating performance.

In 2018/19, we underwent a formal process surveying our internal and external stakeholders in order to better understand the topics that are material to our organisation. Consistent with the Global Reporting Initiative (GRI) Standards, we sought to assess the significant economic, environmental and social impacts of the Guardians and the Fund, as well as the issues and risks that influence our stakeholders' assessment of us.

The following process was undertaken:

1. Stakeholders engaged via quantitative and qualitative research carried out as part of the Guardians' 2018/19 perception survey.
2. A shortlist of 15 topics were finalised based on stakeholders' feedback on drivers of satisfaction and priorities for improvement.
3. Review of our strategic plan, media stories, risk registers and Official Information Act requests.
4. Consideration of the Willis Towers Watson five-yearly independent review and 2018 Letter of Expectations received from the Minister of Finance.
5. Leadership Team and Board asked to consider relative impact of the topics identified using the same priority metrics as our stakeholders.
6. Combined results used to populate the materiality matrix.
7. Validation by the Board.

KEY CHANGES

The last full materiality process we carried out was in 2016. For the two years that followed we undertook an abbreviated analysis, with incremental changes made to the matrix to reflect that year's events. While we have made some revisions to our material topics, comparisons can still be drawn between today's rankings and those of 2016. Key topics that have increased in importance to our stakeholders are **Culture and Retention of High Quality Staff**, **Risk Management Processes**, **Government Relationship** and **Climate Change Readiness**. By contrast, **Operational Independence** and **Long-Term Investment Performance** are two key topics considered internally to be of high impact but were of comparatively lower importance to our stakeholders.

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102 - 42
102 - 43
102 - 44
102 - 45
102 - 46
102 - 49

ENHANCEMENTS TO OUR REPORTING

To reflect this, we have made the following enhancements to our reporting:

- Revised our materiality matrix to incorporate changes in stakeholder and impact assessments.
- Expanded our Human Resources reporting to explain our approach to organisational culture, including features on our new values, our revised leave and benefits offering, and a Q&A on our approach to equal pay.
- Refreshed the Risk Management section to reflect stakeholder feedback and organisational changes in how we manage risk.
- Included commentary on the current financial and economic climate in our Investment Report, including a Q&A with the Guardians' lead economist and a feature on lower prospective returns.
- Continued our climate-based reporting; expanded to include both our investment activity and our operational initiatives.
- Introduced a new feature on our community relationships.

OUR REPORTING FRAMEWORK

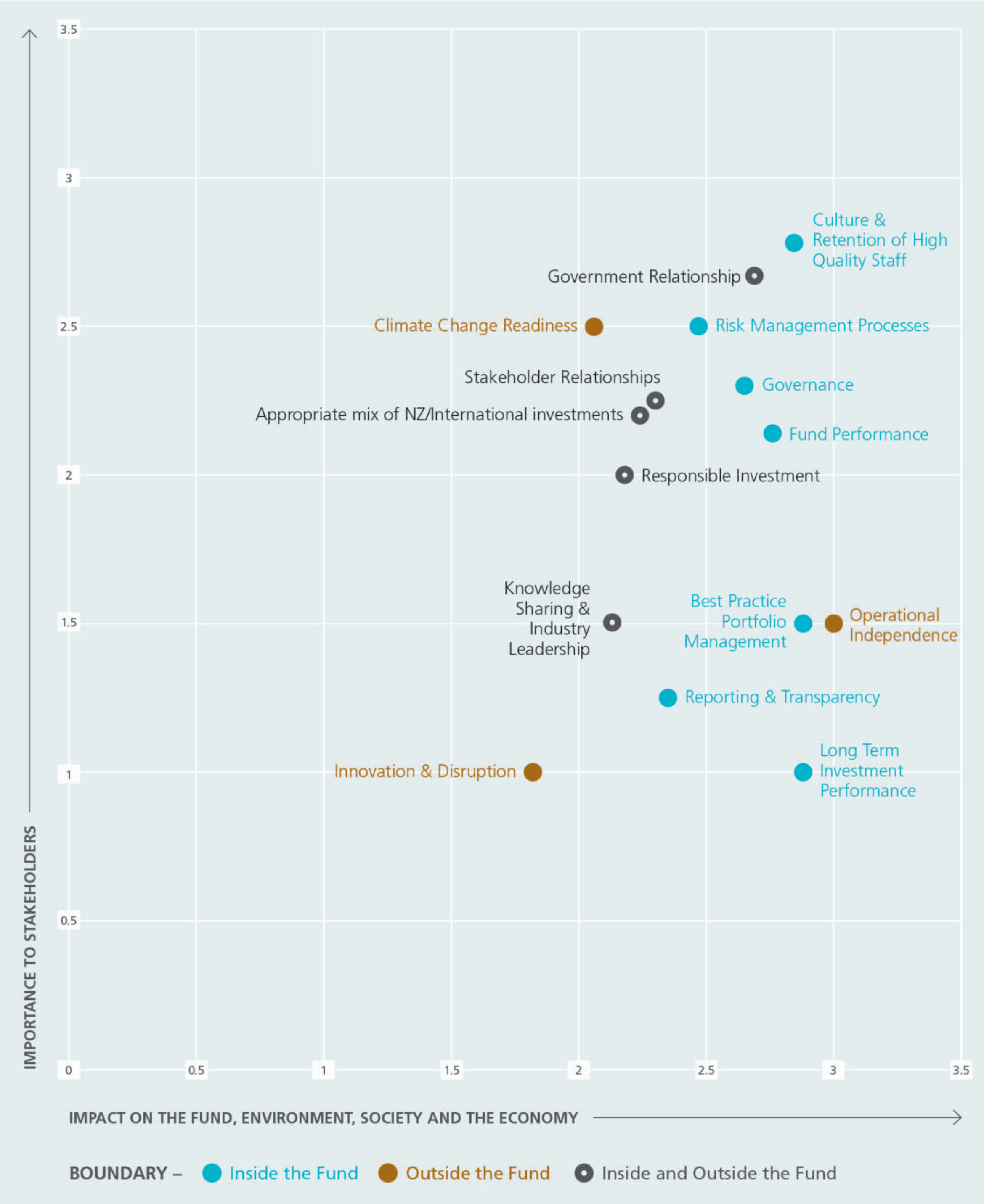
Our Annual Report aligns with our Statement of Intent (which is based on our five-yearly Strategic Plan) and our Statement of Performance Expectations. In the Statement of Performance at pages 110 - 111, we report against the performance measures set out in the Statement of Intent, as well as our achievements in the priority strategic plan activities for 2018/19.

Decisions about what we include in our Annual Report are also based on:

- Legislative reporting requirements for New Zealand Crown Entities and for the Guardians and the Fund, and
- Best practice disclosure guidelines for sovereign wealth funds and financial institutions, including the:
  - New Zealand Financial Market Authority's Corporate Governance Principles;
  - New Zealand Corporate Governance Forum's Best Practice Guidelines;
  - New Zealand Human Rights Commission's Good Employer Obligations;
  - International Forum of Sovereign Wealth Fund's Santiago Principles;
  - United Nations Principles for Responsible Investment; and
  - Global Reporting Initiative (GRI) Standards.

MATERIAL TOPICS IDENTIFIED AND THEIR BOUNDARIES*

The GRI is an international, independent reporting standard for best practice disclosure and reporting. The GRI defines Material Topics as topics that reflect an organisation's significant economic, environmental and social impacts or issues and risks that influence shareholders' assessment of that organisation.



*The GRI Standards define the topic boundary as the description of where the impacts for a material topic occur, and the organisation's involvement with these impacts.

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102 - 46
102 - 47

BOARD MEMBERS

STEPHEN MOIR — CATHERINE DRAYTON — SIMON BOTHERWAY — CATHERINE SAVAGE — HENK BERKMAN — JOHN WILLIAMSON — DOUG PEARCE

CATHERINE SAVAGE
CA, BCom
CHAIR
APPOINTED TO GUARDIANS' BOARD IN 2009

Committees:

Employee Policy and Remuneration (Chair) and Audit

STEPHEN MOIR
APPOINTED TO GUARDIANS' BOARD IN 2009

Committees:

Employee Policy and Remuneration

JOHN WILLIAMSON
BA, LLB, LLM

APPOINTED TO GUARDIANS' BOARD IN 2016

Committees:

Employee Policy and Remuneration and Audit

DOUG PEARCE
BCom, ICD.D

APPOINTED TO GUARDIANS' BOARD IN 2016

Committees:

Employee Policy and Remuneration

SIMON BOTHERWAY
BCom, CFA

APPOINTED TO GUARDIANS' BOARD IN 2018

Committees:

Audit

HENK BERKMAN
PhD, MCom

APPOINTED TO GUARDIANS' BOARD IN 2018

Committees:

Audit

CATHERINE DRAYTON
LLB, BCom, FCA

APPOINTED TO GUARDIANS' BOARD IN 2018

Committees:

Audit (Chair)

For bios of our Board members, visit www.nzsuperfund.nz/nz-super-fund-explained-governance/board

New Board Members

The past year saw some changes to the Guardians' Board. Following the departure of Pip Dunphy, Lindsay Wright and Craig Ansley, we welcomed Simon Botherway, Henk Berkman and Catherine Drayton. Simon, Henk and Catherine bring a wealth of knowledge and experience.

SIMON BOTHERWAY

Simon Botherway holds a BCom, as well as the US-based Chartered Financial Analyst (CFA) designation. Simon has extensive experience in corporate governance, banking and investment management. In 2002, Simon co-founded boutique fund manager Brook Asset Management where he was Chairman from 2004 to 2008. He is also a past President of the CFA Society of New Zealand and was a member of the CFA Asia-Pacific Advocacy Committee. Simon was a pioneer in championing shareholder activism and was outspoken in campaigning for improved corporate governance standards. Simon is a past recipient of the New Zealand Shareholders' Association 'Beacon Award'.

Simon was appointed as a member of the Securities Commission in 2009 and chaired the Financial Markets Authority Establishment Board. Alongside the Guardians, Simon is a Director of Fidelity Life Assurance and chairs NZX-listed Serko Limited.

HENK BERKMAN

Henk Berkman is a Professor of Finance at the University of Auckland and has a fractional appointment as research professor at the University of Sydney. He completed his PhD at Erasmus University Rotterdam and has published extensively in leading finance journals. He was adjunct director at Arthur Andersen Global Corporate Finance and has acted as a consultant for a number of multinationals and market regulators around the world. Former directorships include SIRCA, a not-for-profit organisation with a mission to promote financial research, and Rozetta Technology Ltd, a big-data analytics organisation based in Sydney. Henk also serves as president of the Dutch language school in Auckland.

CATHERINE DRAYTON

Catherine Drayton is a professional director. Her governance roles include Chair of Christchurch International Airport and director of Beca Group, Genesis Energy, Southern Cross Medical Care Society and Southern Cross Hospitals. Former directorships include technology company PowerbyProxi and Ngāi Tahu Holdings. Catherine is based in Canterbury.
In her earlier executive life she was partner in charge of audit and advisory services for PricewaterhouseCoopers in Central/Eastern Europe, with her speciality being mergers and acquisitions. Catherine is a Fellow of Chartered Accountants Australia and New Zealand.

LEADERSHIP TEAM

DAVID SARA — SARAH OWEN — STEPHEN GILMORE — MATT WHINERAY — MIKA AUSTIN — MARK FENNELL — STEWART BROOKS

MATT WHINERAY
BCom, LLB (Hons)

CHIEF EXECUTIVE OFFICER

Areas of responsibility:

General management of the Guardians under delegation from the Board.

STEPHEN GILMORE
BCom, MCom, CA

CHIEF INVESTMENT OFFICER

Areas of responsibility:

Asset Allocation, Responsible Investment, External Investments & Partnerships, Direct Investment.

MIKA AUSTIN
BA, LLB

GENERAL MANAGER HUMAN RESOURCES

Areas of responsibility:

People and performance, culture.

STEWART BROOKS
BCom, CA

GENERAL MANAGER FINANCE AND RISK

Areas of responsibility:

Enterprise risk (including records management), external audit process, financial control, financial reporting, portfolio risk and compliance, tax.

MARK FENNELL
MSocSci (Hons), DipAcc, CA, CTP

GENERAL MANAGER PORTFOLIO COMPLETION

Areas of responsibility:

Treasury operations, including passive exposure, currency overlay, liquidity management and portfolio rebalancing; portfolio investments.

SARAH OWEN
BA, LLB, DipAcc

GENERAL MANAGER CORPORATE STRATEGY AND GENERAL COUNSEL

Areas of responsibility:

Board Secretariat, communications, legal, strategic development.

DAVID SARA
BMS (Hons), MBS (Dist)

GENERAL MANAGER OPERATIONS

Areas of responsibility:

Information technology, investment operations.

New Chief Investment Officer

This year, Stephen Gilmore joined the Guardians as Chief Investment Officer. Stephen replaces Matt Whineray, who was appointed to the role of Chief Executive Officer in July 2018. We are delighted to have been able to attract a global investment leader of Stephen's calibre to the Guardians to see us through our next phase of growth.

STEPHEN GILMORE

Stephen joined the Guardians in February 2019. As Chief Investment Officer, he is responsible for overseeing the Asset Allocation, Responsible Investment, External Investments & Partnerships, and Direct Investment teams.

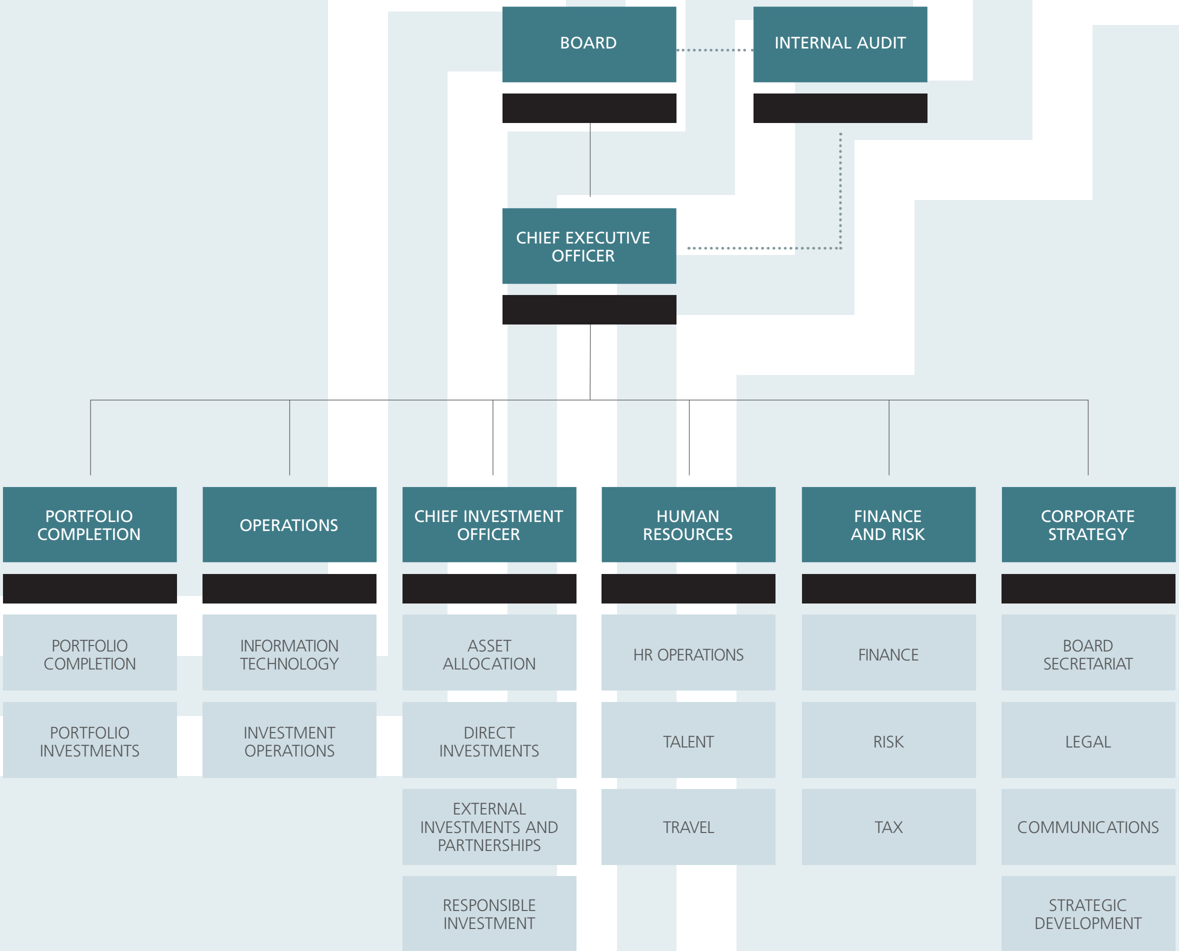
Prior to this, Stephen was the Chief Investment Strategist at the Future Fund, Australia's sovereign wealth fund. In this role, he was responsible for Investment Strategy, Investment Risk, Derivative Overlays and Investment (technology) Solutions, a team which acted as an interface between investment and technology.

Earlier in his career, Stephen held senior strategy roles in London and Hong Kong with AIG Financial Products and Morgan Stanley. He has also worked with the International Monetary Fund in Washington, the Reserve Bank of New Zealand in Wellington and Chase Manhattan in London.

Stephen was previously a member of the Australian Foreign Exchange Committee and the Institute for International Finance Market Monitoring Group.

For bios of our Leadership Team, visit www.nzsuperfund.nz/nz-super-fund-explained-management/leadership-team

ORGANISATIONAL CHART



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OUR PEOPLE

In an industry that is highly competitive, our people are our biggest asset. Attracting, retaining, developing, and caring for our people is critical to our success.

Achievements during 2018/19

- *Refresh of organisational values* - a new set of values introduced to guide our internal culture over the next decade.
- *Diversity and Inclusion* - continued to embed the Diversity and Inclusiveness Policy through people-related initiatives.
- *Leave and Benefits Programme* - implementation of enhanced leave and benefits programme.

Priorities for 2019/20

- *Strengthen the Guardians' culture* - roll out the new values, implement material actions from the 2018/19 risk culture survey and design and conduct the culture survey.
- *Remuneration structure review* - consider the remuneration structure for all Guardians' staff and recommend any next steps in the remuneration design.
- *Talent life cycle* - establish an integrated framework for the talent life cycle that ensures consistency and alignment to significantly improve our ability to build and maintain a great team.

OUR CULTURE

Culture is the number one priority of the Human Resources team, with strong emphasis placed on creating a high-performing and constructive environment for Guardians' team members. We measure our culture periodically using organisational culture inventory (OCI) and organisational effectiveness inventory (OEI) tools. The OCI assesses culture by measuring to what extent Guardians staff are expected or implicitly required to demonstrate constructive, passive or aggressive defensive behavioural styles. Knowing and measuring the operating culture is useful, however, it does not provide insights into specific areas to target, nor does it identify what the impact of this culture is. The OEI provides this additional information, with additional feedback on:

- the experience and perception of things that influence and things that can be changed, to improve our organisational culture and performance, and
- the effect of culture on individuals, groups and our organisation as a whole.

We additionally effect change by looking to ensure our ideal culture is clearly articulated and communicated to the team, with a consistent emphasis on shared values (see values case study on page 11). Our focus on developing and strengthening our workplace culture continued into 2018/19, building on results from OCI and OEI surveys carried out in previous years, along with key activities identified as a result of the 2018 risk culture review (see page 95). The next formal measurement and reporting of our organisational culture will occur from March to June 2020.

"We see culture as a key bastion against short-term thinking during difficult times when the pressure is on. Culture is a critical way of protecting against those tendencies that eat into an investor's key competitive advantages, so we spend a lot of time thinking about how we can align culture with our long-term purpose."

MATT WHINERAY, CHIEF EXECUTIVE OFFICER

TALENT MANAGEMENT

As an investment organisation in a relatively small and remote country, having a strong internal succession bench is vital for the Guardians, with increasing importance placed on good career development and staff fulfilment. Over the 2018/19 year, the team developed an organisational talent framework, with a gap analysis carried out against the framework to highlight key themes and identify relevant talent management projects to close the gaps. A roadmap has been established to prioritise execution of the key talent management projects over the next two years.

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OUR PEOPLE (CONTINUED)

A revised Individual Development Plan (IDP) process was implemented across the organisation. The new IDP format and template ensures that each Guardians team member has a channel to communicate their career aspirations to help ensure they are accessing optimal career development opportunities. For managers and the organisation as a whole, the IDPs serve a strategic purpose in providing useful information for organisational development and succession planning.

APPOINTMENTS

A number of senior appointments were made over the past financial year. Matt Whineray started in his role as the Chief Executive Officer. Stephen Gilmore was appointed Chief Investment Officer, beginning in late February. A senior investment executive with extensive global experience, Stephen was most recently Chief Investment Strategist at the Future Fund in Australia, where he held a series of senior investment roles between 2009 and 2018 (read his full biography on page 25). Amy Hitchcock, previously manager of the IT Business Solutions Group, was appointed to the Head of Investment Operations role. In her new role, Amy manages the administration of the Fund's portfolio through controls and oversight at the total portfolio level, NAV reporting, post-trade life cycle management, trade support for the Portfolio Completion team (treasury team) and liaison with the global custodian, external investment managers and counterparties. Sam Porath, previously Portfolio Manager, Strategic Tilting, was appointed to the position of Manager, NZ Equities. Sam now leads the team managing the Guardians' in-house active NZ equities mandate.

Over the 2018/19 year, there was a high level of appointment activity with recruitment from the external market as well as internal movement of existing staff. With effective dates in 2018/19, there were:

- 25 external hires
- 18 internal placements (promotions and job transfers).

The 18 internal placements demonstrate an increasing proportion of positions filled by internal talent compared with the previous two financial years (26% in 2016/17, 37% in 2017/18 and 42% in 2018/19). This is a great reflection of the opportunities, skill and capability development that the Guardians is offering to its staff. However, the desire to promote internal talent needs to be balanced with our diversity objectives, which suggest new external talent should be hired in order to introduce fresh thinking and perspectives into the team and to balance our diversity outcomes.

DIVERSITY AND INCLUSION

At the Guardians, we want to ensure that we have a workforce profile that leverages diversity of thought and diversity of experience, supporting our ability to make the best investment decisions. We also seek to foster an inclusive workplace environment where every individual is engaged and able to add value. We are undertaking a wide range of activities to embed our Diversity and Inclusiveness policy. Some of the activities over the last financial year have included:

- Actively working with search and recruitment agencies to ensure that our job advertisements are shared in a broad range of channels. This is intended to ensure we can reach diverse talent pools who might otherwise be missed in standard search processes.
- Actively encouraging hiring managers to bring diverse candidates through to first interview.
- Offering a team-wide webinar 'Bias and the Brain'. The session was about improving decision making by helping to remove the influence of unconscious bias.
- Holding workshops for the Leadership Team and all people managers covering the business case for inclusion, the latest research on the subject, and tools that can be used to promote inclusive habits.

Though we have made progress in our diversity and inclusion efforts, we recognise that there is more we can do, and we acknowledge our work in this space is a work in progress. Building on this foundation, and with the full support of our Board and Leadership Team, we will continue to embed our diversity policy by identifying and implementing more specific metrics and actions to direct future developments in this area.

LEAVE & BENEFITS

In the 2017/18 year, a comprehensive review of staff leave and benefits was undertaken in order to reflect changes to employment legislation, social trends, employee demographics and ongoing diversity efforts. As an outcome of this review, new programmes were offered to staff including the ability to purchase additional leave, the option to take cultural leave, matching KiwiSaver employer contributions up to 8% and a revised parental leave offering (see page following). With implementation completed across 2018/19, in 2018 the Guardians was named winners of a YWCA Equal Pay Award under the innovation category. Read a Q&A with Mika Austin, General Manager Human Resources on the award on pages 31 - 32.

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Team members with their children, born over the past year.

NEW PARENTAL LEAVE POLICY

Our new parental leave policy provides 26 weeks' paid parental leave for primary carers, with up to 52 paid 'keep in touch' hours, and a 'make good' KiwiSaver lump sum for unpaid parental leave (after six months return from parental leave). In addition, we now provide two weeks' paid parental leave for partners. The offering is designed to encourage both mothers and fathers to take parental leave, providing a platform where all parents feel comfortable taking up either one of our parental leave options.

The changes have been received positively by our staff. Primary carers have spoken of how the new policy has mitigated the financial strain associated with having a baby, allowing them to focus on their family at the right time, without the same pressure to return to work too early for financial reasons. One of our team members explained the additional financial security allowed her family to secure a home loan while she was on primary carer leave, meaning she could provide a stable home for her new born baby. So too for those who have taken up the parental leave provided for partners, with flexibility pegged as the main benefit. "Personally, the two weeks of partner leave was very helpful as it gave me time to be present at the start, but equally important was knowing that I had the option to consider parental leave as primary carer if this ended up being the right choice for our family. In my case it wasn't, but other fathers have taken this option which is great to see." says one team member.

The policy is consistent with our ongoing commitment to the health and wellbeing of our team, "It's another illustration of how the Guardians supports its employees by providing true work-life balance."

> "From my perspective, the most valuable part of the policy was the signal about organisational buy-in to those with new parent responsibilities. Beyond the actual features, it acts as a signal that it is ok to focus on family as well as work. It gave me choice."

TEAM MEMBER

REMUNERATION REVIEW

The Board commenced a review of the design of our team's remuneration and bonus structure in 2018/19. In this project, the Board is seeking to ensure that the way we remunerate and incentivise our staff is fit for purpose, consistent with our desired culture, appropriate for the type of Fund we are and ensures we can attract and retain skilled and diverse talent.

The assessment has so far covered the design principles that the current model was set up to satisfy, existing base salary policy, market benchmarks, bonus levels and to what extent the current model enables us to attract and retain a 'Great Team Building the Best Portfolio'. The Board has engaged independent experts to advise it and to analyse the Guardians' incentive rates against industry benchmarks in New Zealand and globally to inform us how competitive and appropriate our offering is. The review is due to be completed in June 2020.

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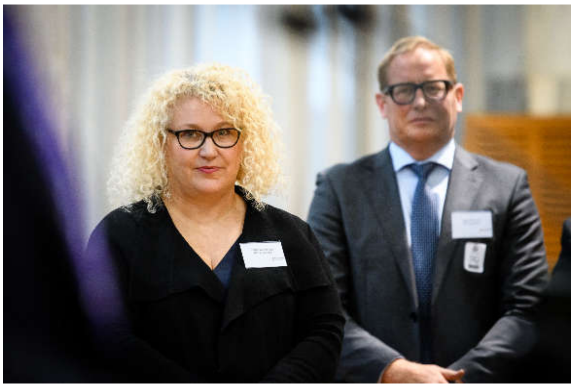

HEALTH AND SAFETY

Our Human Resources Policy, available on www.nzsuperfund.nz, sets out our commitment to provide a safe and healthy working environment for all employees and visitors. We strive to:

- reduce and, where possible, eliminate any hazards;
- educate employees on health and safety issues;
- prevent injury to people at work; and
- comply with the requirements of the Health and Safety at Work Act 2015.

Being mainly office based, the Guardians is a relatively low-risk environment from a physical safety point of view. Identified potential hazards include overseas travel, gradual process injury and stress.

We are managing our key risk areas constantly and provide a comprehensive programme of support services to staff.

The Health, Safety, Security and Environment (HSSE) Committee comprises staff from various business units and leads the response to, and prevention of, HSSE-related risks across the organisation. The Committee aims to promote a culture that identifies and takes steps to mitigate unsafe situations and behaviours before they have an impact on people, the environment and the Guardians' reputation.

The Committee meets once a quarter and reports to the Board on an annual basis.

In 2018/19, the Committee's core focus was on management of the Guardians' operational carbon emissions, specifically, through establishing an offsetting programme and in parallel, a reduction programme.

Other Guardians' health, safety and wellness activities include:

- annual health and safety training;
- subsidised health, trauma and income continuance insurance;
- workstation assessments for all employees;
- height adjustable desks provided for all staff;
- domestic violence awareness training for all staff;
- free healthy heart checks and influenza injections;
- provision of emergency kits to comply with Civil Defence and Emergency Management recommendations;
- access to counselling via independent Employee Assistance Programme providers; and
- regular occupational health nurse visits.

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Q&A: Innovation in Equal Pay

In this Q&A, Mika Austin, General Manager of Human Resources, talks about fairness and treating everyone equally.

MIKA AUSTIN
GENERAL MANAGER,
HUMAN RESOURCES

In November 2018, the Guardians was named the winner of the innovation category at the 2018 YWCA Equal Pay Awards.

The award recognised our new leave and benefits programme, with the judges noting that "the evidence of the [Guardians'] redesigned leave and benefits programme speaks for itself. Staff described this as a progressive and thoughtful package in keeping with the approach of the whole organisation towards addressing gender imbalance and their everyday employee experience."

Why did the Guardians enter the YWCA Equal Pay Awards?

We support equal pay, which the awards are designed to promote. We're also keen to see what clever things other people are doing and to bring those ideas back into our business.

In 2017/18, we worked on a huge project that looked at our entire leave and benefits offering for the first time since the Guardians was created. We are very proud of what we've achieved so we wanted to share that.

Why is this important?

We want to position the Guardians as an employer of choice, and to look at how we can attract the best people. Part of doing that is having a competitive benefits offering.

More fundamentally, we want to make sure we're taking care of our employees at each stage of their employment life cycle. It was really important to us to offer 'something for everyone' and to support our 'one team' objective. Not everyone will need parental leave, or elder care, or want the ability to sell or buy extra leave per annum, but we were very careful to design the programme so that it was available to all, and not differentiated by seniority, gender, title or tenure.

What is the link between leave and benefits, and pay equity?

There are two things to be aware of here: pay equity and the gender pay gap.

We know that we provide equal pay for equal work. This is pay equity.

The part that we're still working on is that we have more men than women in senior, higher-paid roles, and we have more women than men in more junior, lower-paid roles. This puts our average pay between men and women out of kilter – this is the gender pay gap.

As at financial year end, the (median) gender pay gap at the Guardians stood at 32%. This is the difference between the midpoints in the ranges of base pay of males and females.

What can we do about this?

There are things that we can do to encourage and ensure there is equal access to opportunities. For example, if you have women who are not returning to the workforce after having a baby or who, during parental leave, are being left behind for promotion, then you can end up with unequal outcomes over a person's employment life cycle, all the way through to their retirement.

Equally, we can encourage men to think about taking parental leave or school holiday contracts as a lot of our dads would love to spend time at home with their babies and kids. This helps to normalise childcare across the workforce, meaning that it is no longer perceived as a woman's sole domain.

With our new top-up to full pay for 26 weeks during parental leave and our KiwiSaver lump sum top up for unpaid parental leave, we're creating a platform that allows our families to make parental leave choices in a more balanced way and that

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OUR PEOPLE (CONTINUED)

says: it doesn't matter if you're the mum or the dad, you will be treated in exactly the same way and you won't be penalised as a result.

How are you evaluating success?

As we are now matching employee KiwiSaver contributions up to 8%, we've had a massive increase in individuals choosing to contribute at that level (from 16% of our employees before 1 July 2018, to 84% at 30 June 2019).

We've had lots of conversations with dads-to-be about how they could consider being the primary carer, where we have never had those discussions before.

Lots of staff have already taken us up on the opportunity to take additional unpaid leave, with all of the great mental health benefits that go along with that.

We've had a number of people tell us they would like to take advantage of cultural leave, which says that instead of taking your statutory holiday on Christmas or Boxing Day, for example, you can go to work on these days and instead use the holiday on a day that's culturally significant to you.

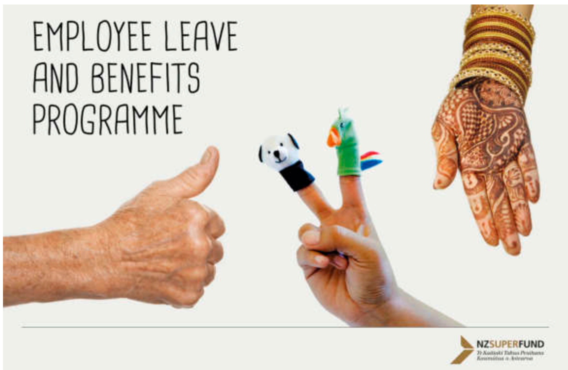
Essentially, success is that people are taking up the offerings, that they're making a meaningful difference to their lives and that our staff feel included, motivated and valued as a result.

If we look forward five years from now, where do you see this at that time?

I hope that this is just second nature to people. I would be delighted if we weren't talking about it that much, that every time a dad says, "We're going to have a baby," that it would just be completely obvious that they may well be the one who will be primary carer, or that we don't need to bother reporting on equal pay any more because our staff and stakeholders absolutely know that it is taken care of and is, frankly, a non-issue.

How does the YWCA award fit into this?

The award is wonderful recognition of all the hard work that the team has put in. The leave and benefits package is one way we tell our people, "You really matter to us, and we want to take care of you." To my knowledge, this is a genuinely innovative package in both the New Zealand and international markets. I really hope every Guardians' employee understands and enjoys the benefits of that and that we're able to attract and retain fantastic talent as a result.



We introduced a new leave and benefits programme in June 2018

Collecting the YWCA Equal Pay 'Innovation Award' 2018

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GOOD EMPLOYER

The Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff and recognising the employment aims of Māori, ethnic minorities, women and people with disabilities. All staff are employed on individual contracts and are involved in the development of our good employer and EEO programmes. They also have the opportunity to provide input into our Human Resources Policy and approach.

We believe that being a good employer will help us achieve our long-term business goals. To us, being a good employer means that our people enjoy and feel safe in their workplace; trust the processes and procedures around their appointment, development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

GOOD EMPLOYER REPORTING

Our activities against seven key elements of being a good employer are summarised below:

ELEMENT	GUARDIANS ACTIVITY
Leadership, accountability and culture	Alignment between Strategic Plan objectives, individual objectives and performance measures
	Implementation of our most recent Organisational Culture and Organisational Effectiveness surveys
Employee development, promotion and exit	Programme in place to identify and develop talent
	Vacancies advertised internally
	Secondment programme
	Exit interview process
Recruitment, selection and induction	Robust recruitment and selection processes
	Orientation and induction for all staff
	Summer internship programme
Remuneration, recognition and conditions	Transparent, equitable and gender-neutral job evaluation practices
	Remuneration benchmarked against third-party New Zealand data
	Current incentive programme into its eighth year
Flexibility and work design	IT systems facilitate remote working from home
	Flexible working arrangements supported
	100% return rates from parental leave
Harassment and bullying prevention	Employee Code of Conduct and relevant policies available and endorsed at all times
	Performance management process rewards positive and constructive behaviour
Safe and healthy environment	Strong focus on employee health, safety and well-being through provision of support services (see page 30)

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OUR PEOPLE (CONTINUED)

WORKFORCE PROFILE

COMPONENTS	2019	2018	2017	2016	2015
Our Workforce					
Full Time Equivalent (FTE) employees	139.1	127.8	124.4	112.20	111.0
People	141	130	127	115	113
Full time (FTE)	96%	95%	93%	93%	94%
Part time (FTE)	4%	5%	7%	7%	6%
Staff members with disabilities	0%	0%	1%	1%	1%
Female Representation					
Female staff members	55 (39%)	48 (37%)	47 (37%)	44 (38%)	40 (35%)
Female Board members	2 (29%)	2 (29%)	3 (43%)	3 (43%)	3 (43%)
Female Leadership Team members and direct reports to CEO	2 (29%)	2 (33%)	2 (29%)	2 (22%)	2 (22%)
Female Heads of Teams	6 (35%)	5 (31%)	6 (33%)	4 (22%)	4 (25%)
Female Investment Professionals	12 (22%)	12 (22%)	12 (25%)	13 (28%)	11 (23%)
Gender Pay Gap*					
Gender pay gap – mean	23%	20%	25%	Not reported	Not reported
Gender pay gap – median	32%	29%	37%	Not reported	Not reported
Turnover**					
Turnover – all staff	6.3%	6.9%	13.8%	10.7%	4.4%
Turnover – male (of male FTE)	5.9%	6.2%	7.6%	7.1%	2.7%
Turnover – female (of female FTE)	6.9%	8.6%	17.3%	3.6%	8.3%
Educational Qualifications					
% of staff with a postgraduate tertiary qualification	52%	53%	51%	50%	53%
% of staff with an undergraduate tertiary qualification	90%	90%	88%	90%	92%
Investment in staff training as a % of total Guardians operating expenditure	1.2%	1.2%	1.3%	1.1%	1.4%
Return to Work and Retention after Parental Leave (as primary carer)					
Return to work – male	100%***	None taken	None taken	None taken	None taken
Return to work – female	100%	100%	100%	50%	100%
Retention as at 30 June after returning during the year – male	None taken	None taken	None taken	None taken	None taken
Retention as at 30 June after returning during the year – female	100%	100%	100%	100%	100%
Health and Safety					
Lost-time work injuries	0	0	0	0	0
Absenteeism as measured by days of sick leave per FTE	3.9	4.7	4.1	4.1	3.1

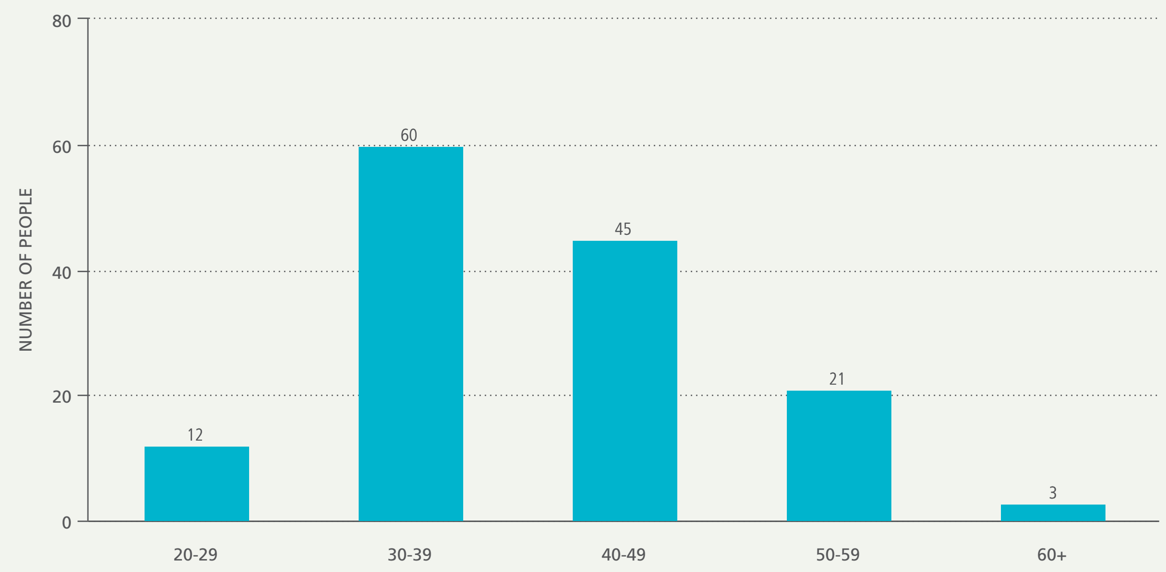
* In line with reporting guidelines from the Human Rights Commission, we commenced reporting on the gender pay gap in 2016/17. We report contractual base hourly rate of pay for the entire permanent workforce (including CEO, and for full and part time work). The calculation does not include bonus payments, KiwiSaver and other staff benefits such as insurance. The numbers reported are the difference of male pay less female pay, divided by male pay. If there was no gap, the result would be 0%. The mean gender pay gap is the difference between the mean hourly base pay of males and females. The median gender pay gap is the difference between the midpoints in the range of hourly base pay of males and females. The midpoint is calculated by taking all hourly base pays in the sample, lining them up in order from lowest to highest and picking the middle-most hourly base pay.

** We define turnover as voluntary turnover.

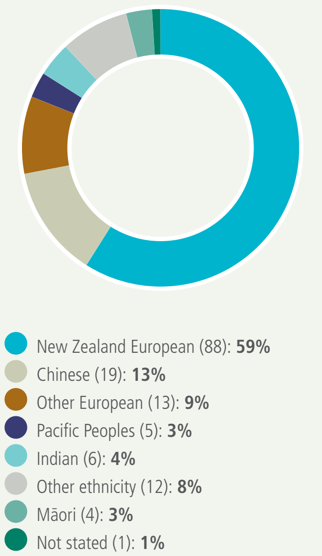
*** Employee continues to be on parental leave as primary carer.

WORKFORCE AGE

Workforce Age as at 30 June 2019

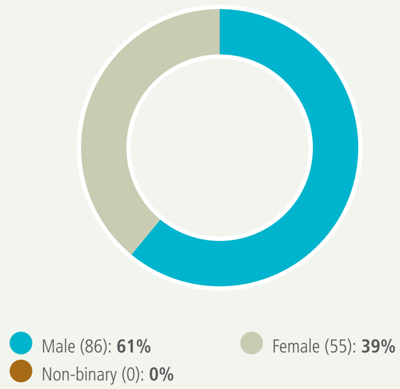


Ethnic Profile* as at 30 June 2019



* Five employees identify with more than one ethnic group.

Gender Balance as at 30 June 2019



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Investment Report
Te Pūrongo Haumi Pūtea

02

PERFORMANCE REPORT

TOTAL RETURN 2018/19
(AFTER COSTS AND BEFORE NZ TAX)

7.02%

FUND SIZE UP BY

$3.7b

THE YEAR IN SUMMARY

The Fund again out-performed global markets, returning 7.02% (after costs, before NZ tax) over 2018/19. The Guardians' active investment activities added value of 0.67% (NZD261 million) on top of a Reference Portfolio (market benchmark) return of 6.36%.

The Fund finished the year at NZD43.11 billion before New Zealand tax, an increase of NZD3.74 billion.

The Fund's out-performance of the Reference Portfolio was due mainly to the success of its alternative energy, opportunistic and active collateral investments, as well as the strategic tilting programme and our portfolio completion activity. See page 44 for more details.

REFERENCE PORTFOLIO RETURNS

Around two-thirds of the Fund is invested passively, in line with the Reference Portfolio. Therefore, the composition of the Reference Portfolio is the biggest single influence on Fund returns. The table to the right shows how the components of the Reference Portfolio performed during the year. The returns are shown on a hedged to NZD basis.

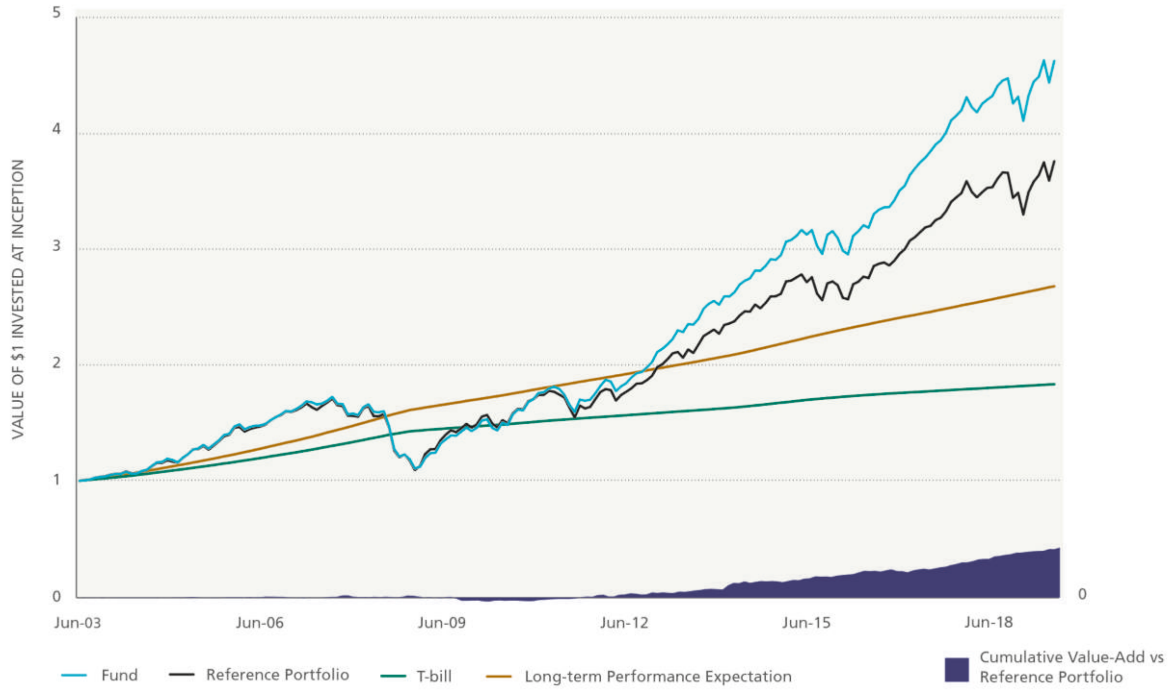
PERFORMANCE SINCE INCEPTION

As detailed in the Chair's Statement on page 12, the Fund is well ahead of its performance benchmarks since inception.

Reference Portfolio benchmark	Weight	Return
Global Equities – developed markets	65%	6.37%
Global Equities – emerging markets	10%	-0.76%
New Zealand Equities	5%	17.00%
Global Fixed Income	20%	7.27%
Total	100%	6.36%

> "The Guardians has developed an exceptionally well thought-out approach to investing... The approach has strong intellectual rigour and sound thinking, coupled with pragmatism and a very good understanding of what drives financial markets."

WILLIS TOWERS WATSON, INDEPENDENT REVIEW 2019



The preceding graph shows the cumulative NZD Fund return since inception, relative to its key benchmarks.

KEY BENCHMARKS

Treasury Bills measure

It is our expectation, given our mandate and chosen portfolio construction, that the Fund will return at least the 90-day Treasury Bill rate + 2.7% p.a. over any 20-year moving average period. This expectation is based on the long-run equilibrium return assumption for each asset class within the Fund.

It is important to understand that the 90-day Treasury Bill rate + 2.7% is not a target to be hit precisely, rather, it is a long-term performance expectation that we aim to exceed by as much as possible.

We prefer to work to an expectation rather than a target so as to avoid any short-term incentive to simply add risk to the Fund if expected returns are low, i.e. increasing risk when returns are least rewarding and vice versa.

Treasury Bills, which are wholesale debt securities issued by the Crown, are an appropriate measure of the Fund's performance. This is because they proxy the cost to the Government of contributing capital to the Fund instead of using the money to retire debt, and are seen as the most risk-free asset. Over time, the Fund is expected to earn more for the Government in investment returns than it would save in debt servicing i.e. the Fund is expected to add to Crown wealth, thereby enhancing the ability of future governments to meet superannuation costs.

The gap between the Treasury Bill return and the Fund return (the green and blue lines) shows the return earned in excess of the Government's marginal cost of short-term debt (NZD25.54 billion or 6.25% p.a.).

Reference Portfolio measure

We also use a Reference Portfolio, which is set by the Guardians' Board, to benchmark the performance of the Fund's actual investment portfolio and the value we are adding.

The Reference Portfolio, which is capable of meeting the Fund's objectives over time, is a shadow or notional portfolio of passive, low-cost, listed investments suited to the Fund's long-term investment horizon and risk profile. It has an 80:20 split between growth equities and fixed income investments and its foreign currency exposures are 100% hedged to the New Zealand dollar.

In our actual portfolio, we also include active investment strategies. We invest actively in an effort to enhance our long-term performance: these activities bring a higher expected return and/or offer diversification benefits for the Fund, albeit with more risk, complexity and cost. They are consistent with our statutory duty regarding best practice portfolio management and are based on our investment beliefs and competitive advantages.

The gap between the Reference Portfolio return and the Fund return (the black and blue lines, also represented by the purple shaded area at the bottom of the graph) illustrates the value the Fund's active investment strategies have added since inception (NZD8.32 billion or 1.43% p.a.).

Note: the Reference Portfolio was introduced in July 2010. Figures prior to then are based on the Strategic Asset Allocation model at the time. From 1 July 2015, the long-term Reference Portfolio performance expectation changed from Treasury Bills + 2.5% to Treasury Bills + 2.7%.

Fund Performance as at 30 June 2019	Fund Size NZD43.11 billion before NZ tax			
	SINCE INCEPTION (SEPT 2003)	**TEN YEARS**	**FIVE YEARS**	**ONE YEAR**
Actual fund returns (after costs, before NZ tax)	10.15%	14.04%	11.14%	7.02%
Reference Portfolio return (after costs, before NZ tax)	8.72%	11.42%	8.81%	6.36%
Value-added (actual return less Reference Portfolio return)	1.43%	2.62%	2.33%	0.67%
Estimated $ earned relative to Reference Portfolio	$8,322m	$8,894m	$4,277m	$261m
New Zealand income tax paid	$6,478m	$5,125m	$2,531m	$55m
New Zealand Treasury Bill (T-Bill) return	3.90%	2.41%	2.24%	1.66%
Net return (actual return less T-Bill return)	6.25%	11.63%	8.90%	5.36%
Estimated $ earned relative to T-Bills	$25,539m	$27,920m	$14,367m	$2,130m
$ change in net asset position	$43,113m	$29,759m	$16,675m	$3,743m

Q&A: The global investment environment

Guardians' Economist Mike Frith discusses the major drivers of the economic and investment environment over 2018/19.

MIKE FRITH
ECONOMIST

What is happening out there?

It has been a fascinating 12 months for investment markets with two dominant drivers through 2018: central bank policy decisions and trade tensions between the United States and China – which continue to be relevant today.

Interest rates increased through 2018 as a result of policy settings by the United States Federal Reserve. Indeed there was some semblance of normality returning at least to United States bond markets. Many equity markets struggled along until October when the weight of higher interest rates kicked in and, by the end of December, global equity markets had fallen 10% on average. In response, central banks about-faced and made accommodating overtones about the next moves for monetary policy. Equity markets reacted immediately and rallied 10% in January.

United States trade policy and ***trade tensions with China*** was the other key driver. What started as United States tariffs on steel and aluminium to protect local industries quickly morphed into tariffs imposed on imports from China as the United States sought to address its perceived current account imbalance and concerns around intellectual property. Many commentators thought those tensions would have been curtailed by now. That they haven't, but have in fact deepened in some cases, has given rise to concerns around the forward path for global growth, more volatility to global markets and further accommodative moves by global central banks.

The forward outlook is unclear. Projections for economic growth are being revised down slightly, and inflation remains tepid, which is consistent with the view of bond markets, but monetary conditions are supportive and equity markets rumble on. Plentiful liquidity continues to be a characteristic of financial markets, and financial assets appear fairly valued (expensive) as a result. We expect lower asset returns going forward, which is consistent with this stage in the cycle.

How has this impacted the Fund?

The Fund's asset allocation is anchored around its Reference Portfolio, which is made up of 80% global equities and 20% global bonds. The Reference Portfolio is structured in this way to maximise returns over the long-term subject to an appropriate level of risk. It also provides the benchmark for the performance of the actual portfolio, which includes the active investments that we make to improve the risk-adjusted returns to the Fund. With such a strong weighting towards growth assets, when equity markets sell off, as they did in December last year, Fund returns drop. Equally, when equity markets recover, so do Fund returns.

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How did this influence Fund returns?

The Fund returned 7.02% for the year ending 30 June 2019. The Reference Portfolio returned 6.36%, which meant 0.67%, or NZD261 million, was contributed to performance from the Fund's active investment opportunities.

Some of the strongest-performing opportunities included strategic tilting, which took advantage of some of the volatility in markets, active collateral, which benefited from a changing regulatory landscape, and investments in alternative energy, which are benefiting from evolving attitudes to climate change (for more information on the Guardians' active investment strategies and how they added value, see page 44).

Was this expected?

Where we think we can assess attractiveness within a market or within an investment opportunity, we increase or decrease our active risk allocation to that opportunity (see pages 42 - 43 for a full explanation of how we manage risk). Due to our view that financial assets in many markets are fairly priced (expensive), the level of active risk we are running across all of our active opportunities is much lower than we would run on average over the cycle. The 0.67% active contribution is a good result given the low level of active risk we are currently running.

Is the Fund prepared should there be a market reversal or downturn?

The Fund faces two issues in the event of a market reversal or downturn:

- First, because of our funding and hedging strategies, we are exposed to liquidity draw downs in some situations.
- Second, we want to be able to utilise our endowments to lean into markets when they sell off to subsequently benefit from their future recovery.

Both of these issues require us to hold sufficient liquidity. As we are running low levels of active risk, it means we are holding a large pool of highly liquid assets – primarily government bonds and public market equities, which puts us in a good position to address both of the issues faced.

What would happen if actual market outcomes differed from your assumptions?

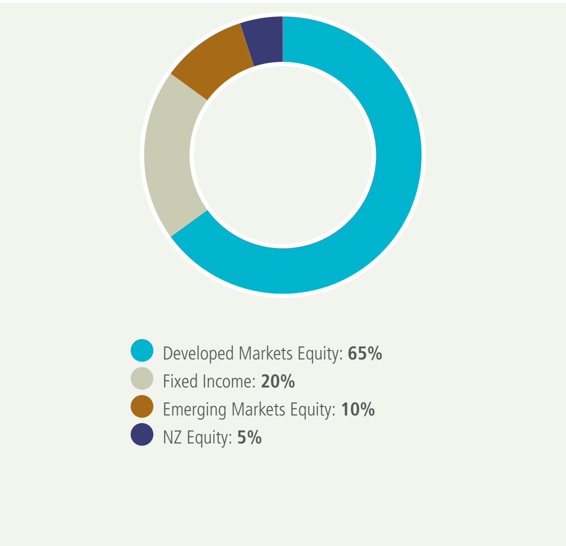
We are a long-term investor and consequently do not need to make major changes to our assumptions on a regular basis. It is one of the reasons we review our Reference Portfolio only every five years, with the next review starting this year. Notwithstanding, we do monitor market outcomes against our major assumptions. The critical ones appear to be the persistent low level of interest rates and inflation, which remain a conundrum for all policy makers and investors.

What are your expectations going forward?

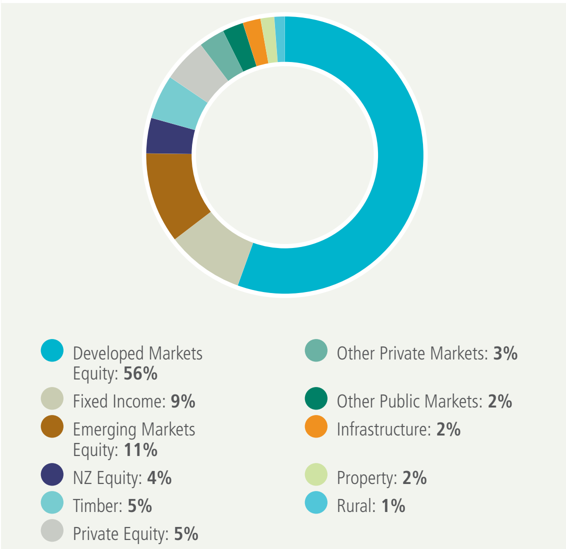
We don't know what will happen in the future, and we don't invest this way. Our investment framework and long-run investment horizon allows us to look through market ups and downs, but also ensures we are prepared for future developments in market conditions.

If I was to make one projection, I would say we should expect returns to be lower going forward than we have experienced in recent years. Our performance has been running above our long-run expectations, even with less risk on the table. Given where markets and valuations are now, our performance is likely to pare back a little.

Reference Portfolio



Actual Portfolio as at 30 June 2019



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The risk budgeting process

DAVID IVERSON
HEAD OF ASSET ALLOCATION

We undertake active investments in order to add value to the Reference Portfolio. To do this, we take on active risk*, or risk that the Fund's performance will be different from that of the Reference Portfolio's.

Under this Reference Portfolio construct, we need a way to sensibly allocate the active risk we take to the opportunities we believe will provide the greatest value-add over the Reference Portfolio. While our Risk Allocation Process (RAP) helps us rank opportunities in a consistent way, relative rankings of opportunities do not provide guidance on the desired sizing of these opportunities. This is what we aim to achieve with the risk budget process. We have an aggregate risk budget for the Fund and an allocation of risk budgets for broad opportunity classes to help size the Fund's average use of active risk over time.

Another important objective is to provide our investment professionals with a degree of certainty and autonomy in order to encourage the type of behaviour that is expected of an opportunity driven investor: the willingness not to use the risk budget when opportunities are poor, while knowing that the budget will be there as opportunities arise. Risk budgeting provides the framework for a more structured approach to investing.

CLASSIFICATION SCHEME

Risk budgets can have different levels of granularity. At one extreme, there could be just one risk basket for all value-add opportunities and, at the other, a separate risk budget could be set for every single asset.

The former, while providing maximum flexibility, does not provide any direction or degree of certainty about the final make-up of the active portfolio. Nor is it conducive to strategies that require the setting aside of "dry powder". It could lead to instances where the entire budget was spent on low confidence opportunities, leaving no room for high confidence opportunities when they arise.

On the other hand, having separate risk budgets for each asset would inhibit our ability to make meaningful substitutions based on market conditions.

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* Active risk is more commonly known as tracking error.

At the Guardians, we group opportunities under five broad asset classes or 'risk baskets'. See page 44 for more detail on how each basket, together with our portfolio completion activity, has contributed to our value-add for the year. Each basket is based on our primary investment rationales of structural/diversification, market pricing and asset selection.

- Structural/diversification – includes diversifying assets not represented in the Reference Portfolio, such as timber, life settlements and catastrophe bonds. The basket also includes opportunities that we intend to maintain an allocation to based on our favourable views on the longer term opportunity drivers (e.g. an overweight to emerging market equities and equity factors).
- Market pricing – making use of the Fund's endowment of having a stable risk appetite compared with the market. All these opportunities take advantage of markets being cheap or expensive (due to investors' changing risk appetite) over time.
- Asset selection – opportunities that take advantage of specific asset characteristics (within any market) either particular skill applied by a manager or due to a specific asset being cheap (a 'one-off bargain') which the Fund can access due to its endowments.

GOVERNANCE

The governance of risk budgeting at the Guardians is as follows:

- **Level 1** – The Total Active Risk Budget. The *Board* approves the aggregate active risk budget for the Fund. This is reviewed every five years.
- **Level 2** – Allocations across baskets. The *Investment Committee* and *Chief Investment Officer* determine the allocation of the total risk budget across risk baskets.
- **Level 3** – The Opportunity Budget. The basket-level budgets are shared out between the opportunities.

- **Level 4** – The point-in-time Target Allocation. Based on market pricing, at any point-in-time, an opportunity may be more or less attractive, and we will want to dial up or down our risk spend accordingly. This is the responsibility of the *Risk Budget Teams* who design spending approaches and recommend target allocations for approval by the *Head of Asset Allocation*.
- **Level 5** – The Actual Allocation. The *investment teams* are then tasked with achieving the desired point-in-time target position. In practice, the actual allocation may differ from the desired target at any given time due to implementation delays or other considerations.

The opportunities within each risk basket will essentially be sharing and competing with each other for risk capital. In order to ensure that we are using our agreed risk allocation in the most effective way (rather than filling the baskets simply because they are there), we look to each of our investment teams to communicate on their activities and to be clear on their proposed spending approaches. We are opportunity-driven investors; spending all of our risk removes our ability to respond to further opportunities when they arise. Discipline is critical to our approach. Spending time on our existing portfolio is a fundamental part of this – is the risk we currently have in our portfolio being well spent? Divestment decisions are just as important as investment decisions.

SETTING RISK BUDGETS

Setting risk budgets involves determining the allocation of the total risk budget among the different baskets, and then to the opportunities within each basket. In making this decision, we are aiming to maximise the portfolio's expected return per unit of active risk (we call this the 'information ratio').

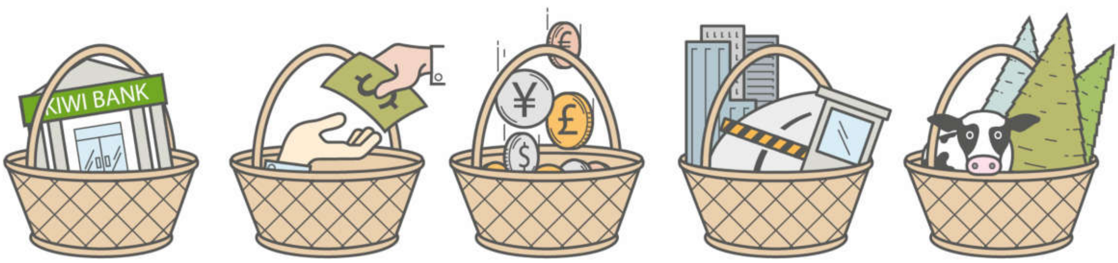
We use a confidence assessment as the main tool to determine the information ratio for each risk basket. The assessment covers four areas relating to our confidence in producing an active return: endowments, investment beliefs, portfolio efficiency and breadth. The opportunity level budgets within each basket are derived in a similar way, except that in this case, the confidence assessments relate to opportunity level characteristics and cover areas different from those at the basket level, such as clarity of drivers, quality of inputs, our understanding of risks and level of expertise. This way, baskets which lean more heavily on our endowments and beliefs will be allocated a higher share of the total active risk budget, as we have more confidence in their ability to generate value-add through time.

Ultimately, risk budgeting is not a mechanical exercise and other considerations such as market size, internal resources and other constraints are also taken into account by the Investment Committee in determining the final budget allocations.

SUMMARY

Risk budgets are a mechanism through which we pre-commit to a desired amount of total active risk and allocate that to opportunities and groups of opportunities in order to maximise the Fund's expected active return per unit of active risk through time. This process is informed by our confidence in the various opportunities and groups of opportunities and how they align with our endowments and beliefs.

Risk budgeting also provides a framework for a more structured approach to opportunity-driven investing, providing a flexible mechanism by which allocations can adjust to prevailing market conditions and attractiveness.



ASSET SELECTION | MARKET PRICING – ARBITRAGE, DISTRESSED CREDIT & FUNDING | MARKET PRICING – BROAD MARKETS | MARKET PRICING – REAL ASSETS | STRUCTURAL

VALUE-ADD IN 2018/19

NZD 261m

IN VALUE-ADD (NET OF COST)

Figures show performance vs Reference Portfolio.

In this section, we report on value-added or detracted by our active investments and value-add strategies (these are grouped into the five risk baskets plus portfolio completion) relative to our passive Reference Portfolio benchmark. In total, the Fund out-performed the Reference Portfolio by 0.67% (NZD261 million) over the year. This compares with a 1.43% annual (NZD8.32 billion) out-performance since inception. We expect to outperform the Reference Portfolio by 1% per year, over the long term, based on the level of risk we expect to take.

Small revisions have been made to previous years' value-add contributions due to several factors, including changes to the structure of the risk baskets.

Source of value-add (by risk basket)	2018/19	2017/18	2016/17
ASSET SELECTION e.g. opportunistic, buyout, active equities. This basket contains opportunities that involve the skill to pick assets. Opportunistic assets are one-off investments that we are able to access because of who we are and where the key driver is our endowments – long horizon, independence, sovereign status – which may give us a competitive advantage in some situations. Over 2018/19, value-add was largely driven by these opportunistic investments, in particular NZ tech company Datacom and carbon recycling firm LanzaTech.	0.25%	-0.18%	-0.05%
MARKET PRICING – ARBITRAGE, DISTRESSED CREDIT AND FUNDING e.g. active collateral, merger arbitrage. These investments are mainly in the area of credit and funding that draw on the Fund's endowments, including its sovereign status and known liquidity. These endowments may allow us to benefit from structural features of the market. They tend to have lower risks than those in the other two market pricing baskets because interest rate risks are generally hedged and trades may be implemented via arbitrage strategies. This year our internally managed active collateral mandate was the primary source of value-add in this basket.	0.10%	0.46%	1.20%
MARKET PRICING – BROAD MARKETS e.g. global macro, strategic tilting. The investments in this basket draw on the Fund's long-term horizon and ability to look through short-term market movements. This includes strategic tilting, one of our internal mandates that systematically takes on risk after markets have fallen and takes risk off again after markets have recovered. The global macro opportunity is a market neutral strategy that produces return by skilfully exploiting inefficiencies within and across a broad range of liquid markets. The strategic tilting programme was the main source of value-add in this basket.	0.17%	1.22%	2.27%
MARKET PRICING – REAL ASSETS e.g. alternative energy, expansion capital, infrastructure, real estate. These opportunities are mainly driven by our views of the pricing of real assets in their respective markets, which include infrastructure, real estate, energy investments and expansion capital. Our investments in alternative energy developer Longroad and dynamic glass company View Glass were the main contributors to value-add.	0.35%	-0.52%	-0.20%
STRUCTURAL e.g. emerging markets equity up-weight, insurance-related securities, timber. This basket includes diversifying assets such as timber, life settlements and catastrophe bonds that are not represented in the Reference Portfolio. The basket also includes opportunities that we intend to maintain an allocation to based on our favourable views on the medium to longer-term opportunity drivers. Most of the investments in this basket underperformed their benchmarks this year, although long-term, their performance remains strong.	-0.70%	0.62%	1.05%
Source of value-add (portfolio completion)	**2018/19**	**2017/18**	**2017/17**
PORTFOLIO COMPLETION see page 223 for more information on this strategy. The strategy seeks to access and manage the Fund's passive exposure to equities and bonds. It does this by rebalancing the Fund to our desired Reference Portfolio weightings, and managing the currency overlay and liquidity risk in the most efficient manner possible.	0.66%	0.58%	0.27%
GUARDIANS' COSTS	-0.16%	-0.16%	-0.17%
TOTAL OUT PERFORMANCE RELATIVE TO REFERENCE PORTFOLIO	**0.67%**	**2.02%**	**4.37%**

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THE SHARPE RATIO

Focusing solely on returns ignores how smooth or rough the ride was in generating those returns and the risk taken to achieve them. A commonly used risk-adjusted performance metric, the Sharpe ratio, compares the portfolio returns above cash returns as a ratio of the volatility of returns. The higher the ratio, the greater the return for the risk taken, and vice versa.

The Sharpe ratio enables us to compare the risk-adjusted performance of our benchmark, the Reference Portfolio, with that of our Actual Portfolio, and also against our expectations. This is shown below.

	Since introduction of Reference Portfolio (July 2010) to 30 June 2019	Since inception (Dec 2003) to 30 June 2019
Reference Portfolio Sharpe ratio* (expected)	0.20	0.20
Reference Portfolio Sharpe ratio (realised)	1.24	0.49
Actual Portfolio Sharpe ratio (expected)	0.26	0.26
Actual Portfolio Sharpe ratio (realised)	1.36	0.54

* The Sharpe ratio is the portfolio return in excess of the T-Bill return (excess return) divided by the volatility of the excess return. Given that the Fund operated under a Strategic Asset Allocation framework between 2003 and 2009, with more limited active investments, we provide Sharpe ratio figures for both the period since then and for the Fund since inception.

Our long-run expectation is that the 80% growth, 20% fixed income Reference Portfolio will achieve a Sharpe ratio of 0.20. For the Actual Portfolio, we expect a slightly higher Sharpe ratio of 0.26, representing an increase in return for the value we expect to add through active investment, adjusted for the risk taken to generate this.

REFERENCE PORTFOLIO

The Reference Portfolio has generated a higher Sharpe ratio than the 0.20 we expected. On a since inception basis, the Sharpe ratio of the Reference Portfolio is 0.49. Since its introduction in 2010, the Reference Portfolio has had a Sharpe ratio of 1.24. This means that the Reference Portfolio has experienced higher than expected returns, and lower than expected risk, over both periods.

ACTUAL PORTFOLIO

The Actual Portfolio has also generated a better Sharpe ratio than we expected, over both periods. Since July 2010, the Actual Portfolio's realised Sharpe ratio has been 1.36, greatly exceeding the expected ratio of 0.26. Again, this has been driven largely by returns exceeding expectations and, to a lesser extent, lower than expected risk. On a since inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.54. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

RISK-ADJUSTED RETURN PERFORMANCE (CONTINUED)

LOW RETURN ENVIRONMENT

In equilibrium (i.e. over the very long term) we expect the NZD return on equities and bonds to be as shown in the first column of the table below:

	Equilibrium	Realised (2009 - 19)	Future Expected
Global Equities	8.5%	11.6%	7.0%
Global Bonds	5.7%	6.1%	1.6%

Column two of the table shows that realised equity returns over the past decade have been well above equilibrium return expectations, and bond returns have also been higher. Part of the story for the strong past equity returns relates to the interest rate environment we have experienced. In particular, interest rates have been falling, leaving us in an environment of very low interest rates. Indeed, more than USD14 trillion of bonds globally currently yield negative rates. This means you receive less when the bond matures than you paid for it when it was issued.

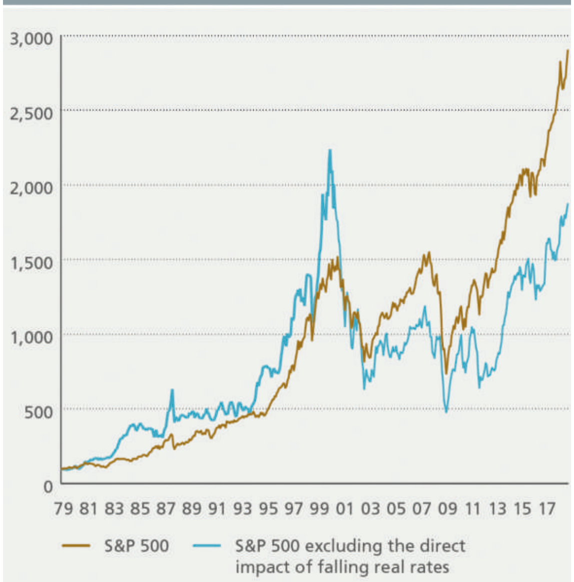
But in the process of pushing up equity prices, low rates now mean we are seeing fewer attractive investment opportunities looking forward. We are taking less active risk in the short term, which means we expect less value-add, all other things being equal. Hence, the return we expect from the Fund's portfolio over the next few years is lower than what it normally would be. Our expectations over the medium term are shown in the third column of the table.

To get a sense of the size of the impact of declining interest rates on realised and expected equity and bond returns, consider how far rates have fallen in the past 10 years. The New Zealand 10-year government bond yield was 5.82% in August 2009. Today it is 1.28%, a fall of about 4.5%. On average, that's a fall of 0.45% per year. The Reference Portfolio consists of 80% global equities and 20% global fixed income. **How much higher have our equity and fixed income returns been as a result of this fall in rates?** Based on an assumed seven-year duration of our fixed income portfolio, returns have been boosted by about 3% p.a. The impact on equity returns is a little less certain, but plausibly about +5% p.a. – equities are longer duration than bonds and thus the impact is higher. This implies that Reference Portfolio returns have been boosted by about 4.5% p.a.

How much lower are our expected returns from holding fixed income and equities over the next decade or so now that rates are so low? The current yield turns out to be a very good predictor of future returns over such horizons. The yield on global fixed income has fallen from 3.1% to 1.6% over the past 10 years, and so our current expected return from holding global fixed income is about 1.5% p.a. lower than it was 10 years ago. For global equities, the earnings yield has fallen from 11.7% to 7.0% over the past ten years. Thus, our forward looking return expectation from holding equities has fallen by 4.7% p.a. It follows that our Reference Portfolio expected returns have declined by about 4% p.a. since 2009.

A visual representation of the US equities market is provided below to show the impact of interest rates.

Impact of Real Rates on US Equities Returns



What happens to our return expectations if interest rates increase quickly over the next few years back to more normal levels? In short, we will likely realise losses on both our equity and bond positions in the process, with the silver lining being that our forward looking return expectations from both asset classes will also revert to higher and more normal levels.

While important, interest rates are not the only determinant of returns. Much of the variation in asset returns is driven by swings in risk appetite, which the above analysis does not take into account (because risk appetite is not directly observable).

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CASE STUDY

Independent Review of the Proxy System

In early 2019, we engaged consultants Willis Towers Watson (WTW) to carry out a review of our proxy system.

The proxy system is a way to ensure that the Fund's risk is kept in line with the Reference Portfolio risk. The Board sets the Reference Portfolio which, among other things, sets the desired risk profile for the Actual Portfolio. The Reference Portfolio is a simple, low-cost, passively implemented portfolio and contains conventional asset classes (80% equities, 20% bonds).

When adding new investments to the actual portfolio, it is possible for the risk of the portfolio to deviate from the Reference Portfolio, depending on the mix of assets sold from the Reference Portfolio to fund the new investment opportunity.

With this in mind, we operate a proxy system that specifies, for different categories of active investments, the mix of assets to be sold from the Reference Portfolio to ensure that the overall level of portfolio risk remains the same before and after the introduction of a new investment. Specifically, the proxy system sets out a percentage of growth assets (i.e. listed equities) and a percentage of defensive assets (i.e. bonds) to be sold, with the percentage of growth and defensive assets sold adding to 100%.

The review of the proxy system covered several areas, including:

- Whether the proxy approach used achieves its intended purpose.
- Whether the proxies used have worked historically for a number of specific investments made by the Fund. These investments included timber, life settlements, catastrophe bonds, emerging markets overweight and value and low risk factors.
- Whether the decision making, governance and controls in place for the proxy system are adequate.

The key findings were:

- The proxy system was found to be fit for purpose. It was assessed against six different criteria: soundness, simplicity, model risk, sensitivity, robustness and scalability.
- The approach to setting asset class assumptions for the six investment opportunities included in the review is reasonable and defendable. In most cases, our assumptions are within a reasonable range of WTW's own assumptions.
- For the investment opportunities being considered, the proxy system has resulted in the risk of the actual portfolio being slightly lower than that of the Reference Portfolio. Within this, the realised beta* for timber and emerging markets overweight have been lower than assumed, and that for life settlements, has been higher than assumed.
- The decision-making processes, governance structures and controls in place for determining the risk proxies are appropriate for the systems we use, and there are no obvious areas for improvement in these.
- A potential improvement is the extension of the two factor risk model (use of global equities and global bonds) to include additional factors such as real assets, illiquidity and uncertainty factors. The review also noted, however, that this is an area for our judgement, as it increases model complexity and may not significantly alter the effectiveness of the risk proxies produced by the system.

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* A beta coefficient is a measure of the market risk exposure; the sensitivity of an asset or asset class to the equity market.

WHERE WE INVEST

The Fund is highly diversified, with investments in a range of markets and sectors all around the world. More than 85% of the Fund is invested offshore, in both developed and emerging markets. This diversification is in keeping with the Guardians' mandate to manage the Fund in line with best practice portfolio management and to invest it on a prudent, commercial basis.

The majority of the Fund's global investments are held passively. These holdings give us cost-effective, diversified exposure to global sharemarkets. We also invest globally in a range of active investment opportunities, including timber, private equity, insurance-linked securities and distressed credit.

Exposure	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
New Zealand	12.9%	13.9%	12.0%	12.6%	13.5%
Australia	1.6%	2.7%	2.6%	2.1%	2.7%
Africa	0.8%	0.7%	0.8%	0.8%	1.1%
Europe	17.3%	19.3%	19.9%	21.2%	20.9%
Asia (excl. Japan)	10.9%	10.2%	10.1%	8.9%	9.3%
Japan	6.0%	6.1%	6.1%	6.1%	6.2%
North America	48.8%	45.8%	47.0%	46.7%	44.3%
South America	1.7%	1.3%	1.5%	1.6%	2.0%

The main driver of changes to the Fund's geographic exposure is the relative performance of the different markets over time and, as a consequence, their weightings in international equity indices.

NEW ZEALAND

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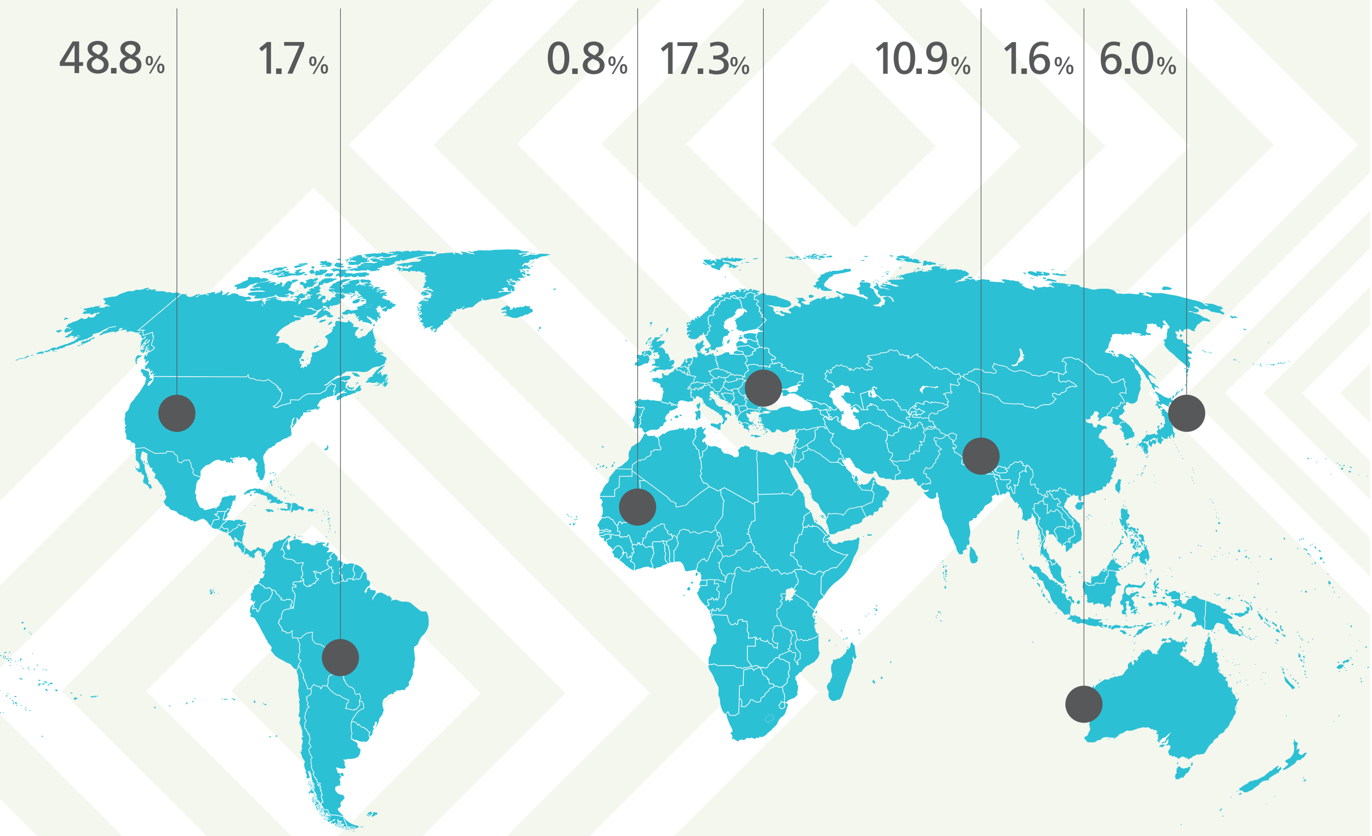
GLOBALLY



1.03%

INVESTED IN RURAL LAND AND FARMS ACROSS NEW ZEALAND

$2.2b

INVESTED IN FORESTRY WORLDWIDE AND IN NEW ZEALAND

1.95%

INVESTED IN NATURAL CATASTROPHE REINSURANCE AND LIFE SETTLEMENTS

$1.9b

INVESTED IN LISTED NEW ZEALAND EQUITIES

INVESTMENT ACTIVITY - NEW ZEALAND

New Zealand is our home. It is a market we understand and value, and one we have an advantage in as a long-term investor. We have grown to be one of New Zealand's largest institutional investors, and we play a significant role in its capital markets. We take our role in New Zealand's economic life very seriously.

Our direct investment activity in New Zealand commenced in 2006 when we acquired a stake in Kaingaroa Timberlands but was further cemented with a letter from then Minister of Finance Bill English in May 2009 directing the Guardians to identify and consider New Zealand assets as part of its portfolio. Importantly, the directive was not intended to be inconsistent with our duty to invest the Fund on a prudent, commercial basis. Following the directive, we undertook a review of the domestic opportunity and saw the potential to invest further into New Zealand outside traditional listed markets.

"

... I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians. This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis..."

MINISTER OF FINANCE, 2009

SIZE OF NEW ZEALAND INVESTMENTS

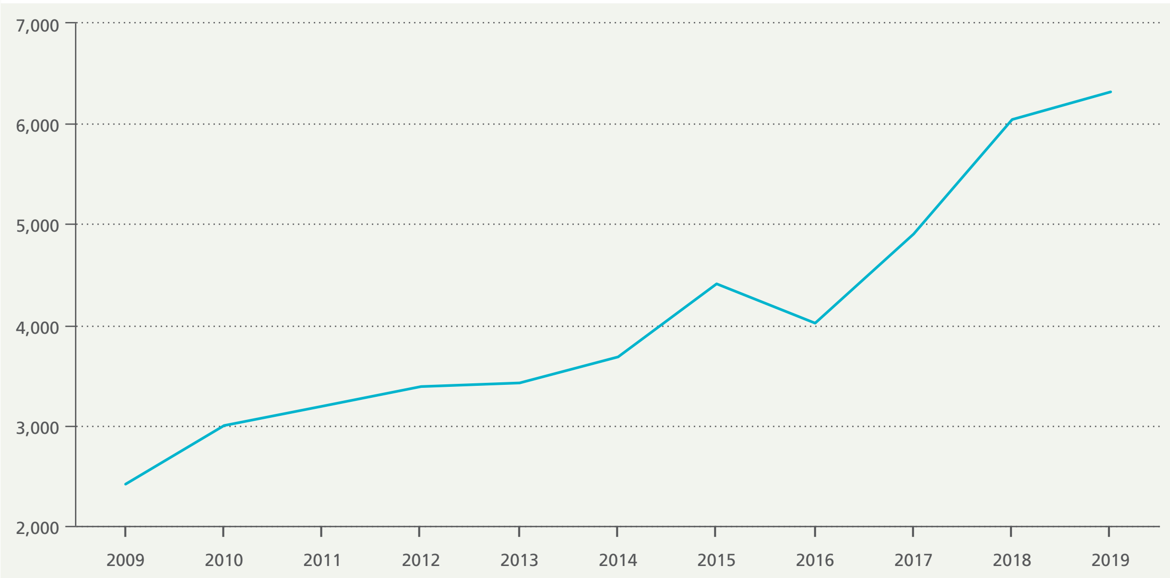
Our local advantage means we are strongly weighted to New Zealand-based assets relative to the size of the local market.

Overall, we have just over NZD6.3 billion invested in New Zealand, or 14% of our total investments. To provide context about the relative size of our local investments, while New Zealand makes up just 0.1% of listed global equities, approximately 4% of the Fund is invested in local shares. Internationally we have a further NZD1 billion invested directly in companies that are an extension of activities here in New Zealand.

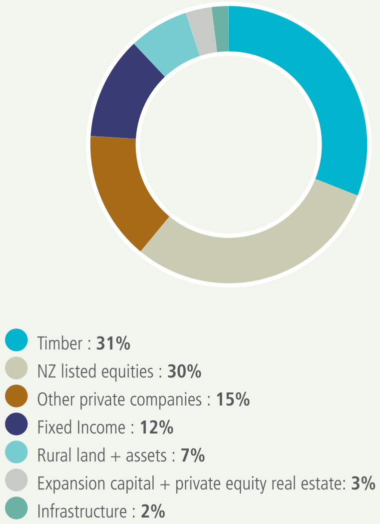
While dollar figures of our investments in New Zealand increased from NZD2.4 billion to NZD6.3 billion in the seven years since 1 July 2009, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 14%. The proportional drop also reflects the strong performance of global equities in recent years, even after significant new investments by the Guardians in New Zealand.

In contrast to the exposure analysis provided in the 'Where we invest' section on page 48, this figure is calculated based on the value of the Fund's New Zealand investments, as a proportion of the value of the Fund's investments figure in our financial statements. This calculation includes investments in rural and forest land, but excludes foreign exchange hedging instruments such as FX contracts and cross-currency swaps. While we envisage continued growth in exposure to local assets, it is important to note that given the increasing total size of the Fund, the percentage invested in New Zealand will likely continue to drop.

Value of NZ Investments ($m)



NZ Investments as at 30 June 2019



AUCKLAND LIGHT RAIL

Our proposal to fund, design, construct, own and operate Auckland's light rail project, alongside Canadian investor CDPQ Infra, is currently being assessed by the Ministry of Transport. Our consortium partner CDPQ Infra is a wholly owned subsidiary of Caisse de Dépôt et Placement du Québec (CDPQ), a CAD300 billion pension fund owned by the Government of Quebec. CDPQ Infra is responsible for developing and operating infrastructure projects, including Montreal's 67km light rail network. In addition to light rail, the Fund has a highly skilled team focused on pursuing other opportunities for domestic investment in infrastructure.

Via Pencarrow we are invested in Solarcity, which provides solar panels to residential and commercial users in New Zealand.

RURAL LAND

In the past year, we made acquisitions totalling NZD80 million in rural land acquisitions. This included purchasing a dairy/beef farm in Southland, an apple orchard and a hops garden in Nelson. The latter two represented our first rural economic acquisition outside the established focus on the dairy and livestock sectors. In total, the Fund has NZD418 million invested in rural New Zealand, which is managed by farm managers FarmRight. A strong focus on our management of these assets is to improve the environmental sustainability of the farms and improve on-site health and safety performance. We continue to see rural land as an attractive long-term investment and a good diversifier for our portfolio. Last year, the Fund took a 27% stake in NZ Gourmet. Established in 1982 as a specialist exporter of premium quality New Zealand produce, NZ Gourmet produces and markets a range of high-quality fruit and vegetables.

EXPANSION CAPITAL*

We have several New Zealand expansion capital mandates with local investment managers Direct Capital, Pioneer Capital, Pencarrow, Movac and Waterman, supporting the growth of businesses in New Zealand between early to late stage growth private equity. These businesses are often too large for angel capital alone and typically too small for offshore private equity funds. Our most recent growth capital commitments that have continued deployment into new investee companies are:

- Dec 2016, committed NZD40 million co-mingled and NZD50 million flexible side-car funding (see page 224 for more information on how side-car funding works) to Direct Capital Fund V focusing on larger opportunities.
- Mar 2017, committed NZD60 million co-mingled and NZD60 million flexible side-car funding to Pioneer Capital Fund III focusing on mid-sized, export-oriented, growth businesses.
- Dec 2016, committed NZD25 million co-mingled and NZD25 million flexible side-car, to Movac Fund IV investment criteria focused on earlier stage software and technology companies.

Via Pioneer Capital we are invested in Rockit Apple, which produces and markets the world's first specially bred miniature high-quality apple.

STRATEGIC LEADERSHIP

Linked to one of our core investment beliefs (that good governance drives improved shareholder returns), we have established a pool of independent directors to represent our interests on investee company boards. Over the past year, we sought to strengthen the skills of our internally and externally appointed directors, building capabilities in best practice strategy development and execution. A web portal has been developed and launched for directors of our investee companies. The site includes materials and other content and research relevant to our directors and will function as our primary knowledge sharing tool.

* We define expansion capital as the provision of capital to small, fast-growing private companies. It includes growth equity (the provision of new capital to support organic growth) as well as small and medium enterprise buyout (the acquisition of a minority or majority stake from an existing shareholder).

INVESTMENT ACTIVITY - GLOBAL

DATA CENTRES

In April, we sought to capitalise on demand for digital infrastructure, underpinned by the growth in data, by investing up to USD113.3 million in North American data centres. The investment was made alongside vehicles managed by CIM Group, a North American real estate and infrastructure owner and operator. The investment includes potential access to certain of CIM's pipeline of future data centre transactions and its existing portfolio of six data centres at various stages of development and operations. The existing portfolio is owned through one or more joint ventures with CIM Group's managed vehicles.

Data centres offer strong infrastructure-like returns underpinned by exponential growth in digital data. There is increasing customer demand for offsite data centres as enterprises either shift data management to third-party providers or move to the cloud, meaning that by 2021, data volumes are expected to be nearly three times 2016 levels. The investment is in the provision and leasing of data centre facilities and infrastructure and not in data centre operation. The data centres are located across North America in San Francisco, California; Toronto, Ontario; Orangeburg, New York; Chicago, Illinois; and Cheyenne; Wyoming. The North American investment follows our 39% investment in New Zealand information technology company Datacom, which has a network of data centres in New Zealand and Australia.

Rio Bravo wind farm in Starr County, Texas, developed, financed, and sold by Longroad Energy

LONGROAD ENERGY

The Guardians, alongside NZX-listed Infratil and management, has had an investment in Longroad Energy Holdings since 2016. Longroad focuses on renewable energy developments, primarily in the development of utility-scale wind and solar generation in North America. As at financial year end, we held a 40% stake in Longroad. Investment management company Morrison & Co manages both our stake and Infratil's. Over the year, Longroad achieved a number of project milestones. In early 2019 it partnered with Facebook to complete financing for a planned solar energy project in Andrews County, Texas. Construction on the project commenced in June 2019. When completed, the development will be the largest solar facility in Texas, extending approximately 4,600 acres. Longroad also oversaw the development of two other renewable projects in Texas; in Starr County and Winkler County.

INNOVATION AND DISRUPTION

This year, the New Opportunities Assessment Hub (NOAH) reviewed the investment teams' approach to innovation and disruption and the potential risks and opportunities for the portfolio. A discussion paper was presented to the Investment Committee in June 2019. The paper seeks to promote thinking on innovation and disruption by taking a high-level view of technology-related disruptions that are either currently taking place or are likely to take place in the coming years. It also suggests ways that we could be more explicit about integrating innovation and disruption considerations into our investment analysis.

VIEW, INC.

View, Inc. is a California-based, glass-manufacturing company that produces a smart glass based on electrochromism. We led a 2017 USD150 million funding round for the business, which we followed up in 2018 by participating in further capital raising rounds, prior to a USD1.1 billion investment from the Softbank Vision Fund. Net of debt financing redemption, our net cash invested in the company is NZD219 million.

PALGROVE

We acquired a further Australian beef farm through our Palgrove investment. The Guardians first invested in Palgrove in 2017, with the latest 1,482 hectare purchase taking our total land holding to ~18,000 hectares. The company is based in Stanthorpe, Queensland, and manages property and livestock across Queensland and New South Wales.

BLOOM ENERGY

Bloom is an alternative energy company that produces innovative solid oxide fuel-cell electricity solutions for clients such as Google and Adobe. We invested USD50 million into Bloom in 2013 and a further USD50 million in 2014. In July 2018, Bloom held an initial public offering for 20% of the company on the New York Stock Exchange, valuing the company at USD2.65 billion.

Our investment converted to 2,587,991 unlisted Class B shares, representing approximately 2.4% of the total common stock in the company. These Class B shares, which have enhanced voting rights for up to five years, can be converted into listed class A shares at any time and convert automatically on being transferred or in certain other circumstances. Although the company has achieved growth in sales, its performance has lagged market expectations, and the investment performance has been disappointing.

NEW MANDATES

Along with the mandate entered into with CIM to access data centre opportunities (see above), over 2018/19, we appointed US-headquartered Neuberger Berman to manage a NZD215 million merger arbitrage mandate.

During the year we terminated a mandate with Ramius for merger arbitrage. Funds returned from this mandate were redeployed into our other merger arbitrage mandates.

Alongside our managers, we continue to assess new investment opportunities and ideas, develop our understanding of their underlying portfolios and constantly assess the confidence we have in each to deliver for the Fund.

CASE STUDY

Infrastructure Investment

We see infrastructure as an attractive investment class because of its development risk, followed by consistent returns and yield; and defensive characteristics.

Melbourne's EastLink freeway links a large area through the Eastern and South-Eastern suburbs of Melbourne.

While we are actively looking for large-scale domestic infrastructure investments (such as Auckland Light Rail, see page 51), the majority of our investments are abroad.

One such successful investment has been in ConnectEast Group, which designed and constructed, and now operates and maintains, EastLink, the 39km tollway in the eastern suburbs of Melbourne, Australia.

Melbourne is Australia's second largest city, with a population of 5 million. It is also Australia's fastest growing city by population. It is expected that Melbourne will overtake Sydney to become Australia's largest city by around 2026, and EastLink is key to catering for Melbourne's future growth, commerce, transport efficiency and liveability.

We first invested in ConnectEast (then listed on the ASX), before joining a consortium of investors that took the entity private in October 2011. As at 30 June 2019, we own a 9.9% stake.

Construction of EastLink started in March 2005 and it opened in June 2008. The EastLink toll road concession agreed with the State of Victoria will continue until 2043.

The freeway is the only major north-south transport artery in Melbourne's east and connects the Eastern, Monash, Peninsula Link and Frankston Freeways. It includes twin 1.6km tunnels (named 'Melba' and 'Mullum Mullum'), which were built to protect the environmentally sensitive Mullum Mullum valley above.

EastLink is Australia's second busiest tollway, carrying a quarter of a million vehicle trips per day on average (FY2019). It's also the fastest freeway with an average vehicle speed of 96 km/h in the 100 km/h sections (FY2019), and is Melbourne's safest freeway with a low casualty crash rate of 2.58 per 100 million vehicle km (FY2019).

EastLink serves the commuter, leisure, commercial, construction, supply chain, retail distribution, waste and hazardous goods markets. The freeway is part of Victoria's high productivity freight vehicle network and is also used by very large over-dimensional loads.

With the opening of the Victorian Government's North East Link project (expected around 2027), EastLink will become a vital segment of Melbourne's completed orbital freeway network. Once completed, the network will take pressure off inner urban freeways and highways and allow traffic between outer suburban residential, commercial and industrial areas to avoid inner city congestion and act as a Melbourne bypass for inter-regional traffic.

EastLink features 480 hectares of landscaping with 4 million native trees, shrubs and plants. Sixty wetlands treat road surface rainwater run-off before it is released to local waterways. There is also a 35km trail for cyclists, pedestrians and runners that connects with other tracks and parklands. EastLink has been designed to provide a sense of place and community for local residents, with four iconic public artworks, eight smaller artworks, and distinctive architectural features such as noise panels, road bridges and pedestrian bridges.

For more information, visit: www.eastlink.com.au.

Given the Fund's long-term horizon and purpose, it is important that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices.

Climate change presents material risks to long-term investors like ourselves. Through our Climate Change Investment Strategy, we seek to ensure that these risks, as well as the potential opportunities, are factored into our investment decision making.

GOVERNANCE

The aim of our Climate Change Investment Strategy is to improve investment resilience to climate change risk over the long-term horizon of the Fund.

The Board delegates almost all responsibility for individual investment decisions and operational decisions to management, apart from the choice of the Reference Portfolio. In 2017, our Board changed the composition of our Reference Portfolio to meet our 2020 reduction targets under the 'Reduce' arm of our Climate Change Investment Strategy (see 'Strategy' below).

Our Chief Executive Officer (CEO) is responsible for executing the Fund's overall strategy. The Chief Investment Officer (CIO) is responsible for the Climate Change Investment strategy, with both the CIO and Head of Responsible Investment overseeing its implementation, and acting as project sponsors. The different elements of the strategy are integrated into the objectives of the relevant members of the investment team, with the Heads of each team responsible for ensuring delivery and implementation.

STRATEGY

Our Climate Change Investment Strategy has four work streams:

- Reduce – implement rules and activities to reduce exposure in the portfolio to fossil fuel reserves and emissions;
- Analyse – implement frameworks to assist investment professionals in integrating climate change into valuations for active and prospective investments;
- Engage – implement an engagement programme and voting policy on climate change;
- Search – progress implementation of climate change opportunities identified.

RISK MANAGEMENT

It is our view that by reducing exposure to carbon intensity and fossil fuel reserves, the Fund becomes more resilient to climate change risk.

In June 2017, we transitioned our NZD14 billion passive global equity portfolio (constituting 40% of the Fund) to low carbon, selling our passive holdings in 297 companies worth NZD950 million. We re-applied our carbon exclusion methodology in June 2018, and again in June 2019. This year, we made further progress in reducing the carbon exposure of the Fund's actively managed equity holdings. The emerging markets portfolios transitioned to a lower carbon approach as well.

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KEY ACHIEVEMENTS 2018/19

REDUCE

- Met and exceeded our 2020 carbon reduction targets
- Reapplication of 'Reduce' methodology to Reference Portfolio
- Transitioned listed equity Emerging Markets and factor portfolios to low carbon

ANALYSE

- Completion of valuation framework, endorsed by the Investment Committee
- Work on scenario analysis
- Review of manager ability to implement our Climate Change Investment Strategy

ENGAGE

- Continued support of CA100+
- Strengthened voting policy on climate change-related resolutions
- Full disclosure on all voting decisions on our new voting reporting platform

SEARCH

- New Opportunities Assessment Hub (NOAH) reviewed a number of climate-related opportunities

We also expanded our due diligence and manager monitoring processes to incorporate analysis of climate change factors, including an assessment of each external manager's ability and commitment to adhering to our climate change objectives.

In early May, we hosted a climate change investment seminar with our New Zealand-based investment managers. We presented an overview of our strategy, along with deep dives into our climate change scenario analysis and case studies on how we integrate climate change considerations into the Fund's New Zealand equities and New Zealand direct portfolios.

Risk Assessment Process

The risk assessment process is a portfolio construction tool we use to help with our investment risk decision making. Since 2017, the process has included climate change considerations. With each new investment we may consider:

- Whether the opportunity increases portfolio exposure to emissions and reserves (is the opportunity exposed in a negative way to climate change-related regulation, disruption and/or supply demand impacts?)
- Our comfort level around how the opportunity may impact the portfolio's exposure to emissions and reserves (is it more/less carbon intensive than its proxy?)

- Whether carbon risks can be mitigated through design, practice or asset allocation.
- Whether the opportunity has a positive impact on climate change solutions or emissions reductions.

This way, when we think about a new investment opportunity, we consider both the degree to which those investments are exposed to climate change risks and how well positioned they are to provide solutions to climate change. Importantly, we may still invest in an opportunity that increases our carbon footprint, but the assessment process ensures we consider the whole of portfolio footprint impact, long-term risks, and if they can be mitigated.

Valuation Framework

Last year, as part of the 'analyse' work stream, a valuation project team was formed to develop an investment decision-making framework that explicitly accounts for climate change investment risk in valuation models. The eventual framework, approved by the Investment Committee, seeks to provide a structured approach to identifying climate change considerations that could affect an investment. It guides the investment professional through filtering the climate change considerations into those assumptions that have enough significance to be modelled in valuations and provides a common framework to promote greater consistency across teams. The assumptions are then integrated, as much as possible, into our existing investment processes.

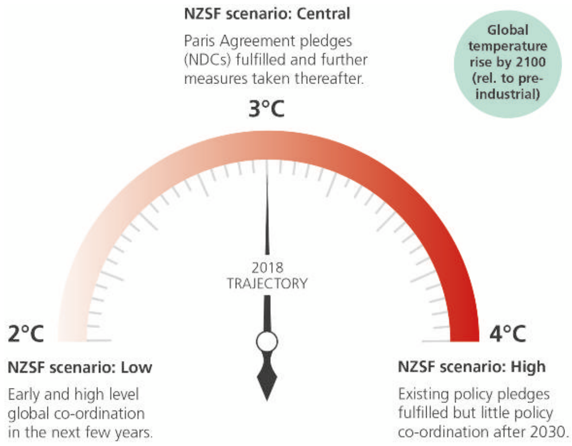
Scenario Analysis

Over the past year, we also began work on a common set of climate change scenarios intended to supplement the climate change valuation framework.

Within our valuation models, we specify a central (or base) case climate scenario, the characteristics of which are reflected in the valuation of an asset where climate change presents a material risk to that asset. A second, and equally important, role of the scenarios is to facilitate the testing of the robustness of investments to different climate change outcomes. To this end, we have specified three scenarios: a central case (3°C), a high case (4°C) and a low case (2°C), intended to span the range of outcomes to which most experts would assign a meaningful probability of occurring.*

The future trajectory of global warming will be largely determined by policy choices that emerge from the intersection of social, political, economic and technological developments. Within each scenario, we distil the range of these policy choices down to a single metric – the global carbon price (USD/tonne of CO_2). The carbon price paths presented in the scenarios are not a forecast in the usual sense. Rather, they represent the price of carbon needed to implement the change in energy mix that is required in order to achieve the specified climate outcomes. Key assumptions underpinning this price are the adoption rates of new lower carbon technologies such as renewable power generation, electric vehicle uptake and carbon capture and storage.

We specify key physical and economic characteristics in each scenario. Forecasts are made out to 2050 where possible and are global in nature. Though intended only as a starting point, we expect the details and variables in each scenario to evolve over time as new information comes to light and more precise estimates become available.



METRICS AND TARGETS

In 2017, we developed carbon reduction targets for the overall Fund. Measured relative to our original Reference Portfolio, by 2020 we aim to:

1. Reduce the carbon emission intensity of the Fund by at least 20%, and
2. Reduce the potential emissions from reserves of the Fund by at least 40%.

We use carbon footprinting to measure the carbon exposure of the Fund and to track progress towards our 2020 carbon reduction targets. Our 2019 carbon footprint assessment reported that the total Fund's carbon emissions intensity** is 43% lower than our baseline level, and its exposure to potential emissions from reserves*** is 52% lower.

Given we have met our 2020 targets, over the next financial year work will be undertaken to review our targets and to assess if and where in the portfolio further carbon reductions can be made.

* The central case scenario is approximately in alignment with the global aggregation of current Nationally Determined Contributions (NDCs) according to the 2018 Special Report by the IPCC. It states that the current NDCs (which assume further measures taken beyond the currently implemented measures) will limit warming to about 3°C by 2100.

** Carbon emissions intensity is defined as measured tonnes CO2e/$m sales = tonnes of carbon emissions divided by $m out of company sales. This measures the portfolio in terms of carbon emissions per unit of output and provides a measure of the overall efficiency of the portfolio by comparing emissions with the economic activity that produces them. This metric is robust to movements in market valuations.

*** Fossil fuel reserves are defined as potential future emissions: measures tonnes CO2e/$m invested = tonnes of carbon emissions divided by $m invested. This measures the carbon equivalent emissions stored in fossil fuel reserves that would be released if those reserves were produced and used in the future, relative to dollars invested. MSCI ESG research calculates the potential emissions should all reserves be produced and burnt expressed as tonnes of CO2 equivalent using the Potsdam Institute methodology. This includes proved and probable reserves.

This report summarises our responsible investment activities for the year to 30 June 2019.

In this report, you will find an overview of our approach to responsible investment, including a summary of our Environmental, Social and Governance (ESG) integration, voting, engagement and exclusion activities for the period under review.

HOW WE THINK ABOUT RESPONSIBLE INVESTMENT

We have a number of Investment Beliefs that underlie all of our investment decisions. One of these beliefs is that responsible investors must have concern for environment, social and governance (ESG) factors because they are material to long-term returns. Alongside this Belief sits our responsibility as a sovereign investor. Our governing legislation requires us to invest the Fund according to best practice portfolio management, and in a manner that avoids prejudice to New Zealand's reputation as a responsible member of the world community. Accordingly, we take a strong, purposeful approach to integrating ESG considerations into all of our investment activity.

All staff are held accountable for implementing our commitment to responsible investment, and the Responsible Investment team is charged with supporting and upskilling other investment professionals. However, the diversity of the Fund's investments and the degree of influence we have across different levels of investee company ownership can mean ESG integration is more challenging in some areas than others. By providing training, carrying out detailed due diligence, setting up the decision making protocols and undertaking research on new or complex ESG issues, the Responsible Investment team provides support to the rest of the investment professionals, ensuring they are equipped with the knowledge and expertise to make meaningful decisions around ESG.

> "Our view is that ESG integration is both good for returns and for the advancement of our objective to be active owners and responsible investors. As such, we look to integrate responsible investment considerations throughout our investment process. We also acknowledge the wider beneficial impact on corporate practice, regulatory standards and the healthy functioning of capital markets from active, constructive engagement."

MATT WHINERAY, CEO

At the Guardians, responsible investment is governed by our Statement of Investment Policies, Standards and Procedures (SIPSP), which can be found on our website: **www.nzsuperfund.nz/publications/policies**.

The SIPSP includes a specific section on responsible investment, which states our policy, standards and procedures as they relate to responsible investment. It defines responsible investment activities and embeds our Responsible Investment Framework as the process for implementation. The Responsible Investment Framework sets out in greater detail how we seek to enhance shareholder value and protect New Zealand's international reputation. It guides all of our responsible investment decision making. Our Board has overall responsibility for the SIPSP and Responsible Investment Framework. Both are reviewed annually.

More specifically, the Responsible Investment Framework guides our activities relating to the integration of ESG considerations into investment analysis and due diligence and into manager selection and monitoring. It guides us on how we prioritise engagement activities, execute voting and exclusion decisions and implement our Climate Change Investment Strategy.

The Responsible Investment Framework also includes a commitment to positive investment, which we define as investments that provide a financial return as well as a social or environmental benefit.

The full Responsible Investment Framework is available on our website: **www.nzsuperfund.nz/documents/responsible-investment-framework**.

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TEAM PROFILE - RESPONSIBLE INVESTMENT

(L-R): Katie Beith, Arti Prasad, Anne-Maree O'Connor

THE RESPONSIBLE INVESTMENT TEAM

The Guardians' Responsible Investment team is headed by Anne-Maree O'Connor, with two Senior Investment Strategists: Arti Prasad and Katie Beith.

An experienced and globally respected leader in her field, Anne-Maree O'Connor has held the role of Head of Responsible Investment at the Guardians for the last 13 years. Providing governance, policy and strategic oversight of responsible investment at the Guardians, Anne-Maree has been instrumental in developing and implementing the key frameworks that feed into the wider team's investment management practices. As a founder of the New Zealand Corporate Governance Forum, New Zealand's representative on the One Planet Sovereign Wealth Fund Working Group (OPSWF) and a Commissioner on the UN Financial Sector Commission on Modern Slavery and Human Trafficking, she has made a lasting, global contribution to responsible investment above and beyond her role at the Guardians.

Katie Beith oversees the ESG integration of our externally managed investment mandates, while also leading the Guardians' engagement and exclusion activities. She is also leading the global collaborative engagement with social media companies in response to the Christchurch terrorist attack (more information is available on page 61). Before joining the Guardians, Katie held a number of positions in responsible investment in London, England, including as a director of her own responsible investment consultancy and for the United Nations Principles for Responsible Investment. She currently serves as member of New Zealand's External Reporting Board Advisory Panel.

Arti Prasad provides ESG oversight on all the Guardians' direct investment activity. She is the current chair of our New Opportunities Assessment Hub (NOAH), a 'research clearing house' set up to help identify, assess and prioritise new investment opportunities. She specialises in the area of climate change, contributing to the various streams of work within our Climate Change Investment Strategy (see more detail on the strategy on pages 54 - 55). Prior to joining the Guardians in her current role, Arti was Head of Responsible Investment at the Queensland Investment Corporation (QIC) in Brisbane, Australia. She is a Board member of the Responsible Investment Association Australasia (RIAA).

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Report against the United Nations backed Principles for Responsible Investment (PRI)

The PRI is a global network of international investors that seek to implement six principles that drive responsible investment practices. The PRI is the internationally accepted benchmark for how institutional investors should manage ESG issues. Our responsible investment work programme is closely aligned to its principles and priorities.

Below we outline our performance in the PRI's annual benchmarking process and provide a report of our 2018/19 activities against the six PRI principles on pages 59-60.

PRI BENCHMARKING REPORT

The PRI's main accountability mechanism is an annual reporting and assessment process. Reporting is mandatory for all asset owner signatories such as the Guardians. Consistent with a Board approved strategic objective for the 2018/19 year, we were very pleased to receive an A+ rating from the PRI for the governance and strategy module and either an A or A+ rating in the other categories in which we reported.

This year, for the first time, we gained external assurance on a sub-set of indicators, pre-submitting our annual response.

Module	2019	2018	2017	2016	2015	Global median
Strategy and Governance	A+	A+	A+	A+	A+	A
Manager Selection, Appointment & Monitoring (SAM)						
– Listed Equity	A+	A	A+	A+	A	A
– Fixed Income (Sovereigns/Supranationals and Agencies)	A	A	A	A	N/R	B
– Fixed Income (Corporate Financial)	A	A	N/R	N/R	N/R	B
– Fixed Income (Corporate Non-Financial)	A	A	A	A	N/R	B
– Fixed Income (Securitised)	A	A	A	A	N/R	B
– Private Equity*	A+	N/R	N/R	N/R	N/R	A
– Property	A+	N/R	N/R	N/R	N/R	B
– Infrastructure	A+	N/R	N/R	N/R	N/R	A
Private Equity	N/R	N/R	N/R	A	N/R	
Direct Listed Equity – Incorporation	A	A	A+	A+	N/R	B
Listed Equity – Active Ownership	A	A	A	A	A	B

N/R= not reported

*We have not reported against the Private Equity module due to the small value of our direct investments (<5% NAV).

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THE SIX PRI PRINCIPLES

01.

INTEGRATION

We will incorporate ESG issues into investment analysis and decision-making processes.

ESG considerations are a component within our Risk Allocation Process (RAP) and new opportunity assessments.

We use these assessment tools to rank and map our existing and potential investment opportunities by:

- attractiveness (expected return, adjusted for confidence and risk); and
- consistency with the Fund's investment style (including ESG).

We have also developed specific ESG guidelines for different investment opportunities.

For our external managers, responsible investment capabilities are part of our manager selection, due diligence and monitoring processes. Once a manager is selected, responsible investment requirements, such as ESG integration, voting, engagement, implementation of our Climate Change Investment Strategy and adherence to our exclusions and reporting requirements, are incorporated into our contractual arrangements.

After we have selected a manager, we carry out regular responsible investment reviews. Managers are rated on ESG practices, and the results are integrated into the overall application of our manager conviction framework. This influences whether we maintain, dial up or dial down any manager mandates.

For our direct investments, ESG due diligence is a major component of our pre-investment analysis. ESG risks and opportunities are assessed, sometimes with the support of independent experts, with a view to understanding material ESG risks and whether the company is addressing or managing them adequately. Management monitoring and reporting on any key ESG risks is ongoing post-investment. Our direct investments are also rated on ESG performance.

We also carry out site visits to investee companies to assess ESG risks and activities directly.

KEY ACHIEVEMENTS FOR 2018/19:

- Completed ESG ratings and review of 13 direct assets;
- Developed a framework to evaluate manager activity on climate change;
- Research on modern slavery and labour exploitation;
- Research on integrating ESG into factor portfolios.

02.

ACTIVE OWNERSHIP

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We are committed to being an active owner of our investments, and we use our influence as a shareholder to encourage companies to manage their ESG risks. We do this by encouraging high governance standards across markets and asset classes, particularly in the New Zealand market. We exercise our voting rights globally. We monitor and engage with portfolio companies that have breached – or might breach – recognised ESG standards.

If engagement is ineffective, we may make a decision to exclude a company. In most cases, however, we believe that engagement is the best tool for encouraging companies to improve their behaviour. Exclusion is a last resort.

We take a substantial interest in the management of ESG issues with companies in which we have a significant stake.

Given engagement can be resource intensive, and our portfolio of listed stocks is so large (more than 8,000 holdings), we have employed an engagement service provider, Bank of Montreal (BMO), to engage on behalf of the Guardians, alongside the other New Zealand Crown Financial Institutions (CFIs), ACC and the Government Superannuation Fund.

KEY ACHIEVEMENTS FOR 2018/19:

- Completion of first full year of internalised voting to our customised voting policy;
- Along with New Zealand Crown-owned investors, lead global collaborative engagement with social media companies.

03.

DISCLOSURE

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Our integration and ownership activities are dependent on access to relevant ESG information. Therefore, we engage with investee companies and other relevant organisations to encourage disclosure on ESG and performance. We then encourage our investment professionals and managers to use this information to make more informed investment decisions across the Guardians.

KEY ACHIEVEMENTS FOR 2018/19:

- Our CEO wrote to the NZX50 companies reiterating our commitment to ESG and ESG disclosure and to combatting climate change;
- Developed a platform to enable full disclosure of all voting decisions.

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04. BEST PRACTICE

We will promote acceptance and implementation of the principles within the investment industry.

05. COLLABORATION

We will work together to enhance our effectiveness in implementing the principles.

We participate in relevant international and local investor groups where we believe working collaboratively will help deliver better ESG outcomes. Some of these groups include:

- United Nations Principles for Responsible Investment (UNPRI);
- New Zealand Corporate Governance Forum;
- One Planet Sovereign Wealth Fund Working Group;
- Carbon Disclosure Project (CDP);
- Investor Group on Climate Change Australia/New Zealand;
- Climate Action 100+;
- International Corporate Governance Network;
- Responsible Investment Association of Australasia (RIAA);
- Australian Council of Superannuation Investors.

KEY ACHIEVEMENTS FOR 2018/19:

- Completed PRI benchmarking assessment, achieving an A+ rating for strategy and governance and either an A+ or A for all other modules we reported against (see page 58);
- Continued direct involvement with the One Planet Sovereign Wealth Fund Working Group, a group set up to accelerate efforts to incorporate climate change considerations into the investment decision-making process and ownership activities of sovereign wealth funds;
- Part of UN Finance Commission on Modern Slavery in the finance sector (see page 63);
- Matt Whineray made co-chair of New Zealand's Sustainable Finance Forum (see page 63);
- Sponsored the RIAA NZ Benchmark Report and the annual RIAA NZ Conference;
- Participated in New Zealand Crown Financial Institution (CFI) quarterly meetings on responsible investment.

06. COMMUNICATION

We will each report on our activities and progress towards implementing the principles.

We seek to be as transparent as we can, subject to commercial considerations.

KEY ACHIEVEMENTS FOR 2018/19:

- Won a Gold Award at the 2019 Australasian Reporting Awards, finalist in public sector sustainability reporting and report of the year categories;
- Gained external assurance of selected PRI survey indicators;
- Produced eighth Annual Report against GRI criteria;
- Short-listed for ICGN Stewardship Disclosure Award.

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OUR RESPONSE TO THE CHRISTCHURCH TERRORIST ATTACK

On 15 March 2019, a gunman attacked people worshiping at two mosques in Christchurch, New Zealand. In just 20 minutes, a huge number of people were killed, injured and traumatised: the final death toll was 51. Shockingly, the gunman used legally obtained guns and live-streamed his actions on social media platforms.

Like other New Zealanders, we at the Guardians were horrified and outraged by the terrorist attack. After our initial shock and sorrow, we came to the realisation that New Zealand would never be quite the same again and that the attack had implications for us as investors and shareholders.

FIREARMS EXCLUSION

The New Zealand Government quickly announced its intention to ban the kinds of semi-automatic weapons used in the attack, and we moved in concert to introduce a new category of ethical exclusions: companies involved in the manufacture of civilian automatic and semi-automatic firearms and magazines or parts prohibited under New Zealand law. As a result, a number of companies have been excluded from the Fund, with holdings totalling NZD19 million divested. A full list of excluded companies is available at https://nzsuperfund.nz/how-we-invest-responsible-investment/exclusions.

SOCIAL MEDIA ENGAGEMENT

As shareholders in Alphabet (owner of YouTube), Facebook and Twitter, we were deeply troubled by the live-streaming of the terror attacks on Facebook and the subsequently sharing of the gunman's video on social media platforms.

On 20 March, alongside the Accident Compensation Corporation, Government Superannuation Fund, National Provident Fund and KiwiWealth, we announced our intention to collectively engage with Alphabet, Facebook and Twitter and called on other investors to join us. The objective of the engagement is to strengthen controls that will prevent the live-streaming and distribution of objectionable content.

The response from the New Zealand and global investment community to news of the engagement was overwhelming. At the time of writing, the group has 89 participants and represents assets under management of more than NZD13 trillion.

The engagement seeks to:

- Express the need for better disclosure on the steps companies are taking to strengthen controls to prevent and detect objectionable content from being livestreamed so it can be effectively and quickly removed to prevent it being viewed and shared;
- Inquire about companies' prioritisation methodologies to manage the volume of uploaded material and identify subject areas in need of additional resource allocation;
- Inquire about the actions that companies can take against users who violate the policies of their social media platforms;
- Raise concerns over the need for robust, transparent and anonymous complaint review systems; and
- Enhance corporate transparency oversight mechanisms, along with accountabilities and governance.

In May, the engagement added its weight to the Christchurch Call (www.christchurchcall.com), which sets out voluntary commitments for governments, companies and wider society to work together to eliminate terrorist and violent extremist content online. Part of the engagement initiative will be to monitor and ensure accountability for the commitments made by the companies under the Christchurch Call.

In our view, collective action from New Zealand's investor voice and a global coalition of shareholders, alongside pressure on the companies from other stakeholder groups, has the best chance of success.

The engagement is being led by the Guardians' Katie Beith, who is profiled on page 57. Discussions with the companies concerned will be undertaken in confidence, and we will report on milestones achieved in future Annual Reports. For further information, including a full list of participants, see: https://nzsuperfund.nz/how-we-invest-responsible-investment-collaboration/social-media-collaborative-engagement.

CASE STUDY

Voting Reporting Platform

Consistent with our organisational commitment to transparency, in March 2019, we introduced a new online platform providing full disclosure of all voting decisions. This platform is available at https://nzsuperfund.nz/performance-esg-management/voting-reporting-platform. Visitors to our website can now filter our voting data by topic, country, and company, right down to individual resolutions.

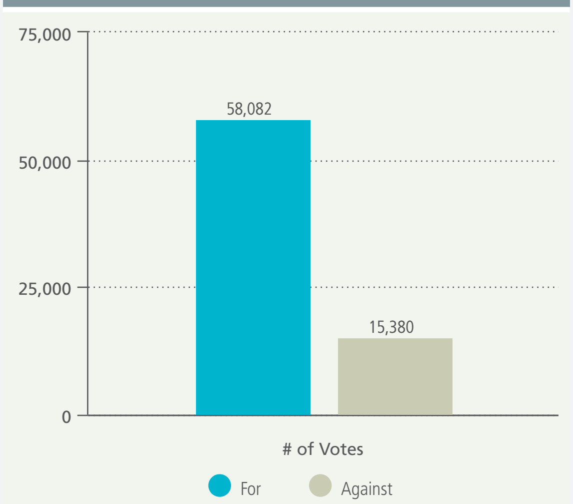
Voting is a core part of our responsible investment approach, and represents an important lever through which we are able to exercise our influence as asset owners to promote good corporate governance in the markets we invest in. Therefore, our aim is for our votes to reflect the essential elements of good governance: transparency, board alignment with shareholder interests, long-term strategy, appropriate remuneration, business ethics and shareholder rights.

Our voting, which we brought in-house last year, is guided by international standards such as the ICGN Global Governance Principles, the G20/OECD Principles of Corporate Governance and, for New Zealand listed companies, the New Zealand Corporate Governance Forum Guidelines and the NZX Code. We are also advised by our proxy voting service ISS and, in New Zealand, our external investment managers.

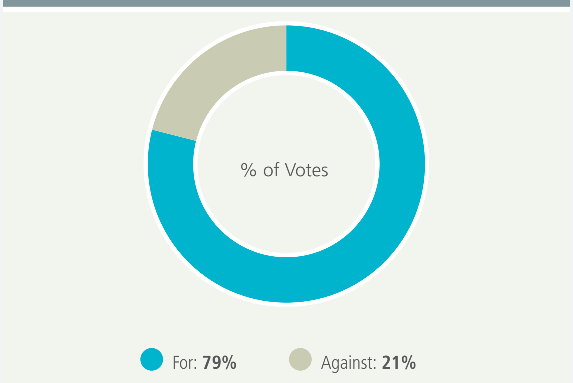
We own shares in around 8,000 listed companies globally, giving us broad, diversified exposure to global equity markets. Most of our global equity investments are passively held, which means they are based on inclusion in broad market indices rather than manager selection.

In New Zealand, the Fund's NZD1.8 billion of domestic listed equity investments are managed via mandates run by Devon Funds, Mint Asset Management and the Guardians' in-house team of investment professionals. Views from all our New Zealand active listed equity managers are sought on votes, with the Responsible Investment team making the final decision. The voting data dates from 1 July 2018 and covers all our holdings in listed equities, both in New Zealand and globally. The database is live and updated automatically by our adviser ISS.

Voting Direction as at 30 June 2019



Alignment with Management as at 30 June 2019



RESPONSIBLE INVESTMENT REPORT

KEY AREAS OF FOCUS OVER 2018/19

See below a summary of our responsible investment activity over the last financial year.

SUSTAINABLE FINANCE FORUM

The Sustainable Finance Forum was set up to lead the transformation of New Zealand's financial system, breaking down barriers and making it easier to shift capital to more sustainable investments. Specifically, it will provide recommendations to help align New Zealand's financial system with today's sustainability challenges, including meeting New Zealand's commitments under the Paris Agreement and achieving the United Nations Sustainable Development Goals. The Forum, launched in October 2018 by The Aotearoa Circle, is co-chaired by Guardians' Chief Executive Officer Matt Whineray and Karen Silk, Westpac's General Manager of Commercial, Corporate and Institutional. It brings together key players in the New Zealand financial system, spanning banks, insurance companies, corporates, civil society, iwi and academia.

The Forum is currently engaged in a work programme with an interim report due towards the end of 2019 and a final report in early 2020, including a roadmap for implementation. The Guardians, via Matt Whineray and the Responsible Investment team, have committed to providing leadership and technical support to the Sustainable Finance Forum for the duration of its existence.

ONE PLANET SOVEREIGN WEALTH FUND WORKING GROUP

The One Planet Sovereign Wealth Fund Working Group (OPSWF) was established in December 2017 to accelerate efforts to integrate financial risks and opportunities related to climate change into the management of large, long-term and diversified asset pools. We are a founding member of the OPSWF, alongside the Abu Dhabi Investment Authority, Kuwait Investment Authority, Norges Bank Investment Management, the Public Fund of the Kingdom of Saudi Arabia and the Qatar Investment Authority.

Over the past year, the group has worked to extend its outreach to asset managers, culminating in eight leading asset managers, with a combined AUM of USD15 trillion, signing on to the One Planet Asset Managers Initiative to support the implementation of the OPSWF framework. We remain committed to furthering the work of OPSWF and continue to provide input to the working group, with a particular focus on policy and technical leadership. More information about OPSWF is available on their website https://oneplanetswfs.org/#.

Members of the One Planet Sovereign Wealth Fund Working Group.

POSITIVE (IMPACT) INVESTMENT

There is a growing expectation from policy makers of the role investors can play in creating targeted positive outcomes for the environment and for society. The United Nations Sustainable Development Goals (SDGs) have become a measurable focal point for this development. These developments are aligned with our own positive investment objectives, set out in our Statement of Investment Policies, Standards and Procedures (SIPSP) and in our Responsible Investment Framework, to consider investments that deliver clear social and environmental benefits alongside financial returns.

To date, our positive investment aspirations have mainly been met through our investments in renewable energies and energy efficiency (including companies LanzaTech, Longroad Energy and Rubicon Global) and through our timber opportunity which is Forestry Stewardship Certified. Our investment in the HRL Morrison & Co PIP Fund, a Public Private Partnership (PPP) set up to invest in social infrastructure assets, also meets our definition of positive investment.

MODERN SLAVERY

In August 2018, Anne-Maree O'Connor was appointed a Commissioner for the United Nations Finance Commission on Modern Slavery and Human Trafficking. The Commission will serve as a time-bound forum for a wide range of financial sector stakeholders to discuss the sector's role in tackling modern slavery and human trafficking. Bringing together members of the survivor community, hedge funds, institutional investors, retail banks, global regulators, and the United Nations, the Commission will develop a concrete roadmap to accelerate action by the financial sector in combating modern slavery. A two-year initiative, the final report titled 'The Finance Sector Roadmap on Combatting Modern Slavery and Human Trafficking' is due to be released at the United Nations General Assembly in September 2019.

PRIORITIES FOR 2019/2020

- Review of our Climate Change Investment Strategy reduction targets;
- Leadership of the collaborative engagement with the social media companies;
- Continued support and leadership of New Zealand's Sustainable Finance Forum;
- A focus on positive investment.

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Engaging with companies helps us to understand how they are managing ESG issues that may affect their business. It is a tool that we can employ, as a shareholder, to influence a company's management if we think that it is not adequately mitigating risks or adapting to opportunities.

THE GUARDIANS' ENGAGEMENT ACTIVITIES DURING 2018/19

Our internal engagement objectives are to monitor, identify and engage with companies that breach international standards of good practice, in particular the UN Global Compact. Our engagement generally seeks to encourage companies to address poor ESG practices and improve ESG disclosure. It can be undertaken proactively, when we identify issues we believe companies should be aware of, or reactively, when we believe a company already has a problem.

For engagement efforts, undertaken by our Responsible Investment team members, we have four priority areas to help us narrow our focus and decide on which companies to engage. These are:

- Human rights and safety (child labour, work safety, operations in weak states);
- Business ethics (bribery and corruption);
- Severe environmental damage; and
- Climate change.

Given that engagement can be very resource intensive, and considering the widely diversified nature of the portfolio, we employ BMO as a service provider to undertake engagement on our behalf. We also require our managers to engage on our behalf. We may also join local or international engagement collaborations.

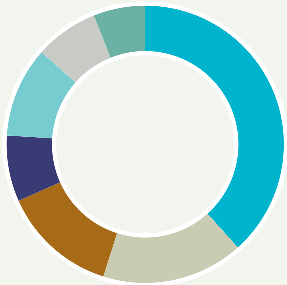
BMO'S ENGAGEMENT PROGRAMME

Appointing BMO as a service provider has expanded our engagement reach. On behalf of the Guardians, BMO conducted in-depth engagement with 572 companies, in 38 countries, on a range of issues over the year ending 30 June 2019. BMO recorded 270 milestones* achieved over that period.

BMO is also involved in thematic engagement projects, involving multiple companies, on a range of topics spanning labour standards, human rights, climate change, operations in sensitive habitats, natural resources and corporate governance.

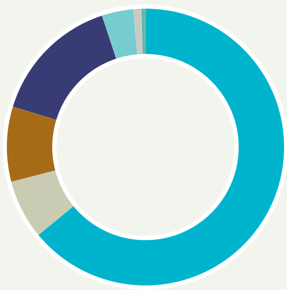
BMO'S ENGAGEMENT STATISTICS DURING 2018/19

BMO: Companies Engaged by Issue



Corporate Governance: **38%**
Labour Standards: **17%**
Environmental Standards: **13%**
Climate Change: **8%**
Business Conduct: **11%**
Human Rights: **7%**
Public Health: **6%**

BMO: Milestones Achieved by Issue



Corporate Governance: **64%**
Labour Standards: **7%**
Environmental Standards: **9%**
Climate Change: **15%**
Business Conduct: **4%**
Human Rights: **1%**
Public Health: **0%**

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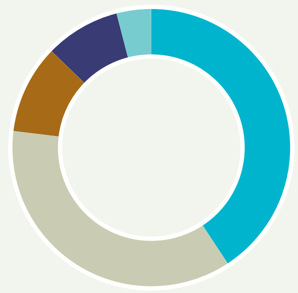
* A milestone can be described as evidential progress towards a pre-defined engagement objective.

BMO: Companies Engaged by Country



BMO'S ENGAGEMENT ON CLIMATE CHANGE DURING 2018/19

BMO plays a key role in helping to implement the 'Engage' pillar of our Climate Change Investment Strategy.

Examples of milestones achieved by BMO with their climate change engagement include:

- 8 companies set emissions reductions targets
- 3 companies joined the Oil & Gas Climate Initiative
- 9 companies committed to developing 2-degree aligned emissions reductions targets or strategies
- 2 companies withdrew from coal funding
- 6 companies made major climate change disclosures .

	Totals
Number of unique companies engaged on climate change	86
Total engagements	120
Total milestones	33

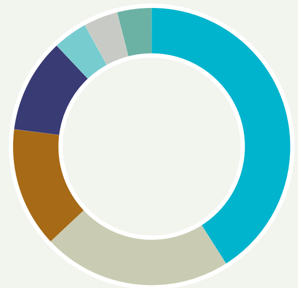
Sector Breakdown	Total	%
Financials	26	22
Materials	26	22
Energy	17	14
Consumer Discretionary	16	13
Consumer Staples	10	8
Utilities	9	7
Industrials	9	7
Health Care	3	3
Communication Services	2	2
Information Technology	1	1
Real Estate	1	1
TOTAL	120	100%

REASONS FOR ENGAGEMENT SUCCESS

NEW ZEALAND ENGAGEMENT ACTIVITY

Over the past year, the internal active New Zealand equities team engaged with investee companies on issues such as board composition, board independence, remuneration, diversity and culture, climate change and ESG reporting. The team has noted a marked increase in action by New Zealand companies on both climate change and in ESG disclosure.

NZ Topics of Engagement as at 30 June 2019



GUARDIANS' DIRECT AND COLLABORATIVE ENGAGEMENT

ESG issues	Industry	Objective and outcomes	Number of focus companies	
			Direct	Collaborative
HUMAN RIGHTS AND SAFETY				
Human Rights and Safety	Cross sector	*Promote protection of human rights and improved management of health and safety practices.* For three of these companies, engagement has begun but we are yet to record any milestones. There are two new companies added to the focus list due to health and safety breaches and where engagement has yet to begin. During the year, we moved one company to the 'monitoring list' due to an upgrade in rating by our service provider.	5	-
	Mining	*Promote protection of human rights and improved management of local community relations/impacts.* For the company we are engaging directly, engagement has been long-term covering a multi-year period. We note there have been milestones achieved over that time, such as improved sustainability reporting. However, we continue to actively monitor company progress and note a couple of outstanding issues from which we hope to see further progress. Engagement is ongoing. For the second company, engagement efforts have been escalated via a collaborative investor effort. Sadly, it was the second major tailings failure for this company resulting in the deaths of a significant number of people. Engagement is in its early stages but is very focused on preventing any future disasters. Linked to this issue, we also joined the below collaboration.	1	1
	Extractive companies	*The Mining and Tailings Dam Safety Initiative which seeks to develop a new, independent global safety standard for tailings dams.* In response to collapse of the Vale-owned tailings dam in the Brumadinho, Brazil, which killed more than 248 people, we joined an initiative that has asked 655 publically listed extractive companies to place a disclosure on their website answering 20 questions on each tailings facility, including those in joint ventures and non-operated joint ventures. As of 10 June 2019, 197 companies had responded to the disclosure request, of whom: • 114 had confirmed that they do not have tailings • 46 have made online disclosures • 24 have asked for some additional time to respond.	-	655
	Construction and engineering	*Promote better labour standards for workers.* No response to our engagement has been received. Next steps are to review if any progress has been made.	1	–
	Cross sector	*Strong policies to manage human rights related risk in disputed/occupied territories.* Engagement with this company plus two others began in June 2018. We received sufficient responses from all the companies, which resulted in two of the companies being moved to the 'monitoring list'. For the company that	1	–

ESG issues	Industry	Objective and outcomes	Number of focus companies	
			Direct	Collaborative
		remains on our direct engagement list, we are awaiting clarification on some points of concern.		
	Communications	*Strengthen controls around the live-streaming and distribution of objectionable content.* Engagement began in July 2019 (out of financial year). See page 61 for additional detail.		3
SEVERE ENVIRONMENTAL DAMAGE				
Sustainable palm oil	Palm oil growers	*Improve and promote sustainable palm oil practices.* Of the direct engagements we have undertaken regarding sustainable palm oil practices, we have noted milestones achieved for four out of the five companies. These include, for example, strengthening of sustainability policies, improved commitments to deforestation and commitments to not plant on peat and re-join or joining the Roundtable on Sustainable Palm Oil (RSPO). Engagement and monitoring of progress is ongoing.	5	–
		Palm Oil Working Group: The Guardians has been participating in this UNPRI-led collaboration since 2011. Over the years, the working group has focused its efforts on palm oil buyers, growers, traders and processors, as well as on sustainable certification of palm oil through the RSPO. The palm oil industry continues to slowly reform. The working group continues its engagement with buyers and growers but is expanding its focus to financiers of the industry. The ultimate aim is for those organisations that finance the palm oil industry to develop public commitments towards sustainable palm oil.	–	35
Environmental contamination	Utilities	*Prevention of discharge of environmentally harmful substances from ash basins.* Engagement with this company has been ongoing over a number of years but was escalated this year after Cyclone Florence in October 2018 caused another collapse of a coal ash pile and allegations of drinking water contamination. Engagement is ongoing.	1	–
CLIMATE CHANGE				
	Energy and utilities	*Methane Risks in the energy & utilities sector: The Guardians joined this UNPRI-led collaboration in early 2017. The engagement aims to strengthen understanding of the risks associated with and management of methane risks in global investor portfolios and influence companies to measure, manage and reduce their methane emissions and improve disclosure.* The engagement is wrapping up in 2019. Early signals suggest that disclosure from the oil and gas sector is showing stronger awareness and action in terms of methane management. However, greater efforts to manage climate change risks are needed, including further methane emissions reduction. Final results will be available later in 2019.	–	42
	Cross sector	*Climate Action 100+**:** We joined this global collaboration in late 2017. The objective is to engage the world's largest and most substantial corporate greenhouse gas emitters, over a five year period, seeking to:*	–	161

ENGAGEMENT REPORT (CONTINUED)

ESG issues	Industry	Objective and outcomes	Number of focus companies	
			Direct	Collaborative
		1. *Curb emissions (consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels);* 2. *Strengthen climate-related financial disclosures – aligned with the Taskforce on Climate-related Financial Disclosures (TCFD); and* 3. *Improve governance on climate change risks.* Engagements have commenced with 97% or more of the focus companies across Europe, North America and Australia/New Zealand. Investors are using a range of engagement tools such as developing joint statements with some companies that are making excellent progress resolutions have been raised at 20 company AGMs and statements have been made at the AGMs of 47 companies. Media, regulators and other strategic initiatives are all driving progress. More information is available at http://www.climateaction100.org/		
	Cross-sector	*CDP**:** As a signatory to CDP's investor climate change programme, we seek to increase the number of companies reporting on climate change emissions and risk management. So far, 525 institutional investors with a combined assets under management of USD96 trillion are signatories to CDP's climate change collaboration.* CDP reports the following statistics for 2018: • Of companies reporting to CDP, 73% confirmed that they have board-level oversight of climate-related risks. • The majority of companies reporting say they now integrate climate risk into their business strategy (72%). Companies in the United States and Brazil are falling behind the global sample (at 65% and 56% respectively). European companies lead the pack, with French, German, Norwegian and UK companies reporting the highest figures and Italian companies the least. • There were 3,783 companies, or 54.5%, that identified that their processes for identifying, assessing and managing climate-related issues are integrated into multi-disciplinary risk management processes. This is an important step in escalating climate-related issues from a siloed or isolated CSR/ESG department issue to a company-wide issue. Importantly it means raising climate as an issue for legal, risk and financial departments. • Of companies reporting to CDP, 3,610 say they have an absolute and/or intensity target in place - this represents roughly half of all responding companies. • In New Zealand, only 13 out of 50 companies responded to the 2018 survey.	–	c. 7000
NZ ENGAGEMENT				
ESG management	Cross sector	*Promote good practice in corporate governance and environmental and social management.* Over the last year, our Active New Zealand Equities team engaged with investee companies on issues such as board composition, remuneration, climate change and social media. The team have noted a marked increase in action	27	–

ESG issues	Industry	Objective and outcomes	Number of focus companies	
			Direct	Collaborative
		by New Zealand companies on both carbon reporting and in ESG disclosure more broadly.		
Total companies engaged*			**41**	**897**

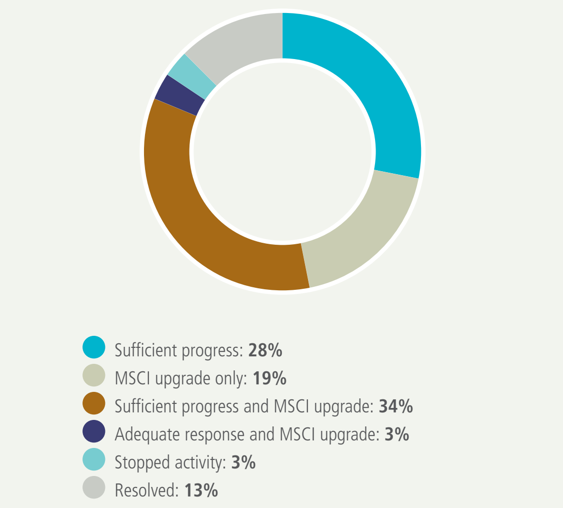
* refers to the number of target companies of the collaborative engagement rather than the exact number of engagements undertaken in the reporting period; excludes CDP.

MEASURUING ENGAGEMENT SUCCESS FOR COMPANIES ON OUR FOCUS LIST

For our own internally managed, direct engagements, we note success when:

- Our ESG research provider upgrades the ESG rating;
- The company meets our pre-defined performance measures; and
- There is public evidence that the company is managing the issue appropriately.

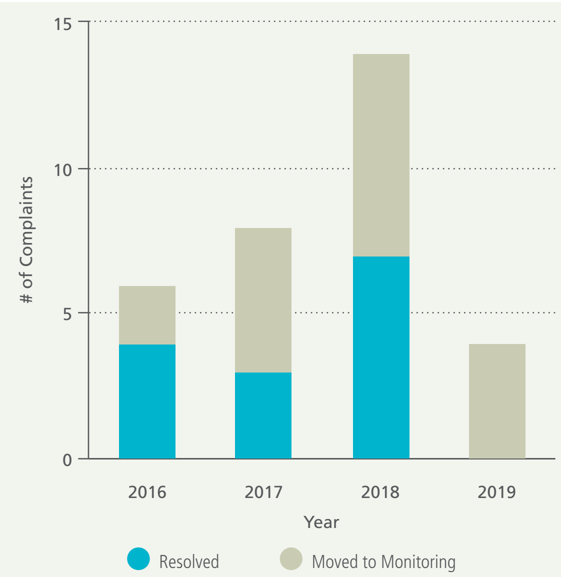
Reasons for Engagement Success (2016 to date)



Once we are of the view that there has been sufficient progress made on an issue, the company is moved to the 'monitoring list' to ensure there is no recurrence. Once satisfied of this (c. 2 year period), the engagement can be closed and noted as 'resolved'.

The below two charts show firstly, the reasons why we have moved a company onto the 'monitoring list' or noted the engagement as 'resolved'; and secondly, the numbers of companies moved. We began measuring the success of our engagement efforts in this way from 2016 onwards.

Engagement Successes for Companies on our Engagement Focus List



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Governance

Te Mana Hautū

03

CASE STUDY

Long-Term Target State

The Guardians and the Fund exist to reduce the tax burden carried by future generations. The result of our efforts now will not begin to be realised until around 2050, when sustained withdrawals from the Fund are projected to begin. Because of this, it is important that we are continually asking ourselves whether we have the capability and capacity to meet our mandate and deliver over the long term.

Assuming the Fund meets its performance benchmarks, and given the resumption in Crown contributions, in seven - ten years, the Fund will grow to around NZD70 billion. Given this projected increase, we needed to formally review our 'long-term target state'. We want to understand and plan for what we need to do to remain fit for purpose to fulfil our mandate and ensure that we are not inadvertently captured by incrementalism. The work was designed to set a direction, not an end point. It will evolve as our endowments, portfolio and opportunities evolve too.

This work will also be informed by the five-yearly independent review of the Guardians and the Fund, undertaken in early 2019 (see page 75 for more information). Other work programmes underway over the next financial year will also help to inform our longer-term strategic choices, including the Reference Portfolio Review and the remuneration structure review, see page 29 for more information on the remuneration structure review. Our initial discussions with the Board outlined the broad phases for this initiative. As at 30 June 2019, we were progressing activities in the Forecast/Search phases of the project.

SOURCE: McKinsey Strategic Practice

PROGRESS TO DATE

Using the NZD70 billion scenario, we considered the impact of scale: the growth in investment opportunities required to maintain our budgeted levels of active risk, our market and manager capacity, the relative pace of growth of these opportunities vis-a-vis growth in the size of the Fund and the scalability of our access points (the way we access an investment opportunity, see page 221). Note that when we talk about scalability, we mean the ability to increase our exposure to a particular investment opportunity. Building on this work, we considered:

1. the advantages we have in originating and/or managing opportunities in-house and in further developing partnerships and leveraging our reputation to gain access to opportunities; and
2. where we should look to develop internal capabilities and capacity.

Outcomes from this work are now being considered by our support function teams to assess how internal capabilities and capacity should be developed and what the implications are for our IT roadmap, as well as other internal processes. This is a multi-year project, the outputs of which will feed into future strategic plans.

FRAME	DIAGNOSE	FORECAST	SEARCH	CHOOSE
Agree on core strategic decisions to be made and the criteria and constraints for making them	Establish insights on our starting position; where and why we add value	Create a view of the potential future(s) in which we might operate	Develop, explore and evaluate a set of alternative strategic options	Make and package a set of strategic choices into one coherent strategy
What is the right set of questions?	Why do we add value?	What futures do we want to plan for?	What are the potential paths?	How do we integrate our choices into a strategy?

The Government has given the Guardians the powers and responsibilities necessary to fulfil its mandate. In turn, sound governance and quality public reporting, and a high degree of transparency, are critical to maintaining our stakeholders' confidence.

We have a governance framework that:

- exemplifies best practice in the operation of a sovereign wealth fund;
- ensures investment decisions are made on a purely commercial basis;
- reflects the New Zealand Financial Market Authority's corporate governance principles and NZX's Corporate Governance Code (to the extent applicable);
- has a strong focus on transparency, legislative compliance, risk awareness and ethical behaviour; and
- provides clarity over accountability, roles and responsibilities.

As mentioned on page 75, the Guardians is reviewed every five years by an independent reviewer appointed by the Minister of Finance. This is an opportunity for our governance framework to be measured against international best practice. The latest review, completed by Willis Towers Watson in June 2019, assessed our governance model as AAA (exceptional) and notes that 'The Board and Management operate at global best practice levels, by reference to the key principles: board and team composition; role process; and culture.'

GOVERNANCE FRAMEWORK

As an autonomous Crown entity, the Guardians is legally separate from the Crown and operates at 'double-arm's length'. The functions of the Guardians are to manage and administer the Fund. The Fund is a pool of Crown assets but is not an entity in its own right.

NEW ZEALAND GOVERNMENT
Appoints members to the independent Nominating Committee

INDEPENDENT NOMINATING COMMITTEE
Identifies candidates for the Guardians' Board

← **First 'arm' of independence – government does not decide pool of Board candidates**

MINISTER OF FINANCE
Selects Board candidates from the pool chosen by the independent Nominating Committee.
Can direct the Guardians as to expectations of the Fund's risk and return

BOARD AND MANAGEMENT OF THE GUARDIANS
Decide investment policy and make investment decisions

← **Second 'arm' of independence – investment decisions made by the Board and Management of the Guardians**

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OVERVIEW (CONTINUED)

HOW WE IMPLEMENT GOVERNANCE

The way that governance is implemented at the Guardians and Fund is recorded in the Board Charter (including the Board Code of Conduct) and the following organisational policies:

GREAT TEAM
Our Policies
Communications
Diversity & Inclusiveness
Human Resources
Procurement & Outsourcing
Risk Management
Travel & Sensitive Expenditure

BEST PORTFOLIO
Our Policies
Derivatives
Direct Investments
Externally Managed Investments
Investment Risk Allocation
Investment Valuation
Portfolio Completion & Internally Managed Securities
Strategic Tilting

DELEGATIONS
Statement of Investment Policies, Standards and Procedures (SIPSP) including Responsible Investment Framework

Consistent with our commitment to transparency, the Board Charter, SIPSP and the Guardians' policies are available on **www.nzsuperfund.nz**.

BOARD CODE OF CONDUCT

The Board Code of Conduct (the Code) sets out the standards for appropriate ethical and professional conduct for members of the Guardians' Board. It reflects the Crown Entities Act and the expectation that Board members have the highest level of integrity and ethical standards. The Board Chair is responsible for monitoring compliance with the Code. Under the Code, it is the collective responsibility of the Board to ensure that the Guardians:

- acts in a manner consistent with its objectives, functions, Statement of Performance Expectations and Statement of Intent;
- performs its functions efficiently, effectively and consistently with the spirit of service to the public;
- operates in a financially responsible manner; and
- complies with the legal requirements regarding subsidiaries and other entities.

Each Board member's individual duties include:

- exercising reasonable care, diligence and skill; and
- not disclosing information obtained in their capacity as a Board member except in the performance of the Guardians' functions.

Among other items, the Code notes the desirability of having Board members with relevant investment skills and work experience and provides detailed guidance to Board members on disclosing and managing actual or perceived conflicts of interest.

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STAFF CODE OF CONDUCT AND SECURITIES TRADING PROCEDURE

Our Human Resources Policy includes our employee Code of Conduct. Among other provisions, the Code of Conduct requires all staff members and contractors to:

- act with honesty, integrity and fairness;
- keep all non-public information confidential;
- not benefit from the possession of confidential information for personal gain;
- disclose conflicts or possible conflicts of interest;
- comply with the law; and
- report breaches of conduct.

The Human Resources Policy includes a detailed Securities Trading Procedure that aims to reduce the risk of the Guardians, staff or contractors breaching the Financial Markets Conduct Act or similar legislation. It does this by providing guidance on the law and the consequences of breaching it and by setting rules about information flows and trading. Staff members must seek permission in advance before trading securities and in the New Zealand dollar currency (over a threshold), and each quarter, all staff are required to disclose any personal trading they have undertaken. For further information on our Human Resources Policy see page 27.

Culture is a core strength at the Guardians (demonstrated in the results of the regular Human Synergistics culture surveys). The Board is committed to continuing to strengthen culture, and this is a multi-year strategy in the Guardians' strategic plan. As noted in the Remuneration section on page 96, the discretionary incentive scheme is designed to promote a positive, constructive workplace culture. A project to develop a new set of organisational values to guide internal culture was completed in June 2019. See page 11 for more information on our new values.

CASE STUDY

The Independent Review

Leading global business advisory firm Willis Towers Watson carried out an independent review of the Guardians and the Fund in early 2019. Their review found that the Guardians is operating at global best practice levels, the governance model is "exceptionally strong", and both the investment model and returns are "very impressive".

Overall, Willis Towers Watson found the Guardians has developed into an organisation "that we consider to be best-practice in its activities and more capable of achieving high performance than the vast majority of its peers."

They rate the Guardians' governance model as AAA, "an exceptional rating shared by at most three or four peer funds globally". The culture and investment models are both rated AA, which the reviewers noted as being excellent.

Highlights from the independent review included:

- The Guardians is operating at global best-practice levels
- The governance model is exceptionally strong
- The culture is excellent but has room to grow further
- The Guardians' investment model is very impressive
- The ex-post returns are also very impressive
- The Guardians' approach to ESG integration and stewardship is impressive and aligns with best practice.
- The Guardians' communications with stakeholders are best practice and exceptional in the context of leading international peers.

The five-yearly independent review is a requirement of our founding legislation. The purpose is to provide the Government with assurance on how effectively and efficiently the Guardians performs its function. The terms of reference are set by the Minister of Finance on the advice of the New Zealand Treasury, and Treasury engages the independent reviewer. This year's review was the fourth one, with the previous one in 2014.

The reviewers found that the Guardians' governance model is "exceptionally strong". They said that the organisation's culture is excellent but noted there is room to grow further. The reviewers were impressed with the quality of the management team. They said that the capabilities of the management team are in line with best practice, given the current size and complexity of the portfolio.

They noted that the New Zealand location of the Fund represents a structural impediment in terms of hiring people with specialised skills. This is offset through the Guardians' engagement with outside firms and peer funds. Willis Towers Watson said there are also challenges with compensation, with lower variable compensation relative to peers, and changes to the Crown Entities Act created constraining flow-on effects (see page 105 for more information on the State Sector and Crown Entity Reform Act). They recommended that the Guardians should review the compensation structure and implementation to assist with its employee value proposition. A remuneration review, commenced in 2018, is already under way (see page 29 for more information on the remuneration review).

Willis Towers Watson also said that the Guardians' investment model is very impressive.

"The Fund's realised returns, both in absolute terms and the value added, are very impressive. The Guardians has developed an exceptionally well thought-out approach to investing – it makes good use of both their natural and developed advantages. The approach has strong intellectual rigour and sound thinking, coupled with pragmatism and a very good understanding of what drives financial markets.

"Many aspects of the investment model represent best practice – including the approach to risk budgeting, the integrated portfolio construction approach, the management of liquidity risk and the ability to react dynamically to opportunities."

The report said market conditions over the next decade were likely to be less supportive than over the previous five years, creating challenges for the Guardians in managing the Fund. The Fund's large exposure to equity risk means that it is exposed if equity returns disappoint over a prolonged period.

The report said the approach to ESG integration and stewardship is also impressive. It noted there is a need to continue to evolve and innovate to maintain the position as a leader, as responsible investing is a developing area and is set to become an increasingly mainstream part of the landscape.

The review, which took place from March to June 2019, consisted of on-site and teleconference meetings, a document review, analysis and comparison with leading global asset owners. Willis Towers Watson looked at the Guardians' governance, people and investment models, including the ex-ante risk framework, policies and procedures, our Reference Portfolio approach to investing, responsible investment, and an evaluation of the Fund's ex-post performance. The final report was tabled in parliament by the Minister of Finance on 19 September 2019. The report and the Guardians' formal feedback are on our web site https://nzsuperfund.nz/publications/papers-reports-reviews.

It includes five recommendations and 13 suggestions for improvement. In our formal response, we noted that work is already under way on several of the recommendations and suggestions, and we will act on several others. We will report on progress on the external website.

This section reports on the Guardians' governance framework in relation to each of the Financial Markets Authority's corporate governance principles in the year to 30 June 2019.

1. ETHICAL STANDARDS

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

Board members and staff are expected to demonstrate the highest level of ethical standards and integrity. This expectation is embodied in the Board and employee Codes of Conduct. The Codes, which are discussed further on page 74, address:

- professional conduct and duties;
- conflicts of interest;
- confidentiality;
- securities trading obligations;
- use of Guardians' information and assets;
- fair dealing;
- gifts and hospitality; and
- political participation.

Board members and employees must at all times act honestly and in good faith and in the best interests of the Guardians.

As well as reminding staff from time to time about the requirements of the Code of Conduct, staff are required to certify six-monthly that they have complied with the Code.

The Codes of Conduct are reviewed regularly. To access a copy of the Codes:

- Board Code of Conduct: **www.nzsuperfund.nz/nz-super-fund-explainedgovernance/board**
- Human Resources Policy (including Employee Code of Conduct): **www.nzsuperfund.nz/publications/policies**.

The Guardians' expectations concerning the giving of gifts, koha and donations is set out in its Travel and Sensitive Expenditure Policy (which can be found at **www.nzsuperfund.nz/publications/policies**).

WHISTLE BLOWING

It is important that the Guardians and the Fund are protected from fraud, bribery, corruption or any other conduct that causes staff or others to feel uncomfortable (for example, harassment, bullying or discrimination). A Speak-Up line has been set up as a way for staff, contractors, managers and external parties to highlight potential issues they may have experienced or come across.

As part of the employee Code of Conduct, the Guardians has adopted a policy for employees to report instances of suspected breaches of laws or wrongdoing by the Guardians and/or any of its employees without fear of adverse consequences and for such reporting to be properly investigated.

CONFLICTS OF INTEREST

For Board members, conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation and the Board Code of Conduct.

Under the Guardians' procedures for managing conflicts of interest:

- Board members are required to make a general disclosure upon appointment of all matters that may give rise to an interest and to promptly notify the Board Chair and Secretariat of any changes to those disclosures.
- Periodically, Board members are required to review their interests register and confirm that the information disclosure is correct.
- At the beginning of each Board meeting, members are asked to confirm that they have no interest in the matters to be discussed.
- Board members with an interest in a matter may not vote on it or participate in discussions about it.
- A former role of a Board member is treated as continuing to be a relevant interest for a period of time after the role ceased. The relevant period will depend on the circumstances (for instance, how long the Board member was in the role) but may be up to two years.

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2. BOARD COMPOSITION AND PERFORMANCE

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

APPOINTMENT

The Guardians does not have any executives on its Board. Board members are chosen for their experience, training and expertise in the management of financial investments (which is a statutory requirement), as well as their collective mix of complementary skills. Board members are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from a committee, independent of the Guardians, which is established by the Minister. On receiving those nominations, the Minister consults with representatives of other political parties in parliament before recommending the Governor-General appoint a person to the Board.

The Board must comprise at least five, but no more than seven, members. Each Board member is appointed for a term of up to five years and is eligible to be reappointed.

The first Board members were appointed in August 2002. The Board composition at 30 June 2019 is set out on page 22.

Number of Years on the Board

RESPONSIBILITIES

The Guardians' governing legislation and the Board Charter define collective and individual responsibilities, matters reserved for the Board and matters delegated to management. Details of individual Board members' backgrounds and the Board Charter are available on our website at **www.nzsuperfund.co.nz/nz-superfund-explained-governance/board**.

The principal responsibility of the Board is to supervise the management of the Guardians and the investment of the Fund. Specific responsibilities include:

- establishing the Guardians' objectives, corporate strategy for achieving those objectives, the overall policy framework within which the business of the Guardians is conducted and monitoring management's performance with respect to these matters;
- ensuring the Fund's assets and the Guardians' assets are maintained under effective stewardship;
- appointing, remunerating and monitoring the performance of the Chief Executive Officer;
- promoting ethical and responsible decision making and transparency;
- ensuring the integrity of the financial statements and reporting for the Guardians and the Fund;
- ensuring that decision-making authorities within the Guardians are clearly defined, that all applicable laws are complied with and that the Guardians is well managed; and
- establishing the level of risk undertaken by the Guardians and the Fund.

DELEGATION OF AUTHORITY

While the Board has responsibility for the affairs and activities of the Guardians, in practice the Board operates through delegation to the CEO and other executives who are charged with the day-to-day leadership and management of the Guardians.

The Board maintains a formal set of delegated authorities, which clearly define the responsibilities that are delegated to management and those that are retained by the Board. The delegations framework includes reporting requirements to ensure that the Board is informed on the exercise of certain delegated powers. There are some matters that, either because it is required by law or because the Board has decided it is in the interests of the Guardians to do so, are decided only by the Board as a whole. The Board regularly reviews its delegations and governance priorities. A copy of the Guardians Delegations Policy is available at **www.nzsuperfund.co.nz/publications/policies**.

INDUCTION AND DEVELOPMENT

There is a formal induction programme for new Board members, including education sessions at the Guardians' offices, one-on-one sessions with management and comprehensive induction papers. An ongoing education programme for Board members ensures they have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board education programme are approved by the Board. The Board hears directly from a range of external experts on relevant topics (for example, investment markets and cyber security). The Board members regularly visit international peer funds and attend international forums (including the Pacific Pension Institute, International Forum of Sovereign Wealth Funds, International Centre for Pension Management and the Sovereign Investor Institute Roundtables) to assess developments in best practice.

BOARD PROCESSES

The Board Secretariat is accountable to the Board for governance matters. All Board members have access to the Board Secretariat on matters relating to the conduct of the Guardians' affairs and the corporate governance of the Guardians and on any matter pertaining to the Board Charter. The Board Secretariat is managed by the General Counsel.

The performance of the Board, its committees and individual members is evaluated at regular intervals at least once every two years. The Board and committees undertake either self-evaluation or use an outside specialist.

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PRINCIPLES (CONTINUED)

BOARD SKILLS

The following table identifies the skills needed and possessed by the Guardians' Board. These skills reflect the purpose and mandate of the Guardians and the Fund. Not all Board members will or should possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. Under the Act, all Board members are required to have substantial experience, training and expertise in the management of finance and investments. Refer to the Board biographies on **www.nzsuperfund.nz/nz-super-fund-explained-governance/board** for details on individual experience.

Corporate Governance	To support strong Board and management accountability, values transparency and execution of the Fund's mandate
High Level of Financial Literacy	To understand complex financial, economic and investment concepts and oversee financial reporting and internal controls
Investments and Commercial Acumen: Financial Markets/Commercial Expertise/ Academic	To evaluate the investment strategies and to set the Fund's risk appetite and Reference Portfolio
Leadership Experience – especially Chief Executive/General Manager	To advise the Chief Executive and provide insight and guidance on key areas such as change management, strategy and culture
Risk Oversight/Management Expertise	To oversee the risk management of the Fund and the Guardians
Talent Management Expertise	To attract, motivate and retain skilled personnel in the context of a fund with long-term objectives
Global Investment Experience	To review and understand investment strategies and benchmarking our performance against world best practice

CORE VALUES AND ENDOWMENTS

Core values and endowments that support the strength and effectiveness of the Board include:

- Integrity
- Future focus
- Teamwork
- Courage
- Supportive and constructive culture
- Diversity of perspective.

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DIVERSITY

The strength and effectiveness of the Board is supported by the diversity of its members. The following attributes inform the diversity of perspectives within the current Board:

PROFESSIONAL EXPERIENCE
Academia, Consulting, Banking, Funds Management, Insurance, Sales and Marketing, Manufacturing, Industrial Services, Business Management, Investment Regulation & Supervision, Operational, Mergers & Acquisitions

ACADEMIC DISCIPLINES
Actuarial, Accounting, Arts, Economics, Finance, Law, Marketing, Mathematics and Science

ETHNICITY
European

COUNTRY EXPERIENCE
Australia, Canada, New Zealand, Singapore, Central and Eastern Europe

GENDER
Male 5
Female 2
The Board and its two standing committees are chaired by female Board members

AGE RANGE
50 — 70s

BOARD ACTIVITY

Meetings

During the 2019 financial year, the Board held:

- six scheduled meetings and two special meetings, and
- a strategy day and two strategy sessions.

There were also education sessions before four of the Board meetings and an induction day and induction sessions covering a range of topics for the three new members who joined the Board during the year. A key topic for the Board's strategy sessions has been considering the capabilities required to deliver the long-term target state for the Guardians and the Fund in the context of the Fund's growth in size and scale. See page 72 for more detail on our long-term target state planning.

Summary of matters considered

An important focus for the Board during the year was the five-yearly independent review of the Guardians and the Fund by Willis Towers Watson, which was commissioned by the Minister of Finance in accordance with our legislation. The main purpose of the independent review is to assess the efficiency and effectiveness of our governance and operations, and to provide assurances that the organisation can meet its mandate and mission. The review terms of reference set by the Minister of Finance also required the reviewer to assess whether our governance frameworks were in accordance with 'best practice'. The review was a major piece of work and provided the Board with valuable feedback on 'best practices'.

Another important area of focus for the Board was on the new venture capital fund that the Government announced in May 2019. The new fund will be established by new legislation and will be managed by the Guardians separately from the New Zealand Superannuation Fund.

Planning is underway for the five-yearly review of the Reference Portfolio, which is due in 2020. The Reference Portfolio review is one of the most important decisions for the Board as the Reference Portfolio serves as both a governance benchmark and an articulation by the Board of the risk appropriate for the Fund's purpose and mandate.

Other significant matters considered during the financial year were:

Compliance and risk

- Annual review of the Guardians' Statement of Investment Policies, Standards and Procedures and the Responsible Investment Framework
- Review of the Portfolio Completion and Internally Managed Securities Policy
- Liquidity assumptions review
- Risk function review
- Cyber security
- Risk culture survey
- Risk Appetitie framework review update
- Six-monthly enterprise risk reports
- Health and safety reports for the Guardians and for direct investments
- Six-monthly reports on staff compliance with policies

Investment strategy and performance

- Reference Portfolio review plan
- Annual reviews of the portfolios managed by the NZ Direct, International Direct and External Investments & Partnerships teams
- Six-monthly reviews of internal mandates and portfolio completion activity

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PRINCIPLES (CONTINUED)

- Six-monthly portfolio overview and investment environment reports
- Annual responsible investment report
- Risk budget settings
- Auckland Light Rail
- Equity factors
- Direct investment delegations
- Exclusion policy for semi-automatic weapons
- Use of derivatives

Organisation strategy

- Five-yearly Independent Review
- Implementing the new venture capital fund mandate , including the impact on the team
- Chief Executive Officer performance review
- Remuneration
- Long-term target state for the Fund and the impact of the resumption of Government contributions to the Fund
- Communications strategy review
- Crown and local government engagement strategy
- Accounting system upgrade
- Annual review of the Custodian
- Annual cost allocation report
- Annual review of CEM cost benchmarking report
- Annual Statement of Performance Expectations
- Strategic plan
- Annual Report, including the financial statements and statement of performance expectations
- Appointment of auditor

Regular Board agenda items

Regular items considered at each scheduled Board meeting are:

- Disclosures of interest
- Minutes of the previous meeting
- A report on matters arising from previous meetings
- A report from the Chief Executive Officer
- A Dashboard report
- A Secretariat report
- A report from the General Counsel

Dashboard Report

As well as receiving papers on specific topics, the Board receives a Dashboard Report with key information on the Fund's performance and the Guardians' operations covering such matters as:

- reporting against the Board's risk appetite
- portfolio performance
- use of active risk
- performance of the strategic tilting programme
- key market updates
- Investment Committee and Risk Committee activity
- Fund and Guardians' financials
- reporting on derivatives activity and counter-party exposure
- Fund liquidity
- collateral management
- human resources
- stakeholder and external relationships
- cyber security.

BOARD AND COMMITTEE MEETING ATTENDANCE

During the year, two Board members retired (Craig Ansley - 30 September 2018; and Lindsay Wright - 31 October 2018) and three new Board members were appointed (Simon Botherway - 1 August 2018; Henk Berkman - 1 October 2018; and Catherine Drayton - 1 November 2018).

Catherine Drayton replaced Lindsay Wright as Chair of the Audit Committee (November 2018) and John Williamson joined the Employee Policy and Remuneration Committee (April 2019).

The following table shows the attendance of Board members at scheduled Board and Committee meetings during the 2018/19 financial year.

Board Member	Board	Audit Committee*	EPRC
Catherine Savage	6/6	3/4	4/4
Catherine Drayton	4/4	3/3	-
Stephen Moir	6/6	0/1	4/4
Henk Berkman	4/4	3/3	-
Simon Botherway	6/6	3/3	-
Doug Pearce	6/6	1/1	4/4
John Williamson	6/6	3/4	2/2

* The full Board is invited to join the Audit Committee to review the draft financial statements. Any Board member may attend any meeting of a Committee.

3. BOARD COMMITTEES

The Board should use committees where it will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board and Committee structure for the Guardians is set out in the following diagram.

BOARD
Responsible for the overall management of the Guardians and investment of the Fund, including setting strategic direction, standards and risk appetite, and overseeing performance

DELEGATION ↓ **REPORTING** ↑

AUDIT COMMITTEE	**EMPLOYEE, POLICY AND REMUNERATION COMMITTEE (EPRC)**	**NOMINATIONS COMMITTEE**
Standing Committees		**Ad-hoc Committees**

Audit Committee

Assists the Board with ensuring the integrity of financial reporting, including oversight of:

- the financial statements and internal control environment
- the external audit process and relationship with the external auditor
- the internal audit function

Employee, Policy and Remuneration Committee (EPRC)

Assists the Board with matters relating to human resource management policies and practices, including:

- managing the Board's employment relationship with the Chief Executive
- ensuring recruitment policies are designed to attract and retain quality staff while providing appropriate accountability for performance
- succession planning
- oversight of policies for diversity and inclusion

Nominations Committee

Established when or if necessary (for instance to manage potential conflicts of interest):

- appointing an executive search agency
- developing a job description and profile

The roles and responsibilities, reporting requirements, composition, structure and membership requirements of each standing Board Committee are set out in the respective committee's terms of reference. Copies of the terms of reference are contained within the Board Charter, available on our website at **www.nzsuperfund.nz/nz-superfund-explained-governance/board**.

Each standing committee's terms of reference and performance are periodically reviewed by the Board. Minutes of the committees' meetings are provided to the Board for information. In addition, all Board members are able to attend any committee meeting.

The Board appoints the Chair of each standing committee. The Chair of the Board cannot be Chair of the Audit Committee. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

From time to time, the Board may establish a specific subcommittee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest.

The standing Board committees either meet quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and other members of the management team are invited to attend committee meetings as necessary.

BOARD COMMITTEE ACTIVITY

AUDIT COMMITTEE

Members

Five members:

- Catherine Drayton (Chair)
- Catherine Savage
- John Williamson
- Simon Botherway
- Henk Berkman

Meetings

Met four times in the 2019 financial year (once with full Board attendance).

Attendance

See page 80 for details of meeting attendance by Board members.

The external auditors are invited to each meeting and meet with the Audit Committee independently of management at least twice a year.

The Head of Internal Audit attends each meeting and meets with the Committee independently of management at every meeting.

Summary of matters considered during the year

- Annual work plan for the Valuation Working Group
- Valuation Working Group's report on annual activities and year-end valuations
- Annual financial statements for the Guardians and the Fund
- 'Deep dive' valuation reviews of selected investments
- Annual appointment of the external auditor
- Annual report from the external auditor
- Annual external audit plan
- Annual internal audit work plan
- Internal audit annual review of outcomes
- Internal audit reports (including on user access management, liquidity risk and counterparty credit risk management, cloud infrastructure migration, market misconduct processes, risk culture, penetration testing, fraud risk assessment, vulnerability scanning, mobile device management, liquidity management processes and investment due diligence)
- Regulatory changes report
- Audit Committee terms of reference
- Annual tax compliance strategy
- Update on emerging IFRS issues (including IFRS 9)
- Cashflow processes and controls
- Treasury dataload consolidation process
- Funding structures
- Inland Revenue Co-operative Compliance Agreement
- Change to reporting structure
- Format of Fund financial statements
- Cloud operating model review
- Custodian security of controls report
- Fund accounting system
- Tax updates

EMPLOYEE AND REMUNERATION POLICY COMMITTEE (EPRC)

Members	Summary of matters considered during the year
Four members: • Catherine Savage (Chair) • Stephen Moir • Doug Pearce • John Williamson	• Chief Executive Officer succession planning • Chief Executive Officer remuneration • Chief Executive Officer performance review • Chief Executive Officer employment contract review • Strategic activities achievement • Remuneration structure review
Meetings Met for four scheduled meetings and seven special meetings in the 2019 financial year.	• Bonus programme and remuneration summary • Leadership development and talent management activities • Talent agendas for specific teams
Attendance See page 80 for details of scheduled meeting attendance by Board members.	• Leadership Team succession planning • People dashboard • Diversity and inclusion objectives • Standard employment contract review • Company culture update • Committee performance evaluation • Review of terms of reference • Future Board skill sets

4. REPORTING AND DISCLOSURE

The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures.

Transparency and quality public reporting are critical to maintaining stakeholder confidence in the Guardians and the Fund. The Guardians has adopted an approach of being as transparent as commercial sensitivities allow about its investment approach, the Fund's performance and the organisation in general. Our aim is to keep our stakeholders well-informed about what we do and why we do it, as well as compliance. The quality of our reporting has been recognised with regular awards (see **www.nzsuperfund.nz/performance/awards**).

The Guardians is required to prepare and present a range of reports to its responsible Minister and parliament to facilitate its oversight and accountability. The reporting framework for the Guardians' key reporting documents is included in its Communications Policy. The table below summarises the Guardians' reporting requirements.

Three yearly	Annually	Quarterly to Minister	Monthly	As it happens
Five-year Statement of Intent setting out key strategic objectives and performance measures	Annual Statement of Performance Expectations forecasting Fund performance and setting out priority activities for the year Annual Report summarising the year's performance Statement of Performance measuring performance against the Annual Statement of Performance Expectations Review by Parliamentary Select Committee annually or on request with participation from the Office of the Auditor-General	Fund Performance Important developments relating to the Fund Important developments at the Guardians	Fund Performance	Anything necessary to comply with the expectation that we will operate on a 'no surprises' basis with the Minister of Finance Responses to questions from parliament, media and via the Official Information Act 1982

The latest Statement of Intent, setting out strategic objectives and performance measures for the five years from 2019–2024 was published in June 2019. The Annual Statement of Performance Expectations sets out a detailed plan of work and financial forecasts for the coming financial year, and was also published in June 2019.

The Guardians' objectives for the 2018/19 financial year are reported against in the Statement of Performance at page 110 of this Annual Report.

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and at **www.nzsuperfund.nz/publications/annualreports**.

The report contains both audited financial statements for the Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and audited financial statements for the Guardians, which are signed by the Chair and one other Board member.

The Audit Committee and Board review the Guardians' and the Fund's financial statements. The Chief Executive Officer and the General Manager Finance and Risk state in writing to the Board that the Guardians' and the Fund's financial statements present fairly, in all material respects, the Guardians' and the Fund's financial conditions and operational results, in accordance with relevant accounting standards. They are also required to sign off on the adequacy of the systems of internal control. The Guardians appeared before the Finance and Expenditure Select Committee in February 2019.

The disclosures are available at **www.nzsuperfund.nz/publications/disclosures**.

The Guardians received nine requests under the Official Information Act 1982 during 2018/19 (seven in 2017/18). Copies of our responses, where we consider these to be of material public interest, are available at **www.nzsuperfund.nz/publications-disclosures/oia**.

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5. REMUNERATION

The remuneration of directors and executives should be transparent, fair and reasonable.

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. The remuneration set for Board members in the 2018/19 financial year was:

Chair	$96,000 p.a.
Audit Chair	$53,900 p.a.
Board Members	$49,000 p.a.

The Guardians' Human Resources Policy includes its remuneration policy. The Employee Policy and Remuneration Committee assists the Board in reviewing the remuneration policy and in setting the Chief Executive Officer's remuneration.

Comprehensive information regarding executive remuneration, including details of the Guardians' discretionary incentive scheme, is disclosed at page 96 and at Note 3(b) of the Guardians' financial statements.

6. RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business and should regularly verify that there are appropriate processes that identify and manage these.

The Board has a number of strategies to safeguard the Fund's and the Guardians' assets and interests and to ensure the integrity of reporting. This includes the Board's development of a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on.

A key piece of work in the risk management area during the year was having PwC undertake a risk culture survey. The results of this survey were presented to the Board in April. Implementing material actions from the survey has been included in our strategic plan as a multi-year strategic activity to strengthen culture at the Guardians. Another important development during the year was the creation of a new Head of Risk role following a recent review of the risk function by the Board.

Further information on the Guardians' approach to risk management is contained on page 89.

7. AUDITORS

Boards should ensure the quality and independence of the external audit process.

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Auditor-General. Graeme Bennett of Ernst & Young has been appointed to carry out the external audit of the Guardians and the Fund on the Auditor-General's behalf. Typically the audit partner is rotated every six years. This is the third year of the new rotation.

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Fund. Accordingly, it monitors developments in the areas of audit and threats to audit independence to ensure the Guardians' policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments without the approval of the Audit Committee and the Auditor-General. Any non-audit work conducted by the audit firm is disclosed in the financial statements.

Both the external auditor and Head of Internal Audit attend Audit Committee meetings. The Audit Committee meets with the external auditor and Head of Internal Audit independently of management as often as is appropriate, but not less than once per annum for the external auditor and twice for the Head of Internal Audit. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

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8. SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

The Board should respect the rights of shareholders and foster constructive relationships with stakeholders that encourage them to engage with the entity.

ACCOUNTABILITY

The Guardians is a Crown entity and its assets, and the assets of the Fund, form part of the Crown's assets. The Guardians is accountable to parliament through the Minister of Finance for those assets. A summary of the Guardians' reporting requirements is outlined on page 84. As noted on page 10, the Guardians is an autonomous Crown entity that operates at 'double-arm's length' from political stakeholders. This ensures that investment decision making is on a purely commercial basis.

The Minister of Finance may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2018/19 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on page 45.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectations for 2018/19 from the Minister of Finance in December 2018. This letter and the Guardians' response are available at **www.nzsuperfund.nz/publications/disclosures**.

As well as reporting under the requirements of its legislation, the Guardians also reports under the 'no surprises' protocol with the Minister of Finance. This protocol requires the Guardians to inform the Minister in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest.

STAKEHOLDER ENGAGEMENT

We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and the Fund. All key topics raised by stakeholders are presented in the materiality matrix on page 21 and our responses to these topics are included in this report.

A major piece of stakeholder research was undertaken during the year. The first phase was a quantitative stakeholder survey, and the second phase involved a series of qualitative interviews with senior stakeholders. The results of the surveys were very positive and were presented to the Board in November 2018 and April 2019. A case study on page 88 provides more information and the survey reports are available in full at https://nzsuperfund.nz/news-media/guardians-releases-stakeholder-engagement-research.

Our Responsible Investment Report on pages 56 - 69 outlines our active ownership and engagement activities, which are a key part of stakeholder management.

There has been significant engagement with central and local government over the past year, in particular on the proposed Auckland Light Rail project and the new venture capital mandate announced by the Government in May 2019.

Specific activities stakeholder engagement initiatives undertaken during 2018/19 included:

- Information sharing and education sessions with The Treasury;
- Meetings with Ministers and Members of Parliament;
- Engagement with iwi and Māori groups;
- Portal for our investee directors;
- Wellington media information session;
- Engagement and knowledge sharing, largely in response to demand for information about our Climate Change Investment Strategy, with the global and domestic investment community, including the publication of a white paper (see page 54 for further details);
- Joining the Pacific Investment Forum to share knowledge and explore co-investment opportunities;
- Our Chief Executive Officer co-chairing of the Sustainable Finance Forum and being a member of the Capital Markets 2029 Steering Committee;
- Our Head of Responsible Investment acting as a Commissioner on the United Nations Commission on Modern Slavery and Human Trafficking;
- Commencing a rebuild and redesign of the www.nzsuperfund.nz website, for completion in 2019/20.

Matt Whineray, Chief Executive Officer, speaks at the NZ Super Fund 15 Year Anniversary Event.

Sarah Owen, General Counsel/General Manager of Corporate Strategy, attends an International Centre for Pension Management (ICPM) Forum.

David Iverson, Head of Asset Allocation, presenting at the i3 Global Investment Strategy Forum.

Anne-Maree O'Connor, Head of Responsible Investment, on a panel at the United Nations Financial Sector Commission on Modern Slavery and Human Trafficking.

Priorities for 2019/20 include:

- Support identification and execution of domestic investment opportunities with Government (Central and Local);
- Continued focus on talking about our purpose and what the Fund is designed to achieve, along with increased efforts to manage expectations around the Fund's performance over time and the impact of market movements;
- Participation in Sustainable Finance Forum, Capital Markets 2029, New Zealand Corporate Governance Forum and One Planet Sovereign Wealth Fund Working Group;
- Hosting an Auckland media information session;
- Identify and execute opportunities to position the Guardians as an attractive place to work and to leverage our international reputation as a leading investor to support recruitment outcomes;
- Upskill wider Guardians' staff on communications skills and disciplines, including education on the Government context.

OUR STAKEHOLDERS

In addition to the Crown, parliament and the Minister of Finance, the Guardians' stakeholder groups include:

- employees;
- public of New Zealand;
- suppliers;
- asset and investment managers (for a full list of Managers and Custodians see page 113);
- co-investors;
- other Crown Financial Institutions;
- investee companies (and their stakeholders);
- investor groups;
- iwi;
- media;
- non-government organisations (NGOs);
- peer funds;
- regulatory bodies in New Zealand and globally; and
- relevant New Zealand public sector agencies (e.g. The Treasury, Reserve Bank of New Zealand, State Services Commission, Financial Markets Authority, Ministry of Foreign Affairs and Trade, Serious Fraud Office, Inland Revenue, Office of the Auditor-General).

TRANSPARENCY

We strive to be as transparent as possible about our management of the Fund and the way the Fund performs. Our stakeholders can access a wealth of current and detailed information easily on our website. This includes:

- information on our purpose and mandate;
- our governance framework and policies;
- how we invest and our approach to responsible investment;
- risk management;
- detailed historical performance figures for the Fund since inception; and
- copies of media statements, speeches, publications and research papers.

Communications with stakeholders, and the external website, are managed in line with our Communications Policy. This policy sets out controls and frameworks to ensure that all our communications are clear and accurate and assist in preserving and enhancing the reputation of the Guardians and the Fund.

INDUSTRY NETWORKS AND INVESTMENT GROUPS

We are an active participant in a wide range of industry networks and investor groups and have close working relationships with a number of government agencies, in particular the New Zealand Treasury. We also put significant effort into managing our relationships with peer funds, investment managers and potential co-investors.

We continue to be involved in a wide range of global investment and responsible investment initiatives. Groups on which we are represented at Board/governance level include the International Centre for Pension Management; One Planet Sovereign Wealth Fund Working Group; Pacific Pension Institute; New Zealand Corporate Governance Forum; New Zealand Corporate Taxpayer Group; and Responsible Investment Association Australasia (RIAA).

We also participate in the International Pensions Conference, the International Forum of Sovereign Wealth Funds, Association of Superannuation Investors, Standards Board for Alternative Investments, International Corporate Governance Network, Institute of Finance Professionals, Pacific Islands Investment Forum, United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

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CASE STUDY

Stakeholder Engagement Research

In May this year, we released the results of two pieces of stakeholder engagement research undertaken during the year on our behalf by independent research company Colmar Brunton. The research confirmed that our stakeholders feel that we are fulfilling our mandate and continue to be satisfied with our performance, engagement and leadership.

We carried out the research in order to help us understand current external perceptions of the Guardians and the Fund, and to gauge the health of our relationships with our stakeholders (including business partners). The departure of our long-serving CEO Adrian Orr and changes at Board level also provided a natural point in time to re-evaluate our relationships and communication strategies. Stakeholders surveyed included politicians, officials, media, investment managers, advisers, suppliers, members of the broader finance and investment community, peer funds and NGOs.

The research consisted of:

- A series of qualitiative, one-on-one interviews with senior stakeholders; and
- A quantitative survey of a wide group of our stakeholders.

This is the second time we have measured our perception among stakeholders, with the first set of research carried out in 2014/15. The full reports are available on our website at https://nzsuperfund.nz/news-media/guardians-releases-stakeholder-engagement-research.

HIGH-LEVEL RESULTS

Some of the key results are summarised at a high level below:

- More than five in six stakeholders agree the Guardians is performing in accordance with its mandate.
- More than nine in 10 stakeholders hold positive perceptions of the Guardians' forward-thinking approach to investment, strong leadership in the investment sector, high calibre staff and expertise.
- At least nine in 10 stakeholders favourably rate the Guardians across six of eight performance measures. The six measures being: good investment decisions, excellent return rate over the Fund's lifetime, appropriate approach to responsible investment, high-quality staff, robust performance analyses and robust risk management. The remaining two measures were: appropriate mix of New Zealand and global investments (just under 8 in 10 rate our performance favourably) and investment decision making free from political influence (just under 9 in 10 rate our performance favourably).
- Over nine in 10 stakeholders rate the Guardians' staff positively across all eight measures of service quality.
- Nine in 10 stakeholders positively rate the Guardians' senior leadership team across all seven measures (trustworthy, have integrity, are competent investment professionals, do a good job, show good judgement, are pragmatic and make decisions in line with long-term strategies).
- More than nine in 10 favourably rate the transparency of performance returns, portfolio holdings and investment strategies, and eight in 10 agree that risk associated with investment decisions is adequately communicated and that lessons are shared from successes and experiences.

AREAS FOR IMPROVEMENT

The survey covered many reputation metrics. Based on the research results, Colmar Brunton identified a subset of metrics where they believe we should be focusing our efforts to improve perceptions (particularly in New Zealand). As noted, the results were very strong and an improvement on 2014/15. The below suggestions should be interpreted in this high-performance context. These are:

PERFORMANCE	ENGAGEMENT	LEADERSHIP
• Whether the Guardians makes 'good' investment decisions • Returns being maximised without undue risk • Robust risk management processes • The Guardians attracting, recruiting and retaining high-quality staff	• Effectiveness of working relationships with stakeholders • Effectiveness of working relationships with Government • Connecting organisations with others in the industry	• Staff doing a good job • Attracting and retaining high quality board members • Staff considering others' perspectives • Staff helpfulness, collaboration and pragmatism • Staff understanding of the sector and environment their stakeholders work in • Senior leadership pragmatism in their approach to investment and leadership

RISK MANAGEMENT

Risk is an integral part of our organisation. We take investment risk in order to achieve our mission. We also manage other complex non-investment risks. Understanding and managing these risks helps us ensure that the risks taken are appropriate for the returns anticipated.

The Board is responsible for reviewing and approving the Guardians' risk management framework. It does this on a regular schedule that is set out in the Board calendar. The Board also reviews the top risks identified by the Guardians' Risk Committee every six months, and it reviews the Guardians' Risk Appetite Statement and Risk Assessment Framework on at least a five-yearly basis.

The Guardians has extensive risk management policies, procedures and internal controls for staff, external investment managers and other expert service providers. Our approach to managing investment risks is set out in our Statement of Investment Policies, Standards and Procedures and Investment Risk Allocation Policy, both of which are available at www.nzsuperfund.co.nz/publications/policies.

The Board has a Risk Appetite Statement that outlines the amount of risk that management may take in order to achieve the business goals of the Guardians and the Fund. These are the risks the Board can tolerate. The Board expects management to take steps to manage risks within the Board's risk appetite. The full statement can be found at Schedule 2 of the Risk Management Policy.

The Guardians' performance against this statement is measured and reported to the Board regularly, with any major breaches being notified on an exception basis.

The Audit Committee reviews reports from management, and from internal and external auditors, on the effectiveness of systems for internal control and financial reporting. The Board delegates day-to-day management of risk to the Chief Executive Officer. Inherent in this delegation is a desire to ensure that day-to-day responsibility for risk management is at the business unit level, where managing risk is seen as part of the overall business process, and a robust framework of risk identification, evaluation, control and monitoring exists.

The Chief Executive Officer and the General Manager Finance and Risk are required to sign off the financial statements and confirm to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and that control systems are operating efficiently and effectively in all material respects.

RISK TEAM RESTRUCTURE

Over the past year, we took the opportunity to reassess the risk function at the Guardians and confirm the best structure going forward. In reviewing the structure, we considered whether the operating model of our risk function was fit for purpose and set up to best meet our future requirements. As part of this process, we looked at a number of alternative models, with our CEO speaking to many of his counterparts around the world to understand what they were doing, and the advantages and disadvantages of different approaches.

In September 2018, our Board signed off on the new risk structure. Under the new structure, the Portfolio Risk and Enterprise Risk functions were brought together into one risk function, reporting to the new Head of Risk. In order to better share the load, three new manager roles were introduced to the Risk team, covering Portfolio Risk, Operational Compliance, and Enterprise Risk. The allocation of work streams under the new structure are:

- **Portfolio Risk**: Fund performance/attribution, counterparty/liquidity risk, market risk, and portfolio stress testing.
- **Operational Compliance**: Mandate compliance (including regulatory compliance), user access management, policy attestations and personal securities trading, model reviews, and dashboard coordination.
- **Enterprise Risk**: Board enterprise risk reporting (including the Risk Appetite Statement and the Risk Assessment Framework), business unit risk registers, control effectiveness, non-portfolio stress testing, operational due diligence and fraud risk assessment.

RISK MANAGEMENT (CONTINUED)

RISK REPORTING FRAMEWORK

The Board receives an enterprise-risk dashboard report every six months. This report is derived from the top risks and the emerging ones identified by the Guardians' business units and is facilitated by the Enterprise Risk Team and the Risk Committee (a management committee).

Each business unit maintains a Risk Register that identifies the risks that could impact on its specific activities and includes related controls and action plans.

The table below summarises our risk identification and assessment process:

Activity	Purpose	Outputs	Participants
1. Environmental assessment	Identify emerging internal and external sources of risk that could impact the business Forms an input into Business Unit Risk Register refresh	Summary of main changes affecting the business	Business Unit staff Business Unit Heads Risk Committee Enterprise Risk Team
2. Business Unit Risk Register annual review	Assessment of existing and potential emerging risks	Updated business risk registers	Business Units Heads Business Unit staff Risk Committee
3. Consolidated outputs of Business Unit Risk Register Reviews	Confirm or identify any new or any changes to existing top risks Assess emerging risks and identify those that should be escalated in reporting	Draft summary of top risks and emerging risks	Enterprise Risk Team Risk Committee
4. Review of top risks by Leadership Team	Evaluate identified top risks and emerging risks Evaluate effectiveness of risk management plans and consider whether further actions are required	Refined draft summary of top risks and emerging risks	Leadership Team Enterprise Risk Team Risk Committee representatives (if required)
5. Review of top risks by Board	Evaluate top risks and identify emerging risks Evaluate effectiveness of risk management plans in place and consider whether further actions are required	Finalised summary of top risks and emerging risks	Board Leadership Team Enterprise Risk Team

TOP RISKS

While we have a Board that is ultimately responsible for risk at the Guardians, our first line of defence against risk is everyone who works in the organisation. We try to take a holistic view and fit many pieces together, particularly the non-investment and investment risk components.

The Enterprise Risk Team identifies the organisation's top risks through consultation with business units. They are updated every six months, together with an outline of how they are managed. The risks identified in the latest report to the Board, for June 2019, are set out below. The traffic light indicates whether the risk is assumed to have increased, decreased or stayed the same in the past six months.

Trend	Top Risk	Controls
BEST PORTFOLIO		
●	Failure of Value Adding Strategies or Opportunities	• Robust process (Investment framework, application of RAP (Risk Allocation Process), Risk Budgets, portfolio reviews for new and existing opportunities • Ongoing assessment of opportunities with wide and deep peer relationships and strategic partners • Ongoing induction of staff in investment processes
●	Insufficient liquidity	• Liquidity Scenario model (stress testing) • Ability to access opportunities through multiple access points (e.g. derivatives or physicals) • Reporting escalates to Board if liquidity falls below 'Extreme Market Volatility'
●	Key investment beliefs are inappropriate	• External independent reviews • Investment framework and associated processes • New Opportunities Assessment Group • Diversification considered during RAP process • Continued re-examination and stress-testing of investment opportunities via the Risk Budget teams • Hurdle/proxy is assessed by Asset Allocation, this team is outside of the access points teams • Systematic scenario analysis
GREAT TEAM		
●	Staff capability shortfall	• Diversity and Inclusiveness Policy • Individual development plans • Succession planning, including talent plans and talent agenda • Well researched and documented processes • Stop activity or outsource if necessary • Culture shaping and measurement • Employee life cycle management
●	Incidents of fraudulent activity (incl. rogue traders, bribery and corruption)	• Separation of duties • SSI and proper instruction processes • Staff screening processes • Investment and operational due diligence • Whistle-blower hotline • Annual fraud risk assessment • Fraud and ethics awareness education • Due diligence and ongoing monitoring of third parties

RISK MANAGEMENT (CONTINUED)

Trend	Top Risk	Controls
STRONG EXTERNAL RELATIONSHIPS		
	Change in key stakeholder support, including Minister of Finance, Treasury and the Board	• Stakeholder management and communication incl. engagement plan and relationship map • Ongoing education of Board and other stakeholders • Accurate, clear and consistent reporting • Clear risk budgeting approach • External independent reviews
	Threat to Guardians' independence	• Continuing to focus on engagement with, and education of, stakeholders as to our role
	Failure of Fund counterparty or central clearing house	• Annual review of key suppliers by the business owner and Board • Monitoring of key supplier relationships and counterparties, including daily alerts • Detailed diligence performed on potential new suppliers • Manual work-arounds where possible in event of custodian failure
	Failure of important supplier	• Annual review of key suppliers by the business owner and Board • Monitoring of key supplier relationships and counterparties, including daily alerts • Detailed diligence performed on potential new suppliers • Manual work-arounds where possible in event of custodian failure
EFFICIENCY & INNOVATION		
	Cyber event occurs	• Best practice system protections, threat monitoring and detection • IT security policy, user access controls, cyber security training • Cloud protection systems analysis
	IT infrastructure or business systems connecting to our network cease to be fit for purpose	• Due diligence and monitoring of IT and business system providers • Business Continuity Framework • Regular maintenance and upgrade of IT infrastructure • Regular monitoring of strength of network • Secondary data centre • Service Desk focus on delivery
	Process failures leading to poor execution	• Embedded systems for cross team input on investment and non-investment deals • Policies and procedures • Access to external resources • New Opportunities Approval process
	Significant breach of legislation or regulation (e.g. H&S, BEPS (tax) , EMIR (OTC transactions))	• Six monthly policy and quarterly trading attestations by staff • Ongoing monitoring of new or changing regulations and increased resourcing applied • Relationships with external experts • Co-operation Agreement with the Inland Revenue Department • Six monthly legislative change reporting to the Risk Committee and Board • Six monthly tax update to Risk Committee and Audit Committee

DERIVATIVE RISK MANAGEMENT

We use derivatives as part of our investment strategy, with their use aligned with our purpose. We maintain appropriate levels of knowledge and skills and have robust control frameworks in place. These controls include a focus on the risks relating to the use of counterparties, liquidity and operational matters, including compliance with investment mandates.

RISK COMMITTEE

The Risk Committee, a management committee, is the Guardians' key enterprise risk oversight body. The Risk Committee has three main roles:

- as a risk leadership body;
- to provide leadership on the effectiveness of frameworks and processes at the Guardians; and
- to add value.

The Risk Committee focuses on:

- taking an enterprise-wide, holistic and governance view of the organisation;
- assessing potential risk profile changes and selecting key areas to be reviewed;
- undertaking specific reviews on behalf of management to confirm risks are appropriately managed;
- assessing the effectiveness of risk and control frameworks;
- obtaining confirmation from the business that specific processes are robust, used consistently and any exceptions are handled appropriately; and
- monitoring and simplifying processes to facilitate scalability, while ensuring effective risk management.

IN 2018/19, THE RISK COMMITTEE'S ACTIVITIES INCLUDED:

- a review of top risks for the Guardians and the Fund;
- a review of risks for each individual business unit (risk register);
- a review and update of the process for managing Operational Risk Assessments on new investments;
- implementing a new format for reporting on enterprise risks to the Board;
- overseeing the risk culture survey; and
- biennial reviews of the Risk Management policy and the Portfolio Completion and Internally Managed Securities Policy.

In addition to business as usual focus areas, in 2019/2020 the Risk Committee will also be involved with:

- ensuring the implementation of actions arising from the risk culture survey;
- overseeing the development of a new control effectiveness framework; and
- improving the maturity levels of our cyber security.

NEW RISK COMMITTEE CHAIR

In March 2019, Mr Joe Halapua was appointed as Chair of the Risk Committee. Joe joined the Guardians in 2011 and has worked across both the Direct Investment and External Investments & Partnerships teams managing a portfolio of mandates and investments. He currently serves on the Board of Australian retirement village operator Retire Australia and is Chair of its Audit Committee. Prior to this, Joe worked in Auckland as an investment banker at Goldman Sachs JBWere, where he was involved in mergers and acquisitions and capital market activity across New Zealand and Australia. Joe takes over from Michael Mitchell.

MONITORING

Staff compliance with the relevant policies and procedures is monitored actively, as is compliance by external managers with the investment mandates we give them.

The following table sets out performance against key Fund risk measures relating to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), strategic tilting active risk, active manager risk limits and target levels of liquidity.

Performance Against Key Fund Risk Measures						
	Target	**2018/19**	**2017/18**	**2016/17**	**2015/16**	**2014/15**
INVESTMENT RISK MEASURES						
REBALANCING						
Breaches of Fund rebalancing absolute risk limit	0	0	0	0	0	0
Breaches of Fund rebalancing relative risk limit	0	0	0	0	0	0
Breaches of manager limits	0	0	0	0	0	0
TILTING						
Breaches of strategic tilting active risk limit	0	0	0	0	0	0
Breaches of replenishment liquidity level	0	0	0	0	0	0
BUSINESS RISK MEASURES						
Active breaches of compliance with investment mandates*	0	1	2	1	1	0
Loss of data/IT services of more than 30 minutes	0	0	1	0	0	1
Regulatory non-compliance	0	0	0	0	0	0
Processes and profit & loss impacts of more than NZD10m	0	0	0	0	Not reported	Not reported
Loss of key personnel**	0	0	0	0	Not reported	Not reported
Operational incidents or errors rated as potentially high risk***	N/A	0	2	1	3	4

* Our custodian reports any breaches of compliance with the Fund's segregated listed investment mandates to us for investigation and discussion with the manager involved (e.g., failing to sell a stock that had dropped out of an index within an agreed time period). All breaches, passive and active, are factored into our monitoring and reviews of our external and internal investment managers. In the case of serious incidents, a claims process may be available to the Fund.

** 'Loss of key personnel' is defined as: loss of personnel that would result in an investment strategy or activity having to stop.

*** The Guardians has a structured process for reporting, investigating and rectifying operational incidents and errors (e.g. a data entry error or a failure to correctly follow a process/instruction). Incidents or errors with potentially medium or high impacts are reported to the Audit Committee as soon as practicable. As our objective is to capture as much information as possible with a view to improving our processes and controls, we do not set a target for reducing the number of errors reported.

CASE STUDY

The Risk Culture Survey

In the 15 years the Fund has been investing, risk has played out in interesting ways across the global financial, insurance, investing and banking sectors.

More recently, Australia's Royal Commission on Banking and Financial Services brought home the importance of establishing and maintaining a constructive culture around risk. With this in mind, we carried out a survey at the end of 2018 to help us better understand our risk culture. The survey was run on our behalf by PwC.

The scope of the survey focused on helping us to understand the current state of our risk culture, including employees' perceptions, attitudes and beliefs towards risk management, and cultural strengths and areas of opportunities to support a stronger risk culture at the Guardians. The survey was followed by a number of focus group sessions, made up of staff randomly selected from across the organisation, and facilitated by PwC to help them interpret the feedback provided. The survey was further supported by one-on-one interviews with key stakeholders, and a review of key documents, policies and procedures by PwC.

The key strengths identified in the survey included:

- Strong awareness and appreciation of risk
- Employees fundamentally want to do the right thing and respect that the Guardians is a Crown entity
- A collaborative environment where individuals work together and help one another
- A desire for the Guardians to be innovative and remain competitive against our peer investors
- We're an open and transparent organisation, with regular communication from leadership.

The risk culture review also produced more detailed observations, grouped under four main themes, around areas for improvement. These themes are:

- Articulating the bigger picture – defining the desired risk culture aspiration for the Guardians in line with the current values refresh and broader cultural initiatives, including clarifying executive and committee accountabilities for oversight and monitoring of risk culture and articulating the interplay between investment and non-investment risk.
- Not just ticking the box – simplifying communications and compliance regarding policies, including soliciting feedback and customising where required. Developing fit-for-purpose training on the application of policies and procedures relevant to different roles to avoid a 'one size fits all' approach.
- Being open to challenge – organising training for managers on constructive reception of challenge, improving transparency around the degree of consultation versus communication and increasing the timeliness of feedback.
- Reinforcing the right behaviours – increasing the impact of risk and compliance issues and behaviours in recognition and performance outcomes to reinforce what is valued in terms of behaviour and performance at the Guardians.

The survey sits alongside our values exercise (see page 11) and the stakeholder survey (see page 88) to offer a definitive picture of internal and external perceptions in the areas that matter to us. We are in the process of developing a work plan to address the recommendations highlighted in the report.

Our mandate requires us to manage the Fund in line with global best practice. Achieving our mandate requires us to provide remuneration packages that will attract, motivate and retain a world-class team.

The employment market for professionals in the investment sector is highly competitive. We aim to build and maintain a team of talented people who can deliver value in terms of Fund performance. The Guardians is made up of people with significant expertise and experience in investment management and research, portfolio design, risk management and investment operations, along with highly skilled specialists in finance, human resources, law, IT and communications.

Remuneration consists of salary, KiwiSaver and participation in a discretionary benefits scheme.

Unlike other public sector organisations in New Zealand, staff salaries at the Guardians are not funded through parliamentary appropriation. Instead, they are paid for by the Fund.

KEY FACTORS

In structuring remuneration at the Guardians appropriately, we are conscious of the need to:

- reinforce the long-term objectives of the Fund;
- reinforce our investment strategy, which is based on a whole-of-Fund approach, rather than individual asset classes or investment portfolios;
- ensure remuneration encourages appropriate, but not excessive, risk taking; and
- be realistic about the periods for which staff are likely to remain with the Guardians and can reasonably expect to be rewarded for performance.

We aim to be clear about what people are paid for and why, and to be consistent, systematic and transparent in applying our remuneration policies. Our intent is to remunerate and reward people for their knowledge, skills, alignment to behavioural expectations and contribution in the roles they are performing.

Equal Pay

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work.

Based on a 2016 report from Ernst & Young, we are confident that we are paying equally for work of equal value. In addition, we also measure our overall pay gap between men and women. The overall pay gap at the Guardians reflects the predominance of males in more senior, higher paying roles and the predominance of females in more junior, lower paying roles roles. See page 34 for further details.

BASE SALARIES

Employees receive a base salary, which is fixed and which reflects their role, contribution and level of experience. Base salaries are based on:

- independently determined job sizes;
- employees' competence in roles; and
- current, independent remuneration market data, based on upper quartile, New Zealand financial services sector rates.

Salaries are reviewed annually with any increases subject to meeting minimum performance expectations.

KIWISAVER

The Guardians matches employee contributions to KiwiSaver up to 8%.

DISCRETIONARY BENEFITS SCHEME

A range of other benefits is also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection, life, trauma and health insurance. The total cost to the Guardians of providing these benefits was NZD406,560 in 2018/19 (NZD250,970 in 2017/18).

DISCRETIONARY BONUS SCHEME

As is the standard within the financial services sector, staff are eligible for performance pay on top of base salaries.

The Guardians' discretionary bonus scheme is designed to incentivise employees and create a culture of good performance. All bonuses are at the discretion of the Board.

There is no contractual requirement requiring the payment of any bonus in any given year to employees.

There are two components to the bonus scheme:

1. an individual performance component for which all permanent employees are eligible; and
2. a two-part Fund performance component, which applies to permanent members of the Leadership Team, Investments Group and Portfolio Completion Group.

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Bonuses are calculated as a percentage of average base remuneration and vary up to a maximum percentage. The maximum available is:

	Total	Individual Component	Fund Performance Component
Leadership Team, Investments Group and Portfolio Completion Group	60%	20%	40%, composed of: • Excess Return – 13.33% • Value Added – 26.67%
Other employees	20%	20%	N/A

REMUNERATION SUMMARY

Benefit	Purpose and link to strategy	Operation
Base salary	Building and maintaining a 'great team' To reflect the responsibilities of the individual role and the individual's level of experience and competence in the role Set at appropriate level to mitigate risks of over reliance on discretionary income	Reviewed annually. Each individual has a pay range associated with their position. Job sizes are re-evaluated at least five yearly. Base salaries are determined by positions being evaluated by remuneration specialists using market evaluation systems. The general approach is to benchmark against upper quartile, New Zealand financial services sector rates as a proxy for median fund management sector rates. Individual performance is reviewed bi-annually, and salary is reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations. Employees with a performance rating outcome equivalent to below target are not eligible for a salary review.
Individual objectives and performance bonus	Promotes commitment to a positive, constructive workplace culture Linked to employee behaviour consistent with the Guardians' desired workplace culture	Bonus payments are at the Board's discretion. Employees with a performance rating outcome equivalent to below target are not eligible for a bonus.
Fund component	Based on Fund financial performance outperforming Treasury Bill return and Reference Portfolio Incentivises whole-of-Fund approach and aligns with statutory mandate of maximising returns without undue risk Based on Fund performance over rolling four year periods to encourage sustainable performance	Bonus payments are at the Board's discretion. Based on audited Fund performance results. Employees with a performance rating outcome equivalent to below target are not eligible for a bonus. Available to the Leadership Team, Investments and Portfolio Completion employees.
Other benefits	Building and maintaining a 'great team' Good employer	Discretionary life, income protection, trauma and health insurance.

Further information about the bonus scheme is set out on page 98.

REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

INDIVIDUAL PERFORMANCE COMPONENT (ALL STAFF)

All permanent staff are eligible for a discretionary bonus payment in respect of achievement relating to their individual performance (a maximum of 20% of base remuneration). All discretionary bonus payments are contingent upon staff having both achieved their individual objectives, and having met minimum threshold performance requirements. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager.

Individual performance is measured with reference to the individual's performance against behavioural criteria consistent with the Guardians' desired workplace culture. Performance is determined by the individual's manager and takes account of feedback from the individual as well as 360 degree input, and is calibrated with the Leadership Team.

The individual component of the bonus is payable annually.

FUND PERFORMANCE COMPONENT (LEADERSHIP TEAM, INVESTMENTS GROUP, PORTFOLIO COMPLETION GROUP)

Staff who are members of the Leadership Team, Investments Group and Portfolio Completion Group are eligible for a further bonus (a maximum of 40% of base remuneration), based on two Fund performance measures:

1. Excess Return (1/3 of the 40%); and
2. Value Added (2/3 of the 40%).

These measures are based on whole-of-Fund performance, consistent with our Reference Portfolio approach to investing the Fund. Under the Reference Portfolio approach, we work together to ensure our investment decisions improve the Fund's portfolio as a whole, rather than optimising performance within individual asset classes or sub-portfolios.

Payments against these measures are made over four years on a rolling average basis. This is intended to incentivise appropriate risk-taking and reflect the Fund's focus on long term performance.

Payments made in any one year therefore reflect a four year moving history. A new four year 'Vintage' is initiated each financial year.

The Excess Return measure is calculated based on the Fund's actual return, less the 90-day Treasury Bill return, a proxy of the opportunity cost to the government of investing in the Fund instead of paying down debt. The maximum bonus payable under this portion is capped at 13.33% of base remuneration if the Fund exceeds the Treasury Bill return by 4% (i.e. outperformance of the Treasury Bill return is capped at 4%).

The Value Add measure is calculated based on the Fund's actual return, less the Reference Portfolio return. Payments based on this measure are capped at 26.67% of base remuneration if the Fund exceeds the Reference Portfolio return by 0.75% (i.e. outperformance of the Reference Portfolio is capped at 0.75%).

Interim payments for the Fund performance component are calculated based on actual average remuneration (excluding bonus payments) across the relevant period. The maximum percentage paid out is a quarter of the Vintage in Year 1 and increases by a quarter of the Vintage each year thereafter, in
102 - 35 line with the percentage of services rendered by the employee.
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Therefore, once a staff member has been employed for four years, they will have four separate Vintages running, paying out a maximum of 25% each, as summarised in the table below. Future vintage payments do not vest – once an employee leaves the Fund, no trailing bonuses are payable.

Max out scenario	Vesting Level (% of services performed)	Less Previously Paid	Payable Current Year
1st Vintage	100%	75%	25%
2nd Vintage	75%	50%	25%
3rd Vintage	50%	25%	25%
4th Vintage	25%	0%	25%
Total			**100%**

INCENTIVE ACHIEVEMENT IN 2018/19

For eligible staff who have been employed for the past four full years:

- Payments made in respect of Treasury Bill return were 13.33% of average base remuneration for the equivalent period, compared with the maximum possible 13.33%.
- Payments made in respect of the Reference Portfolio return were 25.92% of average base remuneration for the equivalent period, compared with the maximum possible 26.67%.
- The Fund exceeded the Treasury Bill return by an average of 8.57% p.a. (5.36% in 2018/19)
- The Fund exceeded the Reference Portfolio return by an average of 1.89% p.a. (0.67% in 2018/19).

The maximum possible refers to the maximum payable per vintage. At any given time, we have four vintages running, and each of these will have cumulative achievement levels between 0% and 100% throughout their four-year period. The associated interim payments also vary year to year.

Strong performance will improve the status of previously underperforming vintages and result in catch-up of interim payments. This year, three of the four vintages are at the 100% achievement level for the current year, and the latest vintage is at the 92% achievement level.

Further information about remuneration can be found in our Human Resources Policy, available at https://www.nzsuperfund.nz/publications/policies. See also the Guardians' financial statements at page 205.

CHIEF EXECUTIVE OFFICER REMUNERATION

One of the Board's most important decisions is deciding on the appointment and remuneration of the CEO.

Process

The Employee Policy and Remuneration Committee (EPRC) (see page 81), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. While the terms and conditions of employment of the CEO is determined by agreement between the Board and the CEO, the Board must obtain the written consent of the State Services Commission (SSC) before finalising or amending the CEO's terms of employment. Prior to 31 October 2018 (when the Crown Entities Act was amended), the Board only needed to consult with the SSC and, if necessary, the Minister of Finance, and the final decision rested with the Board.

The SSC must provide reasons for refusing consent to any proposed terms and conditions and is required by the Act to have regard to the following (among any other relevant factors):

- the legal, commercial and operational context of the relevant Crown entity
- any information provided by the Board, which might include, for example, the Board's advice about a person's knowledge, skills, experience and performance
- the public interest in prudent stewardship of public resources
- Government expectations, and
- relevant market information.

Factors Taken into Account

In the Board's view, the role of the CEO of the Guardians is unique in New Zealand, requires original strategic thinking and leadership and has grown in complexity and scope over time.

As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and Fund.

For this reason, the CEO (along with other members of the Leadership, Investments and Portfolio Completion teams) is eligible for bonus payments up to a maximum of 60% of base remuneration under the Guardians' discretionary bonus scheme.

The Board also considers relativity between the CEO's remuneration and the staff of the Guardians.

The discretionary bonus scheme is designed to create strong alignment between the CEO's remuneration and the performance of the Guardians and the Fund. Consistent with the Guardians' long-term goals, bonus payments for Fund performance in any one year reflect a four-year rolling average. There are no trailing payments available once an employee ceases service with the Fund.

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CHIEF EXECUTIVE OFFICER REMUNERATION

Financial Year	2018/19*		2017/18**		2016/17		2015/16		2014/15	
	$	% achieved	$	% achieved	$	% achieved	$	% achieved	$	% achieved
Contractual Base Remuneration	$600,000	-	$700,400	-	$700,400	-	$682,000	-	$571,000	-
Actual Base Remuneration Payment (A number of factors can mean there is a difference between the contractual and actual base. See footnote *** for more detail)	$623,525	-	$522,263	-	$740,476	-	$690,322	-	$596,078	-
At Risk - Individual Component (max 20% of actual base remuneration)	$124,705	20%	N/A	N/A	$116,995	15.8%	$117,355	17.0%	$101,333	17.0%
At Risk – Fund Financial Performance 'Excess Return' on a 4 year moving average	$78,917	13.3% (max 13.3%)	N/A	N/A (max 13.3%)	$116,647	13.3% (max 13.3%)	$61,829	10.0% (max 13.3%)	$37,932	6.7% (max 6.7%)****
Cumulative Fund Performance can impact interim payments resulting in payments in a subsequent year. See page 98 for more detail.		-		-		3.3%		(3.3%)		-
At Risk – Fund Financial Performance 'Value-Add' on a 4 year moving average	$153,220	25.9% (max 26.7%)	N/A	N/A (max 26.7%)	$200,330	26.7% (max 26.7%)	$155,616	24.6% (max 26.7%)	$95,581	13.3% (max 13.3%)****
Cumulative Fund Performance can impact interim payment resulting in payments in a subsequent year. See page 98 for more detail.		-		N/A		2.1%		(2.1%)		3.3%
KiwiSaver	$78,429	-	$15,668	-	$35,233	-	$30,754	-	$24,928	-
Benefits (Life, Income Protection, Trauma and Health Insurance)*****	$5,795	-	$5,398	-	$7,431	-	$4,879	-	$4,276	-
Total Remuneration	$1,064,591	**-**	**$543,329**	**-**	**$1,217,112**	**-**	**$1,060,753**	**-**	**$860,128**	**-**

*Figures for 2018/19 relate to a new CEO from July 2018.

**Figures for 2017/18 are to March 2018, when the previous Guardians' CEO ceased to be an employee (9 months).

***Actual base salary payments can be lower or higher than contractual base salary, depending on a number of factors including the amount and value of leave taken, or from ceasing employment part way through the financial year.

****From FY 2015/16, the maximum At Risk for the Fund's financial performance of 'Excess Return' is 13.3%. For FY 2014/15, this maximum was 6.7%. From FY 2015/16, the maximum At Risk for the Fund's financial performance of 'Value-Add' is 26.7%. For 2014/15, this maximum was 13.3%.

*****Benefits include FBT where applicable, but exclude GST.

Operational Report
Ngā Tīpakonga ā-Whakahaere

04

HIGHLIGHTS FROM OPERATIONS AND IT

CLOUD MIGRATION

Consistent with the New Zealand Government's cloud first policy, in October 2018, we migrated our IT infrastructure to the Microsoft Azure Cloud. Implementation of the cloud operating model (how we will operate and work in the cloud) is in progress, and we have commenced a programme of work aimed at enabling us to take advantage of cloud technologies. The work programme involves leveraging the cloud to achieve a number of business benefits, including:

- Providing a modern infrastructure and application environment that enables faster upgrades to the latest versions, reducing the risks associated with maintaining legacy systems;
- Delivering improved security by using cloud security analytics tools that are used to scan for threats and unusual activity;
- Delivering a better business continuity solution that is simpler to manage and is more cost effective;
- Better enabling IT to meet infrastructure capacity needs, including the ability to quickly provide infrastructure for research and new projects.

In early June, we established monthly engagement discussions with the business, initially focused on infrastructure feedback, with a view to progressing discussions to ways we can achieve business objectives by utilising the cloud applications that are now available to us. Next financial year, we will undertake our first review of the cloud operating model, which will focus on whether key risks are being effectively managed and how well the team is set up to drive the transformation.

DATA MANAGEMENT

Over the year, we progressed what is a multi-year project focused on our data governance, establishing a clear investments-led data strategy and roadmap to guide the development of our investment data capabilities. To ensure we continue to focus on projects offering the most benefit to us, representatives from the IT and Corporate Strategy teams spent six months meeting with each business unit to reconfirm their technology and data priorities. This has also involved a number of conversations with the Leadership Team to confirm the short to medium-term technology roadmap, which forms the basis for several projects underway to enhance our data management capabilities.

After setting up the foundations of a data warehouse structure last year, we worked this year to build-out an initial dataset for the RAMP Project (implementation of our new risk system, Quantifi). Our intent to date has been to build-out data warehouse content where required through specific data-oriented projects. We will also ensure adherence to our data governance principles as part of these development projects.

CURRENCY EXPOSURE

A joint IT/Portfolio Completion project was launched over the year to replace our currency hedging tool. The currency hedging tool is designed to provide information to our currency traders and recommends trades when hedged ratios are outside tolerance levels. This helps to eliminate the Fund's exposure to other currencies and reduces the risk of incurring financial losses due to changes in exchange rates.

The main goal in replacing the tool was to deliver more granular data. For example, the new tool will provide data on the currency exposure for derivatives that considers the underlying components (e.g. the currency exposure of an MSCI index futures position will be calculated in the currencies of its constituents rather than the US dollar). The new tool will also provide a set of standardised rules for all who use it, acting as a single source of truth for currency exposures across the Guardians.

CYBER SECURITY

The danger of cyber threats has continued to grow. We recognise this risk, and improving cyber security defence, knowledge and preparation is an ongoing priority. In 2018/19, we underwent a review of our cyber security maturity domains. Our desired maturity is something we assess periodically in line with changes in threat profile, IT environment, risk management priorities and what is required to achieve different levels of maturity. Our review of target maturity took into consideration our risk and threat profile, and we used the following 'guiding principles' in our assessment of each domain:

1. Consider increasing our maturity target in the security domains that address the highest risks to the Guardians' business.
2. Consider increasing our maturity target in the security domains where controls have a higher risk of failure, such as domains where many controls are manually operated or domains where the specific associated risks and threats change more frequently.
3. Consider increasing our maturity target in the security domains where there is the greatest return on the investment of our security resources.

Although many security improvements are behind the scenes and invisible to end users, some improvements require controls or changes to business processes that may be perceived as slowing down business operations or adding additional administrative burden. The impact of business operations of maturity changes was also a consideration in determining target maturity levels.

After applying the guiding principles above and considering the impact on business operations, we recommended an increase in maturity in respect of 14 control domains. We are now working towards achieving and supporting these increased target maturity levels.

INNOVATION AND DISRUPTION

One of our strategic activities for the 2018/19 financial year was to strengthen our internal capability to source, execute and manage opportunities and threats arising from innovation and disruption. As at 30 June 2019, an innovation model has been proposed, with feedback being sought from around the organisation to ensure a sustainable approach is developed. The model seeks to ensure that we have the culture, encouragement, bandwidth, recognition and tools in place to support our innovation aspirations. Separately, the New Opportunities Assessment Hub (NOAH) group has been reviewing the investment teams' approach to innovation and disruption and the potential risks and opportunities for the portfolio (see page 52 for more information). While we work on establishing a governance model, innovation and continuous improvement continues to be a focus across the teams. Specific projects have included:

Robotics Process Automation

Over the past year, the Investment Operations team has been running a robotic process automation proof of concept to assess the potential benefits from this type of tool as a solution to the issues associated with manual and repetitive activities.

Strategic Tilting Systemisation

The Strategic Tilting and Portfolio Completion teams began work on a systemisation project to determine whether it is practical to further automate and systemise tilting investment processes to reduce operational risk and improve efficiency. The focus areas for this project are in the order generation, order management/communication and execution sections of the tilting processes.

LIQUIDITY STRESS TESTS

We have a Liquidity Management Framework that requires us to hold sufficient liquidity (e.g. cash or Treasury Bills) to meet short-term cash flow obligations. The amount of liquidity the Fund needs is informed by a Minimum Liquidity Requirement. The Minimum Liquidity Requirement sets out the absolute minimum liquid assets the Fund needs to hold to meet its payment obligations (e.g. on derivative positions) resulting from an adverse market move. It is designed to give us a high level of confidence that, during any extreme market volatility, liquidity demands can be met by the Fund.

Our approach to modelling the Minimum Liquidity Requirement is to subject the Fund to various simulated shocks (or 'stress tests') to see how the combination of illiquid assets, strategic tilting and currency hedging combine to place the Fund's ability to meet its payment obligations under stress. This might be when, for example, a major disruption has occurred in the market, there has been a significant and sustained market sell-off and/or short to medium term liquidity levels are nearing their limits.

In March 2019, we ran a liquidity stress test using our new risk system Quantifi with a scenario unfolding over the course of four days. While we have a Liquidity Management Plan that provides a framework for our Funding and Treasury Group (FTG) to use when faced with stressed market conditions, this year, the full implementation of Quantifi, our new risk system, significantly improved our liquidity stress testing capability.

An overview of the overall liquidity scenario workflow is as follows:

Market Shock	Simulated market shocks used to recalculate the NAV (Net Asset Value)
Roll Forward	Project the future cash flows based on our defined liquidity horizons
Rebalance	Rebalance the portfolio to align to the Reference Portfolio weights set by the Board
Tilting	Apply new tilting positions created by the simulated market shock
FX Hedging	Hedge resulting foreign currency exposure based on Board-approved FX Hedging Strategy
Equitisation	Identify assets to liquidate and recalculate Minimum Liquidity Requirement

REGULATORY UPDATE

As a global investor, we are subject to a wide range of legal and regulatory requirements. Ensuring that we comply with these requirements is an important task.

In this section, we provide examples of areas of regulatory change relevant to our activities or to the business of our investment managers, counterparties and service providers.

CLIMATE CHANGE REGULATION

A diverse and growing regulatory response to climate change is discernible, both in New Zealand and abroad. Examples include increases in climate change related litigation globally, new requirements for disclosure of climate change related risks for public issuers and the increasing relevance of climate change considerations in corporate governance more generally. Taken together, the impact of regulatory responses to climate change has the potential to be significant.

This year the Government introduced its Climate Change Response (Zero Carbon) Amendment Bill (known as the 'Zero Carbon Bill'). The Bill sets a net zero target by 2050 for most greenhouse gases and a separate target for biogenic methane. While it does not prescribe specific policies or strategies to meet its targets, the Bill establishes a framework to allow successive governments to work iteratively towards the targets over a series of five year stepping-stone emissions budget periods. The Guardians contributed to the Productivity Commission reports on transitioning to a zero carbon economy, which fed into the Ministry for the Environment's consultation paper. See page 55 for more information on our climate change valuation framework.

OVERSEAS INVESTMENT ACT REFORMS

The Government is considering further reforms to the Overseas Investment Act (OIA) with the intent of refining foreign investment screening processes. These changes are relevant to the Guardians as we may need to comply with the OIA if we divest an existing New Zealand investment or partner with a foreign investor to acquire a new one. We have engaged in the review process and provided feedback in the formal consultation outlining our key issues and observations in respect of foreign investment processes.

TAXATION WORKING GROUP SUBMISSIONS

Nationally significant infrastructure project regime

As part of our submission to the Taxation Working Group, we noted New Zealand requires significant new infrastructure to meet its needs and as such will require significant new sources of international capital and funding, construction skills and other operational resources to deliver it.

Our experience working with international institutional investors is that they are very interested in infrastructure assets as they look to match their long-term liabilities. These investors have choices about where they invest and value certainty of the regulatory and tax environment, particularly as these tend to be very long duration assets. Other countries have been active in looking to provide that environment to attract long-term investors, and New Zealand needs to make sure it is at least as attractive as those countries to attract the investment in infrastructure that we need.

Other jurisdictions, most notably Australia given its proximity to New Zealand and therefore competition for capital and resources, have dedicated tax regimes to support and incentivise nationally significant infrastructure projects. These jurisdictions provide long-term certainty for investors and tax settings to encourage investors, and ensure that the tax environment does not act as a barrier to investment. As the investor for such projects is really choosing between jurisdictions for its investment, this suggests that the tax settings may need to be adjusted to ensure that expectations as to both the certainty of and the required return on investment are met.

We are focused on investing in local projects alongside international partners to help support our country's infrastructural development. We have welcomed news that the Government will consider the tax treatment of infrastructure as part of its Taxation Work Programme and look forward to developing a system that creates win-wins for everyone.

In mid-2019, we appeared before the Finance and Expenditure Committee to speak to our submission on the New Zealand Infrastructure Commission/Te Waihanga Bill. We support the purpose and intent of the Bill and the establishment of a Commission as a means of addressing New Zealand's infrastructure deficit.

New Zealand Superannuation Fund - Tax Exemption

We also submitted on the taxation treatment of the NZ Super Fund. The arrangements for the Fund are unusual when compared with sovereign wealth fund peers as most other entities are not subject to tax, while domestic investment funds (ACC, the Green Investment Fund and the Earthquake Commission's Natural Disaster Fund) are exempt from paying tax.

This arrangement affects our tax status in several foreign jurisdictions and saw us pay NZD16.5 million in tax to other countries in 2018/19. This is because some jurisdictions will levy tax rather than grant an exemption because we are required to pay tax in New Zealand (where New Zealand will give a tax credit for any foreign withholding tax paid), as this is considered a free carry. Further foreign tax exemptions in Belgium, Poland and the Philippines should become available if the Fund was tax exempt at home (approximately NZD0.64 million).

The current arrangement also has dead-weight costs associated with managing taxation arrangements at home and requires divestment decisions to cover taxation requirements. The Government's Taxation Work Programme is also examining the framework for exemptions and offers the opportunity to examine this issue.

STATE SECTOR AND CROWN ENTITY REFORM ACT 2018

In October 2018 the State Sector and Crown Entities Reform Act came into force. The Act amends the Crown Entities Act 2004 and the State Sector Act 1998 and seeks to provide for greater integrity and accountability in the management of the state services. Under the Act, the Board of a Crown entity now needs to obtain the State Services Commissioner's written consent before finalising the terms and conditions of the employment of its Chief Executive, or amending the terms and conditions once they have been finalised. The Act also introduces a five year employment term for all Crown entity Chief Executives. The Guardians' submission on the Bill is available to read at www.nzuperfund.nz/publications/submissions.

INITIAL MARGIN REQUIREMENTS

In response to the Global Financial Crisis of 2008, G20 countries introduced new regulations to make financial institutions more resilient, mitigate the 'too big to fail' problem, promote transparency and reduce risks in the non-centrally cleared over-the-counter (OTC) derivatives markets. One reform introduced requires the posting of variation margin and initial margin on most OTC derivative transactions. In order to continue trading OTC derivatives with our counterparties we need to ensure that our documentation and collateral processes comply with the new regulations.

The new regulations for variation margin came into effect in 2017, and from 1 September 2020 we will be required to post initial margin on all non-cleared OTC derivative transactions with our European counterparties, where we have an IM exposure amount in excess of EUR50 million.

SUBMISSIONS

During the year we made the following submissions:

- Submission to the Finance and Expenditure Committee on the New Zealand Infrastructure Commission / Te Waihanga Bill
- Submission to the Finance and Expenditure Committee on Taxation (Annual Rates for 2019 – 2020, GST Offshore Supplier Registration and Remedial Matters) Bill
- Joint Submission to the OECD on their public consultation document: Addressing the tax challenges of the digitalisation of the economy
- Submission to the Productivity Commission on Local Government funding and financing
- Submission to the Treasury on the Overseas Investment Act 2005
- Submission to the Finance and Expenditure Committee on the Agreement between the Government of New Zealand and the Government of the People's Republic of China for the Elimination of Double Taxation
- Submission to the Treasury consultation document re A New Infrastructure Body
- Submission to the State Services Commission on State Services Reform
- Submission to the Ministry of Business, Innovation & Employment on Directors' residential addresses
- Submission to the Australian Treasury re Stapled Structures – Integrity Package (second stage).

Copies of the Guardians' submissions can be viewed at https://nzsuperfund.nz/publications/submissions.

We are committed to understanding and managing the environmental impact of our activities.

Today, significant activity is underway around the world, with organisations in both the private and public sectors seeking to reduce or eliminate their carbon emissions. Our own Government's aspiration is for New Zealand to be carbon neutral by 2050.

As a responsible investor, we strive to integrate environmental concerns into our wider activities as an investment manager and hold ourselves accountable to the same guidelines. The biggest potential impact we can make is in our investment portfolio through our engagement with the organisations we invest in. See the Responsible Investment Report that begins on page 56 for more information.

Our environmental performance falls under the remit of the Health, Safety, Security and Environment (HSSE) Committee. The Committee aims to improve staff awareness about the environmental impact of our activities and sets achievable targets for minimising this impact.

The measures detailed below are the greenhouse gas emissions for the corporate operations of the Guardians. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 and are in the final stages of verification by Enviro-Mark Solutions.

			2018/19		2017/18		2016/17
ENERGY SOURCE	**MEASURE**	**QUANTITY**	**CO^2**	**QUANTITY**	**CO^2**	**QUANTITY**	**CO^2**
Electricity	Kwh	144,414	14.11t	155,772	18.61t	141,121	16.86t
International air travel (long haul)*	Km	3,628,306	1,703.35t	4,411,359	1,886.96t	3,947,104	1,705.10t
International air travel (short haul)*	Km	887,581	161.66t	1,017,052	185.68t	950,715	176.88t
Domestic air travel*	Km	264,621	79.37t	271,477	72.6t	223,342	60.99t
Mileage (medium car) 1.6 – 2.0L	Km	4,673	1.16t	6,872	1.44t	7,102	1.48t
Taxi – cost	$	100,835.61	7.53t	103,832.41	6.91t	87,413	5.81t
Waste to landfill	Kg	4,732.92	1.15t	2,392	2.71t	2,339	2.63t
TOTAL			**1,968.33t**		**2,174.91t**		**1,969.75t**

* Air travel figures for 2017/18 have been revised to correct an error that saw kilometres from some cancelled or changed flights counted towards our carbon emissions.

In May 2018, as recommended by the HSSE, we introduced a new natural environment statement and accompanying schedule into our Human Resources Policy. The statement outlines our commitment to understanding and managing the environmental impact of our activities in an effort to safeguard our natural environment. As all staff must complete regular policy attestations, the addition of the statement both further engrains our commitment to the environment into our operations and keeps our environmental impact at the forefront of our team's minds.

Since then, the HSSE has been working to put together an active emissions management programme that includes a reduction plan as well as a full offset of our carbon emissions. Carbon offsetting works by acquiring carbon credits which are generated from specific carbon reduction activities that are certified under specified standards. These credits are used to offset an organisation's emissions to the degree that those emissions would otherwise enter the atmosphere. The bulk of our emissions (as set out in the table above) derive from international long-haul air travel. As a global investor, we are limited in the extent to which we can actively reduce air travel activity.

We are currently in the final stages of offsetting our emissions and await carboNZero certification.

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305 - 2
305 - 3
306 - 2

Our community relations strategy is focused on supporting and participating in initiatives that are linked to our role as a long-term, inter-generational investor. We look for opportunities where our expertise and relationships will be useful to the wider investment community. As well as our involvement in the Sustainable Finance Forum (see page 63), we are supporting the following initiatives.

THE PACIFIC ISLANDS INVESTMENT FORUM

The Pacific Islands Investment Forum (PIIF), established in May 2018 as the successor to the Pacific Provident Funds and Social Security Forum, was set up with a vision of promoting economic prosperity in the Pacific through financial stability. The PIIF seeks to encourage and model the use of international investment best practice to support the free flow of capital in the region. In addition, its member funds look to share knowledge and to support each other's investment education needs, as well as investment and co-investment activity.

The 18 founding members of the PIIF are, in alphabetical order: Cook Islands National Superannuation Fund, Fiji National Provident Fund, Kiribati National Provident Fund, Nauru Sovereign Wealth Fund, New Zealand Super Fund, Ngati Awa Group Holdings, Papua New Guinea - Nambawan Super, Papua New Guinea - NASFUND, Samoa National Provident Fund, Solomon Islands National Provident Fund, Tokelau Trust Fund, Tonga National Retirement Benefits Fund, Tonga Retirement Fund Board, Tuvalu National Provident Fund, Tuvalu Trust Fund, Unit Trust of Fiji, Unit Trust of Samoa, and Vanuatu National Provident Fund. Together the funds manage circa USD50 billion.

PIIF's current priorities include formally establishing the Forum Secretariat, coordinating education seminars, fostering opportunities for co-investment and working with members and Pacific Islands governments to facilitate regulatory pathways to better enable co-investment. Our delegates are supporting PIIF through engaging with government and inter-governmental organisations (e.g. World Bank / International Finance Corporation and the the Asian Development Bank) providing expert insights (e.g. responsible investment), and attending PIIF training and related events (e.g. PIIF CEO Forum). The Ministry of Foreign Affairs and Trade (MFAT) has recently entered into an agreement with PIIF to support further PIIF establishment and priorities. We are an active member of the Forum and seek to share our expertise and knowledge with other members. We see our membership and other activities to support investment capability in the Pacific as consistent with New Zealand's focus on fostering its Pacific relationships and strengthening capacity in the region.

CAPITAL MARKETS 2029

Over the year, our CEO Matt Whineray was appointed to the steering committee of the Capital Markets 2029 Initiative. The purpose of the initiative, organised by the Financial Markets Authority (FMA) and the New Zealand Stock Exchange (NZX), is to build greater opportunity and wealth for New Zealanders through a more vibrant and inclusive capital market. The industry-led review will consider the current framework and broader capital market ecosystem, and outline areas of opportunity for New Zealand's capital markets to support the New Zealand economy and aid in the delivery of government policy where alignment exists. A report, released in September 2019, set out 42 recommendations to this end. The initiative's growth agenda is structured over a 10-year period. Alongside Matt Whineray, appointees on the steering committee comprise leading representatives of the investment, broking, legal and other associated industries.

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA

We have a longstanding relationship with the Responsible Investment Association Australasia (RIAA). RIAA has been instrumental in advocating for, and raising the credibility of, responsible investment practice in New Zealand and Australia. Since 2013/14, we have sponsored the RIAA Benchmark Report and the RIAA Annual New Zealand Responsible Investment Conference.

- The Benchmark Report is a cornerstone piece of research for responsible investment across Australasia. Since 2001 it has chartered the growth and maturity of responsible investment, while helping to grow the industry through highlighting the mainstream acceptance of responsible investing and providing evidence that responsible funds perform strongly against their peers.
- The conference, held this year in September, provides industry participants (from institutional investors to banks, fund managers, asset consultants and financial advisors) with topical information and tools to help gain a deeper understanding of responsible investment issues.

SPONSORSHIPS

We undertake a limited number of sponsorships in New Zealand to support activities or events that are consistent with our role and responsibilities in managing the Fund. In 2018/19, we sponsored the Plain English Awards – Best Annual Report; RIAA's Responsible Investment Benchmark Report; RIAA's New Zealand Responsible Investment Briefing; and AUT Best Paper Award, Finance Symposium. Total sponsorship spend in 2018/19 was NZD14,000 (2017/18 was NZD66,199).

Delegates gather at the fifth annual Pacific Investment Strategy Forum, held in Sydney.

Senior Advisor Tama Potaka presents at the i3 Pacific Investment Strategy Forum 2019.

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Statement of Performance

Te Pūrongo Whakahaere Pūtea

05

This Statement of Performance measures the Guardians' progress against objectives and measurements set out in the Guardians' 2014 – 2019 and 2016 – 2021 and 2019 - 2024 Statements of Intent and the 2019 – 2020 Statement of Performance Expectations.

As explained in our Statement of Intent, the single output of the Guardians is managing the Fund. That output comprises five work streams covering:

- investment;
- risk management;
- cost control;
- governance; and
- organisational capability.

For each work stream, we have set performance measures which, collectively, are performance measures for our output.

Note: Crown funding comes from capital contributions to the Fund made by the Government, as well as an appropriation to meet Board costs and audit fees (expenditure during 2018/19 of NZD584,000 compared with a budget of NZD728,000 in 2018/19). All other costs (e.g. manager fees, staff salaries, research costs) are met by the Fund, and it is these costs that are the subject of our cost control work programme.

OUTCOME MEASURES

The Fund's ultimate outcome is to help reduce the tax burden of future New Zealand taxpayers arising from the cost of New Zealand Superannuation.

This long-term outcome will begin to be achieved only when the Government starts withdrawals from the Fund. Our legislation prescribes the level of annual capital contributions to the Fund required from the Government and only permits capital withdrawals once all the required contributions have been made and, in any event, only after 30 June 2020. Treasury is currently forecasting that withdrawals will begin in 2035/36.

MEASURE	EXPECTED OUTCOME – 1 YEAR	ACTUAL OUTCOME – 1 YEAR	EXPECTED OUTCOME – 10 YEARS	ACTUAL OUTCOME – 10 YEARS
Reference Portfolio returns relative to Treasury Bills (per annum)	+2.7%*	+4.7%	+2.7% p.a.*	+9.0% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.0%	+0.7%	+1.0% p.a.	+2.6% p.a.
MEASURE	**POTENTIAL RP LOSS - 1 YEAR**	**ACTUAL RP RETURN - 1 YEAR**	**POTENTIAL RP LOSS - 10 YEARS**	**ACTUAL RP RETURN - 10 YEARS**
In a 1-in-100 year event, potential Reference Portfolio loss is equal to or worse than:**	-25.2%	+6.36%	- 1.9% p.a.	+11.42% p.a.

* In 2014/15, the Guardians conducted a review of the Fund's Reference Portfolio, resulting in the Reference Portfolio benchmark being increased from +2.5% to +2.7%. The new benchmark came into effect in July 2015. Further information on the Reference Portfolio and Treasury Bill measures are available on our website at www.nzsuperfund.nz/how-we-invest/reference-portfolio.

** The expected worst-case downside return is a portfolio volatility measure. It shows the amount of value the Reference Portfolio could lose in a 1-in-100 year event. Or, to put it another way, there is a 1% chance of the Reference Portfolio losing this amount of value, as at 30 June 2019 approximately NZD10.8 billion, or more, within a year. If losses of this magnitude were to happen more often than is expected, then either a rarer-than expected event has occurred or we have taken more risk than we assumed we had. For a fuller description of this measure, please refer to page10 of our 2019–2024 Statement of Intent, which is available on www.nzsuperfund.nz.

OUTPUT MEASURES 2018/19

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
Investment	Reference Portfolio returns above Treasury Bills (per annum) over any 20-year moving average period	2.7% p.a.	Achieved. Refer to table above.	Page 39 and www.nzsuperfund.nz.
Investment	Actual Fund returns above Reference Portfolio (per annum, net of costs)	1.0% p.a.	Achieved. Refer to table above.	Page 39 and www.nzsuperfund.nz.
Cost Control	Costs relative to peers in CEM survey	Achieve a rating of 'median cost, value adding' or better.	Cost (1 year) –Achieved Cost (5 year) – Achieved	An executive summary of the survey results is available at

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
			Value-Add (1 year) – Achieved Value-Add (5 year) – Achieved.	**www.nzsuperfund.nz/performance/cost.**
Risk Management	In a 1-in-100 year event, potential Reference Portfolio loss	≤-25.2% p.a.	Refer to table on page 110.	See page 10 in our 2019–2024 Statement of Intent.
Risk Management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index; top quartile or higher ratings in other surveys.	Achieved 10/10 in the SWFI's Transparency Index. No other surveys noted.	Refer to **www.nzsuperfund.nz/transparency-reporting** and **www.swfinstitute.org** for more information.
Risk Management	Annual updating of response to Santiago Principles	A self-assessment of the adherence to the Santiago Principles is completed and assured by an independent third party.	Completed. Our responses to the Santiago Principles were also assured by EY.	See **www.nzsuperfund.nz/performance/best-practice** and the website of the International Forum of Sovereign Wealth Funds at **www.ifswf.org**.
Risk Management	UNPRI Assessment over time	A or A+ rating for Strategy and Governance.	Achieved an A+ rating for Strategy and Governance in the 2018/19 UNPRI assessment.	See page 58; **www.unpri.org** and **www.nzsuperfund.co.nz** for more information.
Risk Management	Published records of voting, Responsible Investment in Practice report	Voting reports are completed and published on an ongoing basis.	Voting data published online via our voting reporting platform.	See https://nzsuperfund.nz/performance-esg-management/voting-reporting-platform and the Responsible Investment Report at page 62.
Governance	Outcome of independent reviews	Ongoing good reviews with the review and our response published. There were no material concerns of the effective and efficient performance of the Guardians' functions.	Independent review completed by Willis Towers Watson in 2018/19. Response published on our website at https://nzsuperfund.nz/publications/papers-reports-reviews.	Refer page 75 and online at https://nzsuperfund.nz/publications/papers-reports-reviews.
Organisational capability	Result of organisational culture survey	Achieve the constructive benchmark in at least 2 of the 4 constructive styles in the biennial Human Synergistics OEI/OCI surveys.*	N/A for 2018/19. The last culture survey was completed in April 2017, with the next due to be undertaken in March to June 2020.	N/A

* Or equivalent ratings in equivalent surveys, bearing in mind that over 10 or 20 year periods our preferred survey methodology may change.

KEY 2018/19 STRATEGIC PLAN ACTIVITIES

In this section, we report on the Guardians' progress against the three activities that were highlighted in our 2018–2019 Statement of Performance Expectations and which were key to our Strategic Plan for the 2018/19 year.

INNOVATION AND DISRUPTION

ACHIEVED: Execution phase - 100%, Implementation phase - 20%

WORK PROGRAMME: Investment, Organisational Capability

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation, External Relationships, Great Team

This project involved strengthening our internal capabilities to source, execute and manage opportunities and threats from innovation and disruption. The activity was divided into two phases: execution and implementation. The execution phase was a design phase to establish a workable framework. The implementation phase is to involve securing the right people, processes and technology to achieve the design. Actions to complete the implementation phase continue to be monitored by the Leadership Team. See pages 52 and 102 for more detail.

LONG-TERM TARGET STATE

ACHIEVED: 100%

WORK PROGRAMME: Investment, Risk Management, Governance, Organisational Capability

STRATEGIC PLAN OBJECTIVE: Best Portfolio, External Relationships, Great Team, Efficiency and Innovation

This project involved preparing for the growth of the Fund, given the restart in contributions and assumption that the Fund achieves expected long-term returns. Using a NZD70 billion Assets Under Management (AUM) scenario, we considered the impact of scale, the growth in investment opportunities required to maintain our budgeted levels of risk, market and manager capacity, the relative pace of growth of these opportunities vis-a-vis growth in the size of the Fund and the scalability of our access points. See page 72 for more detail.

CLOUD IT

ACHIEVED: 100%

WORK PROGRAMME: Investment, Cost Control

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation

This project involved migrating our IT infrastructure to the cloud and leveraging cloud capabilities for business value-add. We completed full migration in October 2018. We have commenced a work programme aimed at enabling us to take advantage of a number of business benefits. See page 102 for more detail.

This table sets out a complete list of the Fund's asset and investment managers and custodians during the financial year.

It includes both those managers appointed by us and those who manage funds in which the Fund is invested. It identifies where new managers or custodians have been appointed or terminated over the last 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

We disclose the value of the assets each manager manages on behalf of the Fund, as at 30 June 2019. We also disclose the value of each investment as a percentage of the total Fund. Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

Managers appointed since 1 July 2018	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Neuberger Berman	2018	Neuberger Berman Principal Strategies Merger Fund (NZSF), LP - merger arbitrage	Listed	335	0.8%
CIM	2019	North American Data Centre Portfolio Co-Investor, LLC – US & Canadian real estate	Unlisted	77	0.2%

Mandates closed since 1 July 2018	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Ramius Advisors, LLC	2016	Ramius Merger Fund LLC – merger arbitrage mandate	Listed		
Sveafastigheter	2011	Sveafastigheter Fund III - real estate assets primarily in Sweden and Finland	Unlisted		
Apollo Global Management LLC	2012	Financial Credit Investment – US life settlements	Unlisted		
Hancock Natural Resource Group	2005	Red River Timberlands Company - Timber assets in the United States	Unlisted		

Incumbent managers as at 30 June 2019	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-U.S. Fund – buyout, funds of funds	Unlisted	7	0.0%
Apollo Global Management LLC	2014	Financial Credit Investment II – US life settlements	Unlisted	188	0.4%
	2017	Financial Credit Investment III – US life settlements	Unlisted	202	0.5%
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	33	0.1%
	2018	Segregated mandate – multi-factor equities	Listed	1,857	4.3%
Ascribe Capital (formerly American Securities)	2010	American Securities Opportunity Fund II – distressed credit	Unlisted	20	0.0%

MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent managers as at 30 June 2019	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Bain Capital (formerly Sankaty Advisors)	2013	Bain Capital Credit Managed Account (NZSF) LP - distressed credit	Unlisted	176	0.4%
BlackRock Investment Management UK	2010	Segregated mandate – passive global fixed income	Listed	3,426	7.9%
	2013	Segregated mandate – passive global equities	Listed	3,789	8.8%
	2016	Global Merger Partners LLC – merger arbitrage	Listed	702	1.6%
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global macro	Listed	616	1.4%
Canyon Capital Advisors	2010	Canyon Distressed Opportunities Fund (Delaware) – distressed credit	Unlisted	1	0.0%
	2016	Canyon NZ DOF Investing L.P. – distressed credit	Unlisted	300	0.7%
CIM	2019	North American Data Centre Portfolio Co-Investor, LLC – US & Canadian real estate	Unlisted	77	0.2%
CITP	2011	China Infrastructure Partners V Fund – Chinese infrastructure and related investments	Unlisted	119	0.3%
Coller Investment Management	2007	Coller International Partners V Fund – global private equity secondaries	Unlisted	0*	0.0%
Devon Funds Management	2011	Segregated mandate - New Zealand active equities	Listed	410	1.0%
Direct Capital	2005	Direct Capital Partners III – New Zealand expansion capital	Unlisted	0**	0.0%
	2009	Direct Capital Partners IV – New Zealand expansion capital	Unlisted	8	0.0%
	2014	George H Limited co-investment	Unlisted	5	0.0%
	2016	Direct Capital Partners Fund V – New Zealand expansion capital	Unlisted	41	0.1%
Elementum Advisers	2010	Segregated mandate - Natural catastrophe reinsurance	Unlisted	94	0.2%
FarmRight	2010	Rural land in New Zealand	Unlisted	418	1.0%
Global Forest Partners	2007	Global Timber Investors 8 - timber assets in Australia, New Zealand and South America	Unlisted	87	0.2%
	2009 & 2012	AIF Properties - Australian Timber	Unlisted	144	0.3%
	2010	Global Timber Investors 9 - timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	34	0.1%
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund - buyout, funds of funds	Unlisted	11	0.0%
H.R.L. Morrison & Co	2006	Global infrastructure mandate, which includes our investment in Retire Australia and Longroad	Listed and Unlisted	766	1.8%
	2009	Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	134	0.3%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asia Fund - Asian private equity	Unlisted	15	0.0%
	2008	KKR 2006 Fund - global private equity	Unlisted	2	0.0%

Incumbent managers as at 30 June 2019	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
	2014	KKR Energy Income and Growth Fund (EIGF) and private equity flexible mandate in North American natural gas exploration and production, midstream, downstream and/or energy infrastructure and services	Unlisted	152	0.3%
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	257	0.6%
LSV Asset Management	2005	Segregated mandate - emerging markets active equities	Listed	483	1.1%
Mint Asset Management	2015	Segregated mandate - New Zealand active equities	Listed	431	1.0%
Movac	2016	Movac Fund 4 – New Zealand expansion capital	Unlisted	39	0.1%
Neuberger Berman	2018	Neuberger Berman Principal Strategies Merger Fund (NZSF), LP - merger arbitrage	Listed	335	0.8%
Northern Trust	2013	Segregated mandate - passive global equities	Listed	5,392	12.5%
	2015	Segregated mandate - passive emerging markets equities	Listed	998	2.3%
	2015	Segregated mandate - passive global fixed income	Listed	0***	0.0%
	2018	Segregated mandate – multi-factor equities	Listed	1,842	4.3%
Palgrove	2017	Rural land in Australia	Unlisted	97	0.2%
Pencarrow Private Equity	2011	Pencarrow IV Investment Fund - New Zealand expansion capital	Unlisted	15	0.0%
Pioneer Capital Partners	2013	Pioneer Capital Partners Fund II - New Zealand expansion capital	Unlisted	40	0.1%
	2016	Pioneer Capital Partners Fund III – New Zealand expansion capital	Unlisted	44	0.1%
State Street Global Advisors	2009	Segregated mandate - passive global equities	Listed	7,943	18.4%
Waterman Capital	2010	Waterman Fund II - New Zealand expansion capital	Unlisted	14	0.0%
Willis Bond & Co	2010	Willis Bond Institutional Partners - private real estate in New Zealand	Unlisted	2	0.0%

* The investment in Coller International Partners V Fund is held at cost, which is less than the net asset value reported by Coller. The cost of the investment is NZD0 because the value of the capital returned by CIP V is greater than the amount that was invested.

** The investment in Direct Capital Partners III is less than NZD1 million as the fund nears the end of its harvesting phase.

*** Northern Trust's passive global fixed income mandate was defunded during the year, but remains open and available for future investment.

MANAGERS AND CUSTODIANS (CONTINUED)

Custodian	Role
CUSTODIANS DURING THE FINANCIAL YEAR	
Northern Trust	Global Master Custodian for the Fund's assets
CUSTODIANS APPOINTED FOR A SPECIFIC PURPOSE DURING THE FINANCIAL YEAR	
Wells Fargo and Bank of New York Mellon	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Deutsche Bank	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Citibank	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
HSBC (Hong Kong and Shanghai Banking Corporation)	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand, the Public Trust and Foundation Corporate Trust	Trustees for holding money relevant to tax pooling arrangements
State Street Bank and Trust Company	Appointed custodian for the Fund's securities lending programme

Investment Mandates managed by the Guardians' in-house team of investment professionals include:

- Active Collateral
- Active NZ Equities
- Cash
- Currency Management
- Direct Arbitrage
- Dividend Derivatives
- Direct Investment
- Emerging Market Opportunities
- Event Driven Opportunity
- Infrastructure Transition Assets
- Life Settlements
- Opportunistic Volatility
- Passive NZ Equities
- Beta Implementation and Completion
- Securities Lending
- Strategic Tilting
- US Transition Assets
- Volatility

Financial Statements
Ngā Pūrongo Tahua

06

Explaining our financial statements

STEWART BROOKS
GENERAL MANAGER FINANCE AND RISK

This Annual Report includes financial statements for both the Fund and for the Guardians, the Crown entity that manages the Fund. All Guardians' costs are paid for out of the Fund, except for a small appropriation, funded by Parliament, for Board fees and expenses.

The financial statements for the Fund are among the largest and most complex for a New Zealand reporting entity. The Fund's financial statements have been prepared under International Financial Reporting Standards (IFRS), while the Guardians' financial statements are prepared under the Public Benefit Entity (PBE) accounting standards.

In this section, we explain the key elements of the Fund's financial statements and discuss the main financial features of the 2018/19 year.

A five-year financial summary can be found at page 119. The financial statements for the Guardians are at page 191 and the financial statements for the Fund at page 125.

Other specific points of interest within the financial statements include:

- Remuneration information at pages 205 - 206 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 96 - 100.
- As mentioned above, the Guardians' costs are either recovered from the Fund or funded by parliament, resulting in a 'zero' net profit/loss for the year by design.

Fund Five-Year Financial Summary

	2015	2016	2017	2018	2019	
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	
Balance Sheet						
Cash and cash equivalents	1,355,384	2,135,442	2,167,742	1,356,550	2,709,203	
Investments	27,998,775	27,973,626	34,403,663	37,943,023	40,242,349	Increased investments reflects the Fund's investment performance (refer to pages 38-55)
Other assets	791,447	310,302	1,184,490	610,120	355,835	Lower levels of rebalancing activity have resulted in lower pending sales and purchases
Other liabilities	(603,685)	(314,880)	(2,382,831)	(540,809)	(654,998)	
Net Assets excluding tax	**29,541,921**	**30,104,490**	**35,373,064**	**39,368,884**	**42,652,389**	
Current tax	278,223	(247,016)	(504,696)	128,151	(302,009)	
Deferred tax	(278,887)	(305,613)	(364,722	(475,301)	(34,286)	
Net Assets including tax	**29,541,257**	**29,551,861**	**34,503,646**	**39,021,734**	**42,316,094**	
Contributed capital	14,882,079	14,882,079	14,882,079	15,382,079	16,382,079	Crown contributions to the Fund - suspended in 2009 and restarted in 2017
Other reserves	14,659,178	14,669,782	19,621,567	23,639,655	25,934,015	Predominantly cumulative net profit after New Zealand tax.
	29,541,257	**29,551,861**	**34,503,646**	**39,021,734**	**42,316,094**	
Income statement						
Investment income	723,842	708,140	756,432	828,623	982,887	Interest and dividend income, both of which vary in line with the amount invested and market returns
Investment gains and losses	3,219,531	(50,102)	5,566,624	3,659,785	1,944,667	Changes in the value of our investments – fluctuates in line with market movements.
Net Operating Income	**3,943,373**	**658,038**	**6,323,056**	**4,488,408**	**2,927,554**	
Expenses	(115,045)	(98,959)	(121,333)	(106,204)	(109,468)	Our biggest expense is external manager and performance fees. These costs vary from year to year in line with investment returns
Profit before tax	**3,828,328**	**559,079**	**6,201,723**	**4,382,204**	**2,818,086**	
Tax (expense) / credit	(122,652)	(537,798)	(1,255,031)	(350,787)	(525,166)	The Fund makes returns to the Crown in the form of tax payments. See page 123 for further discussion
Profit after tax	**3,705,676**	**21,281**	**4,946,692**	**4,031,417**	**2,292,920**	

Understanding the Fund's Financial Statements

BALANCE SHEET

The Fund's balance sheet (or statement of financial position) is presented as the very first section in the Fund's financial statements and shows how much the Fund is worth at a particular date. The balance sheet is a key measure for the Fund – whilst the year-on-year performance is important, central to our mission is how much we grow the size of the Fund over the longer term.

The key components of the balance sheet are:

1. Cash and cash equivalents – this includes cash used for collateral against derivative exposures and operating cash used for the day-to-day activities of the Fund;
2. Investments – this includes our holdings of equities, bonds and other financial instruments held by the Fund;
3. Other assets and liabilities – predominantly amounts due/owed for the settlement of recent transactions; and
4. Tax – New Zealand tax amounts owed by the Fund.

As at 30 June 2019 the Fund's balance sheet totalled NZD42.3 billion (in contrast to the Fund's balance sheet total presented earlier in this report, this figure is shown after tax). It is made up of NZD16.4 billion contributed by the Crown with a further NZD25.9 billion added (after tax) by the Guardians from investing those contributions. In addition, the Fund has also paid NZD6.5 billion to the Crown via tax payments since investing began.

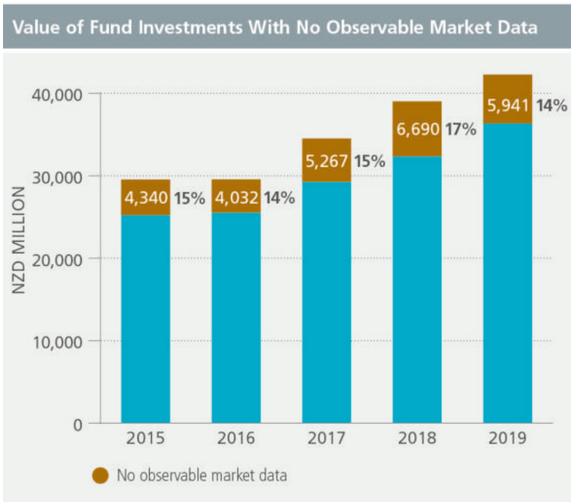
Fair value of assets and liabilities

The vast majority of the assets of the Fund are measured at 'fair value'. The fair value of an asset is essentially the value that someone would be happy to pay and we would be happy to accept.

Assets for which observable market data is available (e.g. listed equities quoted on a stock exchange) are relatively simple to value. For assets where no observable market data is available (e.g. private companies), valuation can be significantly more complex and often subjective, requiring judgement by management.

Inputs into the valuation of the latter may include: independent valuations, recent transactions, recovery value, and current market trends.

The Fund's investment in assets of this type has decreased from the prior to the current year.



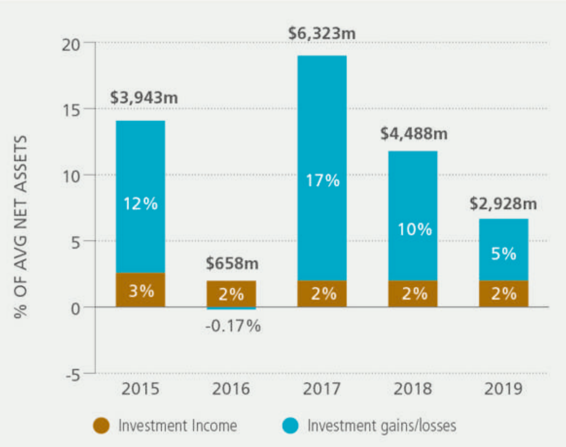
Further information on the techniques for valuing assets and the fair value 'hierarchy' have been outlined on page 140 (Note 2(a)) of the Fund's financial statements.

INCOME STATEMENT

Net operating income is the annual income generated by the Fund before expenses have been deducted. There are two key components to net operating income:

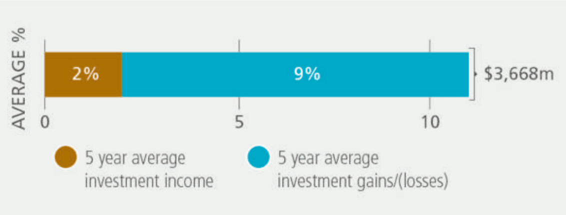
1. Investment income – primarily the income from interest and dividends; and
2. Investment gains and losses – changes in the value of the Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in other currencies. This balance is highly variable, driven largely by the performance of global equity markets.

Investment Income and Gain/Losses as a % of Average Net Assets



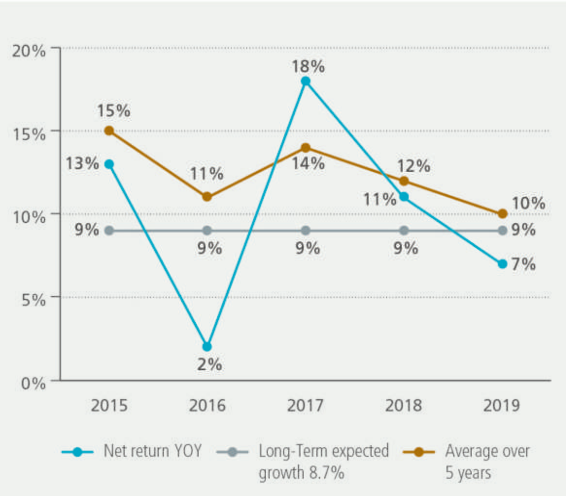
In 2019, the Fund's net operating income was NZD2.9 billion. Investment income (interest and dividends) remained broadly in line with prior years. Market-to-market gains on the value of the Fund's investments reduced from the previous year due to market movements in the 2018/19 year. See the Investment Report on pages 38 - 55 for more information.

Average 5 Year Net Investment Income % over Average Net Assets



Average five-year investment gain has been above the long-term expected growth.

% Investment Return after Costs vs Long-Term Expected Growth



EXPENSES

MANAGEMENT FEES

$31.3m

WHAT DO THEY PAY FOR?

Payments to external fund managers to pay for operating costs they incur in managing the fund.

WHY DO WE INCUR THE COST?

External managers help drive investment performance, net of all costs, by providing specific expertise and economies of scale which we could not otherwise replicate efficiently and effectively in-house.

PERFORMANCE FEES

$0.6m

WHAT DO THEY PAY FOR?

High performance and alignment of interests between NZSF and the external fund managers.

WHY DO WE INCUR THE COST?

A form of profit sharing when returns exceed a predefined percentage hurdle.

OTHER COSTS

$40m

WHAT DO THEY PAY FOR?

Legal, financial and tax advisors, consultants and trading commissions.

WHY DO WE INCUR THE COST?

Pursuing complex, large investment opportunities in public and private markets requires us to conduct due diligence as well as undertake compliance work required to comply with international regulatory and tax regimes.

PERSONNEL COST

$37.6m

WHAT DO THEY PAY FOR?

Salaries, director fees, travel costs, training and professional development.

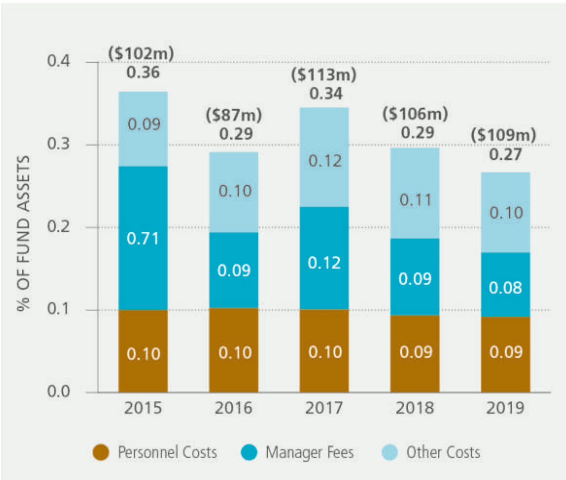
WHY DO WE INCUR THE COST?

To prudently manage the Fund, we employ top-tier talent and often have to travel to key markets to access the best investment opportunities.

The net expected return of an investment (return after taking account of all expenses) is central to all our investment decisions. We therefore seek to:

- ensure that any fees paid to external managers are in line with market standards and the complexity of the investment;
- include the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted value;
- choose cost-effective access points for all investment opportunities; and
- benchmark our costs against those of our peers through the annual CEM Cost-Effectiveness survey (as noted on page 110).

Cost of Managing the Fund as a % of Net Assets



Average Cost over 5 Years of Managing the Fund as a % of Net Assets

In 2019 the cost of managing the Fund's investments was NZD 109.5 million. As a percentage of net assets, total costs were 0.27%. The key components were:

- External Manager Fees of NZD31.3 million. These fees can vary considerably year-on-year due to performance fees, which are only earned by a small number of external managers if they outperform specified benchmarks. This year, base manager fees remained flat (0.08%) while performance fees decreased to 0.001%;
- Guardians personnel costs of NZD37.6 million, which remained steady as a proportion of net assets; and
- Other costs of NZD40.0 million including (in order of significance) trading fees paid on investment activity, custodian fees, IT costs and other professional fees paid to external parties.

In terms of reporting costs in our financial statements, the legal structure through which we invest and the way in which we incur costs can have a significant impact. Where the Fund incurs costs directly e.g. external manager fees billed directly, these are separately reported as part of the Fund's expenses. Indirect costs that are incurred by investment vehicles in which the Fund holds an interest, e.g. manager fees incurred within managed fund structures, or operating costs of farming, horticulture and timber are however netted off against returns within 'Investment gains and losses'.

Indirect investment management costs, specifically manager and performance fees, for 2019 were NZD29.0 million and NZD21.0 million respectively.

This additional cost disclosure is based on unaudited information and derived using a variety of methodologies – such as reporting provided by investment managers, additional enquiries of managers, and our calculations as at the end of the financial year.

In providing this additional information, we seek to provide a full and complete indication of investment management and performance fee costs.

It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

The impact of costs on the Fund's performance remains a key consideration when assessing new and existing mandates and the allocation of funds.

Income Tax

The Fund pays income tax in New Zealand to the Government and is also subject to foreign tax depending on the source of its offshore income. Since inception, the Fund has paid NZD6.5 billion in tax to the New Zealand Government. Tax paid is considered as a return to the Crown in calculating the Fund's performance.

The Fund is one of the largest taxpayers in New Zealand, and its income tax expenses can be highly volatile. This is largely driven by the New Zealand tax rules for physical equity investments. Generally only dividends in relation to physical equity investments are subject to tax. Gains on these investments are not subject to any further tax, and any losses are not tax deductible. New Zealand tax on foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' regime. A 'deemed dividend' of 5% per annum of the market value of the foreign equity investment is taxable while actual dividends received are not subject to tax.

Tax is paid on actual dividends received from New Zealand and most listed Australian equity investments.

Income or losses arising from the Fund's other investments, e.g. equity derivatives, bonds, and cash deposits; are generally subject to 28% New Zealand tax.

The graph below illustrates the tax volatility the Fund has experienced over the past five years.

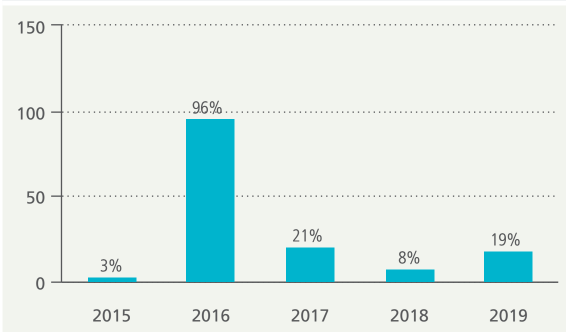
Tax Rate Volatility in a Nutshell

The Fund's tax rate is very volatile. Our tax affairs are complex, and there are many contributors to this volatility, but the main driver is how our physical global equities are taxed under New Zealand's deemed dividend tax regime. This regime taxes these assets at the rate of 5% of market value, rather than being taxed based on actual market movements.

In simple terms, this means that in any given year if our return on global equities exceeds 5%, then our effective tax rate will be lower than 28%, and if our returns are less than 5%, then our effective tax rate will be higher than 28%. The 2016 and 2018 financial years illustrate both of these outcomes.

In 2018/19, the Fund had an effective tax rate of 19% compared with 8% in 2017/18.

Fund Tax Expense as a Percentage of Net Income (Effective Tax Rate)



NEW ZEALAND

INCOME TAX PAID NZD55 million during 2018/19 year. This included payments of NZD155 million relating to FY19 and refunds of NZD100 million relating to FY18.

An additional NZD340 million owing for FY19 was paid in July 2019 (at the third provisional tax due date of 28 July 2019).

OFFSHORE

WITHHOLDING TAXES NZD16.5m (excludes underlying taxes paid by the Fund's investments).

TAX GOVERNANCE

The Fund's co-operative compliance agreement ("CCA") with the New Zealand Inland Revenue Department was extended during the period until a new CCA is finalised. The new CCA is currently in the process of being signed by both parties.

During the current year the Tax Working Group accepted two submissions made by the Fund in the prior year and recommended the Government implement both. The Government has referred it to the tax officials to consider these as part of the tax policy working programme.

Both submissions, the first regarding the tax regimes applicable to the Fund and the second regarding nationally significant infrastructure, are available on our website at www.nzsuperfund.nz/publications/submissions.

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2019

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the New Zealand Superannuation Fund.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2019 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

CATHERINE SAVAGE

CHAIR
26 September 2019

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
26 September 2019

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019	NOTE	FUND ACTUAL	FUND ACTUAL	BUDGET (UNAUDITED)
		2019	2018	2019
		NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	2(a), 4(a), 4(b)	2,357,277	1,238,880	2,102,328
Cash pledged as collateral	2(a), 4(a), 4(c)	516,122	1,062,296	365,984
Trade and other receivables	2(a), 4(a), 4(d)	335,962	591,526	1,300,870
Investments				
Investments - derivative financial instrument assets	2(a), 4(a), 4(e)	858,857	405,834	-
Investments - other financial assets	2(a), 4(a), 4(e)	35,855,754	36,484,802	39,090,755
Investments in unconsolidated subsidiaries	2(a), 4(a), 4(e)	4,040,894	2,506,891	2,085,368
		40,755,505	39,397,527	41,176,123
Income tax receivable	2(a)	-	128,151	-
Property, plant and equipment	2(a), 5(a)	1,859	1,895	1,823
Intangible assets	2(a)	18,014	16,699	16,808
Total assets		**43,984,739**	**42,436,974**	**44,963,936**
LIABILITIES				
Cash collateral received	2(a), 4(a), 4(c)	164,196	944,626	1,362,276
Trade and other payables	2(a), 4(a), 4(g)	654,998	540,809	528,220
Investments - derivative financial instrument liabilities	2(a), 4(a), 4(e)	513,156	1,454,504	-
Income tax payable	2(a)	302,009	-	161,311
Provision for performance-based fees	2(a), 5(b)	-	-	20,310
Deferred tax liability	2(a), 7(e)	34,286	475,301	432,455
Total liabilities		**1,668,645**	**3,415,240**	**2,504,572**
Net assets		**42,316,094**	**39,021,734**	**42,459,364**
PUBLIC EQUITY				
Retained surplus		25,921,831	23,628,911	26,068,856
Available-for-sale reserve	6(b)	-	-	-
Asset revaluation reserve	6(b)	12,184	10,744	8,429
Contributed capital	6(a)	16,382,079	15,382,079	16,382,079
Total public equity		**42,316,094**	**39,021,734**	**42,459,364**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019	NOTE	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000	BUDGET (UNAUDITED) 2019 NZD'000
Net operating income	7(a)	2,927,554	4,488,408	3,562,832
Operating expenditure	7(c)	109,468	106,204	153,861
Profit for the year before income tax expense		**2,818,086**	**4,382,204**	**3,408,971**
Income tax expense	7(e)	525,166	350,787	819,031
Profit for the year after income tax expense		**2,292,920**	**4,031,417**	**2,589,940**
Other comprehensive income - reclassifiable to profit or loss in subsequent periods				
Net fair value gains/(losses) on available-for-sale financial assets		-	(16,285)	-
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		1,440	2,956	-
Tax expense on items of other comprehensive income	7(e)	-	-	-
Other comprehensive income for the year, net of tax		**1,440**	**(13,329)**	**-**
Total comprehensive income for the year		**2,294,360**	**4,018,088**	**2,589,940**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2019		FUND ACTUAL				
	NOTE	ASSET REVALUATION RESERVE NZD'000	AVAILABLE-FOR-SALE RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 1 July 2017		**7,788**	**16,285**	**14,882,079**	**19,597,494**	**34,503,646**
Profit for the year					4,031,417	4,031,417
Other comprehensive income		2,956	(16,285)			(13,329)
Tax expense on items of other comprehensive income		-	-			-
Total comprehensive income for the year		2,956	(16,285)	-	4,031,417	4,018,088
Fund capital contributions from the Crown	6(a)			500,000		500,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			13,699,000		13,699,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(13,699,000)		(13,699,000)
Balance at 30 June 2018		**10,744**	**-**	**15,382,079**	**23,628,911**	**39,021,734**
Profit for the year					2,292,920	2,292,920
Other comprehensive income		1,440	-			1,440
Tax expense on items of other comprehensive income		-	-			-
Total comprehensive income for the year		1,440	-	-	2,292,920	2,294,360
Fund capital contributions from the Crown	6(a)			1,000,000		1,000,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			14,562,000		14,562,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(14,562,000)		(14,562,000)
Balance at 30 June 2019		**12,184**	**-**	**16,382,079**	**25,921,831**	**42,316,094**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019	NOTE	FUND ACTUAL	FUND ACTUAL	BUDGET (UNAUDITED)
		2019	2018	2019
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		15,551,493	14,101,294	29,353,852
Cash collateral received		10,334,140	9,660,284	-
Dividends received		676,622	544,955	560,594
Interest received		314,378	274,779	279,896
Total cash inflow from operating activities		**26,876,633**	**24,581,312**	**30,194,342**
Cash was applied to:				
Purchases of investments		(16,102,770)	(15,399,254)	(28,996,757)
Cash collateral paid		(10,542,760)	(10,355,049)	-
Managers' fees		(45,785)	(39,798)	(39,347)
Payments to suppliers		(67,580)	(65,884)	(110,501)
Income tax paid		(55,019)	(873,056)	(908,282)
Goods and Services Tax		(4,174)	(4,125)	-
Total cash outflow from operating activities		**(26,818,088)**	**(26,737,166)**	**(30,054,887)**
Net cash provided by/(used in) operating activities	7(f)	**58,545**	**(2,155,854)**	**139,455**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		21	16	-
Total cash inflow from investing activities		**21**	**16**	**-**
Cash was applied to:				
Purchases of property, plant and equipment		(226)	(875)	(518)
Purchases of intangible assets		(397)	(660)	(1,611)
Total cash outflow from investing activities		**(623)**	**(1,535)**	**(2,129)**
Net cash provided by/(used in) investing activities		**(602)**	**(1,519)**	**(2,129)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Fund capital contributions from the Crown		1,000,000	500,000	1,000,000
Net cash provided by/(used in) financing activities		**1,000,000**	**500,000**	**1,000,000**
Net increase/(decrease) in cash and cash equivalents		**1,057,943**	**(1,657,373)**	**1,137,326**
Cash and cash equivalents at the beginning of the financial year		1,238,880	2,744,837	965,002
Effects of exchange rate changes on the balance of cash held in foreign currencies		60,454	151,416	-
Cash and cash equivalents at the end of the financial year	2(a), 4(a), 4(b)	**2,357,277**	**1,238,880**	**2,102,328**

The attached notes form part of, and should be read in conjunction with, these financial statements.

SECTION 1: GENERAL INFORMATION AND BASIS OF PRESENTATION

(a) General information

These are the financial statements of the New Zealand Superannuation Fund (Fund), a fund established under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) on 11 October 2001.

The Fund is a long-term, growth-oriented, sovereign wealth fund that was established to help reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation. The Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to invest the Fund in a commercial, prudent manner consistent with:

- Best-practice portfolio management;
- Maximising return without undue risk to the Fund as a whole; and
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Fund's global master custodian is the Northern Trust Corporation.

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 225.

The financial statements of the Fund for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 26 September 2019.

(b) Basis of preparation

The Fund is a profit-oriented entity. The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis, except for certain items as detailed in the notes to the financial statements.

The financial statements are presented in New Zealand dollars, which is the Fund's functional currency. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The Fund meets the definition of an investment entity and has applied the exemption from preparing consolidated financial statements available under NZ IFRS 10 Consolidated Financial Statements. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in the Statement of Financial Position. These separate financial statements are the only financial statements presented by the Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2019. The budget figures are unaudited.

(c) Significant judgements and estimates

The preparation of the Fund's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Fund are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Fund and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment as an investment entity (Note 1(d));
- Assessment of control, joint control or significant influence (Notes 1(e) - (g));
- Assessment of investments in structured entities (Note 1(h));
- Determination of fair value (Note 2(b)); and
- Transfers between levels of the fair value hierarchy (Note 2(c)).

(d) Investment entity

The Fund meets the definition of an investment entity as the following conditions exist:

- The Fund obtains and manages funds for the purpose of providing its investor with investment management services;
- The Fund has committed to its investor that its business purpose is to invest funds solely for returns from capital appreciation and investment income;
- The Fund measures and evaluates the performance of substantially all of its investments on a fair value basis;
- The Fund has more than one investment; and
- The Fund has documented exit strategies for its investments.

Although the Fund does not meet all of the typical characteristics of an investment entity (namely, the Fund does not have multiple investors, its investor is a related party and it does not have ownership interests in the form of equity), the Board and management believe the Fund is an investment entity because it has been specifically established as an investment vehicle, it has a diversified investment portfolio with best practice investment policies and procedures in place, it invests funds for the purpose of maximising returns and it has elected to fair value the majority of its investments where feasible for the purposes of its financial statements.

Key judgement - assessment as an investment entity

The Board and management reassess the Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

(e) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Board and management reassess whether or not the Fund controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 (Act), the Guardians must use their best endeavours to ensure the Fund does not control any other entity, with the exception of Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the Fund. A FIV that is controlled by the Guardians is a subsidiary of the Fund for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

As noted above, the Board and management have applied the exemption available under NZ IFRS 10 Consolidated Financial Statements from preparing consolidated financial statements for the Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and are classified as ‘unconsolidated subsidiaries’ in the Statement of Financial Position.

SECTION 1: GENERAL INFORMATION AND BASIS OF PRESENTATION (CONTINUED)

The Fund has interests in the following unconsolidated subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2019 %	OWNERSHIP INTEREST 2018 %
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
BCC Managed Account (NZSF) Holdings Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
Canyon NZ-DOF Investing Limited Partnership	(ii)	30 June	Delaware, US	97.6	100.0
Global Merger Partners LLC	(ii)	31 December	Delaware, US	98.4	97.8
Global Merger Partners Master Limited	(ii)	31 December	Cayman Islands	80.9	88.1
KKR NZSF Energy Investor Limited Partnership	(i)	31 December	Cayman Islands	100.0	100.0
N-Data Center Portfolio Co-Investor LLC	(ii)	31 December	Delaware, US	99.9	0.0
Neuberger Berman Principal Strategies Merger Fund (NZSF) Limited Partnership	(i)	31 December	Cayman Islands	99.9	0.0
NZSF Australian Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Australian Rural Holdings Trust	(iii)	30 June	Australia	100.0	100.0
NZSF Canterbury Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Frontier Investments, Inc.	(ii)	30 June	Delaware, US	100.0	100.0
NZSF Hobsonville Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Horticulture Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Land Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Land Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Side Car (Movac) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Side Car (Pioneer) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Southland Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Timber Investments (No 4) Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Tui Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF US Renewables, Inc.	(ii)	31 December	Delaware, US	100.0	100.0
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(ii)	31 December	New Zealand	100.0	100.0
NZSF Waikato Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
Palgrove Holdings Pty Limited	(ii)	30 June	Australia	81.3	80.6
Palgrove Land Holdings Trust	(iii)	30 June	Australia	91.0	90.1
Palgrove Pastoral Co. Pty Limited	(ii)	30 June	Australia	81.3	80.6

In addition, the Fund has 100% ownership interest in 19 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2018: 15 Segregated Accounts) and no ownership interest in Segregated Account of Bermudan-domiciled Segregated Account Company Horseshoe Re Limited (2018: 100% ownership in 1 Segregated Account) (refer Note 1(e)(iv) for further disclosures on these Segregated Accounts). All Segregated Accounts have a balance date of 31 December.

(i) Cayman Islands limited partnerships are not FIVs but are treated as unconsolidated subsidiaries of the Fund for accounting purposes. They are not entities under Section 59 of the Act and accordingly the interests held in these partnerships do not constitute a breach of that section.

During the year the Fund subscribed for a limited partner interest in Neuberger Berman Principal Strategies Merger Fund (NZSF) Limited Partnership which is an exempted limited partnership established for the purpose of investing in merger arbitrage opportunities as determined by Neuberger Berman Investment Advisors, LLC.

(ii) These entities are Fund Investment Vehicles (FIVs) established for the purpose of holding, facilitating and managing investments of the Fund. During the year the Fund established the following FIVs.

N- Data Center Portfolio Co-Investor, LLC was incorporated during the year for the purpose of holding, facilitating and managing the Fund's co-investment in a portfolio of North American data centres alongside CIM Group, a North American real estate and infrastructure owner and operator.

NZSF Timber Investments (No 4) Limited was originally formed to act as a nominee company for the Guardians, holding the legal interest in certain assets and liabilities on behalf of the Fund. By virtue of the nominee agreement, the assets and liabilities held on behalf of the Fund were recognised in the Fund. On 30 November 2018, NZSF Timber Investments (No 4) Limited was restructured as a FIV and all the interests and contracts entered into on behalf of the Fund were transferred into NZSF Timber Investments (No 4) Limited to hold on its own account. On that date, NZSF Timber Investments (No 4) Limited ceased to hold assets and liabilities in a nominee capacity and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership.

(iii) NZSF Australian Rural Holdings Trust is an Australian Managed Investment Trust established on 28 July 2017 for the purpose of acquiring and holding units in the Palgrove Land Holdings Trust, a unit trust established for the purpose of acquiring and holding the land assets in Queensland and New South Wales that are leased by Palgrove Pastoral Co. Pty Limited in carrying out their business.

(iv) Horseshoe Re Limited and Horseshoe Re II Limited, acting for, and for the benefit of, the Segregated Accounts, enter into agreements relating to the Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. As a matter of Bermudan law, a Segregated Account is not a 'legal person' and has no existence separate from the Segregated Account company. In addition, the Fund does not control the Segregated Account company. Therefore, even though the Segregated Accounts are treated as unconsolidated subsidiaries for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

As at 30 June 2019, there are no significant restrictions on the ability of unconsolidated subsidiaries to transfer funds, including dividends, to the Fund.

Further disclosures on transactions with unconsolidated subsidiaries are contained in Note 9(a).

Key judgement – assessment of control

The Board and management have assessed the Fund's investments in subsidiaries in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

SECTION 1: GENERAL INFORMATION AND BASIS OF PRESENTATION (CONTINUED)

(f) Associates

Associates are those entities over which the Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The Fund has interests in the following associates that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified in the Statement of Financial Position as noted below:

			OWNERSHIP INTEREST	
NAME	BALANCE DATE	COUNTRY OF INCORPORATION	2019 %	2018 %
Fidelity Life Assurance Company Limited	30 June	New Zealand	41.1	41.1
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.0	42.0
Kiwi Group Holdings Limited	30 June	New Zealand	25.0	25.0

Fidelity Life Assurance Company Limited is a New Zealand-owned specialist life insurance provider for individuals, businesses and employers. The Fund's interest in Fidelity Life Assurance Company Limited is classified as private equity in the Statement of Financial Position.

NZSF Timber Investments (No 4) Limited, an unconsolidated subsidiary of the Fund, holds a 42% interest in Kaingaroa Timberlands Partnership. Kaingaroa Timberlands Partnership is a major North Island forestry business. It is valued in United States dollars and translated into New Zealand dollars for financial reporting purposes. Additionally, NZSF Timber Investments (No 4) Limited holds interest-bearing loans with associated companies of Kaingaroa Timberlands Partnership. The Fund's interest in NZSF Timber Investments (No 4) Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position and the loans are classified as fixed income securities as disclosed in Notes 2 and 4.

NZSF Tui Investments Limited, an unconsolidated subsidiary of the Fund, holds a 25% interest in Kiwi Group Holdings Limited. Kiwi Group Holdings Limited is the sole shareholder of Kiwibank, a registered New Zealand bank, whose principal activity is the provision of retail and banking products and services to individuals and small to medium-sized businesses. The Fund's interest in NZSF Tui Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

As at 30 June 2019, there are no significant restrictions on the ability of any associate to transfer funds, including dividends, to the Fund.

Further disclosures on transactions with associates are contained in Note 9(a).

Key judgement - assessment of significant influence

The Board and management have assessed the Fund's investments in associates in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures. The Fund holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. The Board and management have concluded that the Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

(g) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Fund has interests in the following joint ventures that are measured at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments and classified in the Statement of Financial Position as noted below:

			OWNERSHIP INTEREST	
NAME	BALANCE DATE	COUNTRY OF INCORPORATION	2019 %	2018 %
Datacom Group Limited	31 March	New Zealand	39.3	39.3
Gourmet International Holdings Limited	30 June	New Zealand	27.1	27.1
Hobsonville Development GP Limited	31 March	New Zealand	49.0	49.0
Hobsonville Development Limited Partnership	31 March	New Zealand	49.0	49.0
Longroad Energy Holdings, LLC	31 December	Delaware, US	40.0	45.0
New Ground Living (Hobsonville Point) Limited	31 March	New Zealand	45.0	45.0
Palgrove Management Pty Limited	30 June	Australia	50.0	50.0
RA (Holdings) 2014 Pty Limited	31 March	Australia	50.0	50.0

Datacom Group Limited is an information technology services company with operations in New Zealand, Australia and the Asia Pacific. The Fund's interest in Datacom Group Limited is classified as private equity in the Statement of Financial Position.

NZSF Horticulture Investments Limited, an unconsolidated subsidiary of the Fund, has a 27.1% interest in Gourmet International Holdings Limited, a company which produces and markets fruit and vegetables, with operations in New Zealand, Australia and North and South America. The Fund's interest in NZSF Horticulture Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Hobsonville Investments Limited, an unconsolidated subsidiary of the Fund, holds a 49% interest in Hobsonville Development Limited Partnership, a partnership established for the purpose of developing, then selling property at Hobsonville Point in Auckland, and 49% in its management company, Hobsonville Development GP Limited. The Fund's interest in NZSF Hobsonville Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Land Holdings Limited, an unconsolidated subsidiary of the Fund, holds a 45% interest in New Ground Living (Hobsonville Point) Limited, a company established for the purpose of developing, then renting property at Hobsonville Point in Auckland. The Fund's interest in NZSF Land Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF US Renewables Inc., an unconsolidated subsidiary of the Fund, holds a 40% interest in Longroad Energy Holdings, LLC. Longroad Energy Holdings, LLC is a Delaware limited liability company formed for the purpose of developing utility-scale renewable energy facilities throughout North America. The Fund's interest in NZSF US Renewables Inc. is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Australian Rural Holdings Limited, an unconsolidated subsidiary of the Fund, has a 50% interest in Palgrove Management Pty Limited, a company established during the year for the purpose of acting as the employing entity and providing management services to Palgrove Pastoral Co. Pty Limited. The Fund's interest in NZSF Australian Rural Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

RA (Holdings) 2014 Pty Limited is the holding company for the Fund's investment in RetireAustralia, a leading Australian retirement village operator. The Fund's interest in RA (Holdings) 2014 Pty Limited is classified as private equity in the Statement of Financial Position.

As at 30 June 2019, there are no restrictions on the ability of any joint venture to transfer funds, including dividends, to the Fund.

Further disclosures on transactions with joint ventures are contained in Note 9(a).

Key judgement - assessment of joint control

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Fund's joint arrangements are classified as joint ventures because certain key operating and financial activities require the approval of the Fund as well as at least one other investor and the contractual arrangements provide the parties with rights to the net assets of the joint arrangements.

SECTION 1: GENERAL INFORMATION AND BASIS OF PRESENTATION (CONTINUED)

(h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Fund is principally involved with structured entities through its investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The Fund invests in structured entities to assist with the implementation of its overall investment strategy. The Fund does not sponsor any structured entities.

Structured entities have the following business activities:

PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

COLLECTIVE INVESTMENT FUNDS

Collective investment funds finance their operations by way of subscription, in which case, the Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment.

INSURANCE-LINKED INVESTMENTS

The Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

SHAREHOLDER LOANS

The Fund may make investments in private equity investment funds, or other private equity investments via shareholder loans. The borrower in the arrangement may be a structured entity. Shareholder loans are classified as fixed income securities in the Statement of Financial Position.

AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are classified as fixed income securities in the Statement of Financial Position.

ASSET-BACKED SECURITIES

The Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are classified as fixed income securities in the Statement of Financial Position.

Key judgement - assessment of investments in structured entities

The Board and management have assessed which of the Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Fund's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

(i) Other significant accounting policies

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure.

STATEMENT OF CASH FLOWS

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

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements. As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development, it is not considered cash flow of the Fund and accordingly, is not recorded in the Statement of Cash Flows.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified under cash flows from operating activities.

(j) Changes in accounting policies

The adoption of NZ IFRS 9 Financial Instruments during the year has resulted in changes to the Fund's accounting policies. The nature and effect of these changes are described in Note 1(k). All other accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These classifications have no impact on the overall financial performance or financial position or cash flows of the Fund for the comparable year.

SECTION 1: GENERAL INFORMATION AND BASIS OF PRESENTATION (CONTINUED)

(k) New and amended standards adopted

The Fund has adopted the following standards for the first time in these financial statements:

- NZ IFRS 9 Financial Instruments; and
- NZ IFRS 15 Revenue from Contracts with Customers.

The Fund has also adopted the consequential amendments to NZ IFRS 7 Financial Instruments: Disclosures as a result of the application of NZ IFRS 9 Financial Instruments.

The nature and effect of changes as a result of the adoption of these new accounting standards are described below.

NZ IFRS 9 FINANCIAL INSTRUMENTS

NZ IFRS 9 Financial Instruments replaces the provisions of NZ IAS 39 Financial Instruments: Recognition and Measurement for annual reporting periods beginning on or after 1 January 2018, bringing together all aspects of accounting for financial instruments including classification and measurement, impairment and hedge accounting.

The adoption of NZ IFRS 9 Financial Instruments has resulted in changes to the Fund's accounting policies, classification of financial assets and impairment in the financial statements. The new accounting policies are set out in Note 4(a). The Fund has applied NZ IFRS 9 Financial Instruments retrospectively but has elected not to restate comparative information.

Classification and measurement

NZ IFRS 9 Financial Instruments introduces a new model for classifying financial assets whereby financial assets are classified based on the business model under which the assets are held and managed and the nature of their underlying cash flows. NZ IFRS 9 Financial Instruments contains three principal classifications for financial assets: financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income; and financial assets measured at amortised cost. It eliminates the financial asset categories of held to maturity; loans and receivables; and available for sale that were available under NZ IAS 39 Financial Instruments: Recognition and Measurement.

On 1 July 2018, the Board and management assessed which business models apply to the financial assets held and managed by the Fund and analysed the cash flow characteristics of these assets. As a result, the Fund's financial assets have been classified into the appropriate NZ IFRS 9 Financial Instruments categories as follows:

	FUND ACTUAL				
	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS*	FINANCIAL ASSETS AT AMORTISED COST	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Closing balance as at 30 June 2018	**37,297,105**	**-**	**4,974,049**	**19,075**	**42,290,229**
Reclassification on adoption on NZ IFRS 9 Financial Instruments					
Cash and cash equivalents		1,238,880	(1,238,880)		-
Cash pledged as collateral		1,062,296	(1,062,296)		-
Trade and other receivables		591,526	(591,526)		-
Fixed income securities		1,226,164	(1,226,164)		-
Reverse repurchase agreements		855,183	(855,183)		-
Private equity**	19,075			(19,075)	-
Total financial assets reclassified	19,075	4,974,049	(4,974,049)	(19,075)	-
Opening balance as at 1 July 2018	**37,316,180**	**4,974,049**	**-**	**-**	**42,290,229**

* Financial assets at fair value through profit or loss combines financial assets that were previously classified as 'held for trading' and financial assets 'designated at fair value upon initial recognition' under NZ IAS 39 Financial Instruments: Recognition and Measurement. Financial assets at fair value through profit or loss classified as 'held for trading' at 30 June 2018 amounted to $405,834,000; financial assets at fair value through profit or loss classified as 'designated upon initial recognition' at 30 June 2018 amounted to $36,891,271,000.

** Certain investments in private equity were reclassified from available-for-sale to fair value through profit or loss. There is no impact on the Fund's retained earnings as a result of this transfer as the investments were previously measured at fair value and the available-for-sale reserve associated with this investment was nil as at 30 June 2018.

There are no changes in classification and measurement for the Fund's financial liabilities.

Impairment

NZ IFRS 9 Financial Instruments introduces a new, forward-looking impairment model based on expected credit loss, which is different from the incurred loss approach available under NZ IAS 39 Financial Instruments: Recognition and Measurement. The new impairment model applies to financial assets held at amortised cost.

The Board and management have determined that the application of the new impairment provisions has no impact on the carrying value of the Fund's financial assets held at amortised cost as a 1 July 2018.

NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

NZ IFRS 15 Revenue from Contracts with Customers establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Board and management have determined that the adoption of this standard has not resulted in any impact on the Fund's financial statements for the year ended 30 June 2019.

(l) Standards issued but not yet effective

The following standard has been issued but is not yet effective for the year ended 30 June 2019.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
NZ IFRS 16	Leases	NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace: (a) NZ IAS 17 Leases (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease (c) NZ SIC - 15 Operating Leases - Incentives (d) NZ SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach. Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.	1 January 2019	The new standard will not have a material impact on the Fund's financial statements.	1 July 2019

* Designates the beginning of the applicable annual reporting period.

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the net assets of the Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement as a whole.

The fair value of the Fund's assets and liabilities are categorised as follows:

		FUND ACTUAL					
2019	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	2,357,277	2,357,277
Cash pledged as collateral	4(a), 4(c)				-	516,122	516,122
Trade and other receivables	4(a), 4(d)				-	335,962	335,962
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		493,777		493,777		493,777
Cross currency swaps	4(e)		9,742		9,742		9,742
Variance swaps	4(e)		471		471		471
Longevity contingent swaps	4(e)			44,045	44,045		44,045
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		242,139		242,139		242,139
Total return swaps - bonds	4(e)		2		2		2
Total return swaps - commodities	4(e)		6,172		6,172		6,172
Credit default swaps	4(e)		15,077		15,077		15,077
Interest rate swaps	4(e)		47,432		47,432		47,432
Warrants	4(e)				-		-
Total derivative financial instrument assets		-	814,812	44,045	858,857	-	858,857
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	1,902,246			1,902,246		1,902,246
Listed global equities	4(a), 4(e)	22,326,216	66,052	4,081	22,396,349		22,396,349
Fixed income securities	4(a), 4(e)		5,944,115	124,198	6,068,313	1,923,018	7,991,331
Collective investment funds	4(a), 4(e)		708,389	626	709,015		709,015
Reverse repurchase agreements	4(a), 4(e)				-		-
Securities lending and similar agreements	4(a), 4(e)	5,856			5,856		5,856
Insurance-linked investments	4(a), 4(e)		83,699		83,699		83,699
Private equity	4(a), 4(e)			2,767,258	2,767,258		2,767,258
Total other financial assets		24,234,318	6,802,255	2,896,163	33,932,736	1,923,018	35,855,754
Investments in unconsolidated subsidiaries	4(a), 4(e)		1,040,345	3,000,549	4,040,894		4,040,894
		24,234,318	8,657,412	5,940,757	38,832,487	1,923,018	40,755,505
Income tax receivable					-		-
Property, plant and equipment	5(a)				-	1,859	1,859
Intangible assets		17,434			17,434	580	18,014
Total assets		**24,251,752**	**8,657,412**	**5,940,757**	**38,849,921**	**5,134,818**	**43,984,739**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 2: FAIR VALUE (CONTINUED)

		FUND ACTUAL					
2019	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
LIABILITIES							
Cash collateral received	4(a), 4(c)				-	164,196	164,196
Trade and other payables	4(a), 4(g)				-	654,998	654,998
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		311,553		311,553		311,553
Cross currency swaps	4(e)				-		-
Variance swaps	4(e)		90		90		90
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		61,917		61,917		61,917
Total return swaps - bonds	4(e)				-		-
Credit default swaps	4(e)		62,969		62,969		62,969
Interest rate swaps	4(e)		75,302		75,302		75,302
Other over-the-counter swaps	4(e)		1,325		1,325		1,325
Total derivative financial instrument liabilities		-	513,156	-	513,156	-	513,156
Income tax payable					-	302,009	302,009
Provision for performance-based fees	5(b)				-		-
Deferred tax liability	7(e)				-	34,286	34,286
Total liabilities		**-**	**513,156**	**-**	**513,156**	**1,155,489**	**1,668,645**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

2018	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		FUND ACTUAL					
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	1,238,880	1,238,880
Cash pledged as collateral	4(a), 4(c)				-	1,062,296	1,062,296
Trade and other receivables	4(a), 4(d)				-	591,526	591,526
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		194,332		194,332		194,332
Cross currency swaps	4(e)		3,244		3,244		3,244
Longevity contingent swaps	4(e)			75,022	75,022		75,022
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		14,796		14,796		14,796
Total return swaps - bonds	4(e)				-		-
Total return swaps - commodities	4(e)				-		-
Credit default swaps	4(e)		51,973		51,973		51,973
Interest rate swaps	4(e)		66,467		66,467		66,467
Warrants	4(e)				-		-
Total derivative financial instrument assets		-	330,812	75,022	405,834	-	405,834
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	1,877,525			1,877,525		1,877,525
Listed global equities	4(a), 4(e)	18,649,499		7,132	18,656,631		18,656,631
Fixed income securities	4(a), 4(e)		5,746,763	387,772	6,134,535	1,226,164	7,360,699
Collective investment funds	4(a), 4(e)	104,351	938,619	3,752	1,046,722		1,046,722
Reverse repurchase agreements	4(a), 4(e)				-	855,183	855,183
Securities lending and similar agreements	4(a), 4(e)	2,025,351	350,918		2,376,269		2,376,269
Insurance-linked investments	4(a), 4(e)		71,979		71,979		71,979
Private equity	4(a), 4(e)			4,239,794	4,239,794		4,239,794
Total other financial assets		22,656,726	7,108,279	4,638,450	34,403,455	2,081,347	36,484,802
Investments in unconsolidated subsidiaries	4(a), 4(e)		530,141	1,976,750	2,506,891		2,506,891
		22,656,726	7,969,232	6,690,222	37,316,180	2,081,347	39,397,527
Income tax receivable					-	128,151	128,151
Property, plant and equipment	5(a)				-	1,895	1,895
Intangible assets		15,995			15,995	704	16,699
Total assets		**22,672,721**	**7,969,232**	**6,690,222**	**37,332,175**	**5,104,799**	**42,436,974**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

SECTION 2: FAIR VALUE (CONTINUED)

		FUND ACTUAL					
2018	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
LIABILITIES							
Cash collateral received	4(a), 4(c)				-	944,626	944,626
Trade and other payables	4(a), 4(g)				-	540,809	540,809
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		1,206,526		1,206,526		1,206,526
Cross currency swaps	4(e)		40,647		40,647		40,647
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		132,597		132,597		132,597
Total return swaps - bonds	4(e)		322		322		322
Credit default swaps	4(e)		32,829		32,829		32,829
Interest rate swaps	4(e)		35,988		35,988		35,988
Other over-the-counter swaps	4(e)		5,595		5,595		5,595
Total derivative financial instrument liabilities		-	1,454,504	-	1,454,504	-	1,454,504
Income tax payable					-		-
Provision for performance-based fees	5(b)				-		-
Deferred tax liability	7(e)				-	475,301	475,301
Total liabilities		**-**	**1,454,504**	**-**	**1,454,504**	**1,960,736**	**3,415,240**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Assets and liabilities not measured at fair value but for which fair value is disclosed are categorised as follows:

Level 1 - Cash and cash equivalents, cash pledged as collateral and cash collateral received.

Level 2 - Trade and other receivables, fixed income securities, trade and other payables, income tax receivable, income tax payable and deferred tax liability.

Level 3 - Property, plant and equipment, intangible assets and provision for performance-based fees.

(b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models for significant product categories are outlined below:

DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

The fair values of derivative financial instruments and forward foreign exchange contracts are principally determined using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances, the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These instruments are classified within Level 3 of the fair value hierarchy and include longevity contingent swaps, warrants and other over-the-counter swaps. The fair value of longevity contingent swaps is provided by the counterparty at balance date. The price is a non-binding bid price based on the fair value of the underlying basket of contracts. The fair value of other over-the-counter swaps is determined using an internally-generated discounted cash flow model, with the key input being interest rates.

LISTED EQUITIES

The fair value of listed equities, including those on loan under securities lending and similar agreements, is determined, where applicable, based on the last quoted price on the relevant exchange at balance date and have been classified within Level 1 of the fair value hierarchy. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange or trading of the security may be temporarily suspended), the price can also be determined using non-binding broker quotes. These securities have been classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of highly liquid fixed income securities, including those on loan under securities lending and similar agreements, is determined based on the last quoted bid price provided by a reputable pricing vendor (being a financial data provider such as Bloomberg or Thomson Reuters) or broker at balance date and have been classified within Level 2 of the fair value hierarchy. Where the market for fixed income securities is illiquid, fair value is determined by a reputable pricing vendor who uses models to value the securities. The models incorporate various inputs including loan level data, repayment and default assumptions and benchmark prices for similar securities. These securities have been classified within Level 2 of the fair value hierarchy. For illiquid securities, because of the inherent uncertainty of valuation, it is possible that the fair values estimated may differ from those that would have been determined had a ready market for those securities existed and those differences may be significant. These securities have been classified within Level 3 of the fair value hierarchy.

The fair value of unlisted debt instruments, including fixed and floating rate instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities have been classified within Level 3 of the fair value hierarchy.

COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the lowest level classification of the underlying instruments.

INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date and have been classified within Level 2 of the fair value hierarchy.

PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and have been classified within Level 3 of the fair value hierarchy. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation or the price of recent investments and have been classified within Level 3 of the fair value hierarchy.

UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is based on the fair value of the underlying net assets of the specific investment which can be determined using a variety of methods, including being based on the last quoted bid price provided by a reputable pricing vendor or broker, independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Unconsolidated subsidiaries have been classified accordingly within Levels 2 and 3 of the fair value hierarchy.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the Fund owns are recognised at net realisable value where they have been received, or where the Board and management are reasonably certain they will be received, and a price can be reliably ascertained either through the existence of an observable active market or through pricing obtained from reputable brokers.

SECTION 2: FAIR VALUE (CONTINUED)

Key judgement - determination of fair value

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which principally consist of investments in private equity investment funds, collective investment funds, fixed income securities and certain derivative financial instruments) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

PRIVATE EQUITY INVESTMENT FUNDS AND COLLECTIVE INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of private equity investment funds and collective investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Fund.

FIXED INCOME SECURITIES WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR

Where the market for fixed income securities is illiquid, fair value is determined by a pricing vendor who uses models to value the securities. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR, BROKER OR COUNTERPARTY

Pricing vendors, brokers or counterparties may use valuation models to price certain derivative financial instruments for which the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors, brokers or counterparties and by periodically calibrating prices against observable market data.

(c) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

The following table presents the transfers between fair value hierarchy levels for the year:

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
2019	NZD'000	NZD'000	NZD'000
Transfers between Levels 1, 2 and 3:			
Listed global equities	1,086	73,850	(1,086)
Private equity	-	-	(73,850)

Listed global equities transferred to Level 1 relate to positions whose trading was suspended as at 30 June 2018 but were actively traded in the current year.

Private equity transferred to Level 2 listed global equities relates to a company that was privately held as at 30 June 2018 but was subsequently listed in the current year.

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
2018	NZD'000	NZD'000	NZD'000
Transfers between Levels 1 and 3:			
Listed New Zealand equities	(28,916)	-	28,916
Listed global equities	(3,943)	-	3,943

Listed New Zealand equities transferred out of Level 1 relates to a position whose trading was suspended as at 30 June 2018 but was actively traded in the year.

Listed global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2018 but were actively traded in the prior year.

Key judgement - transfers between levels of the fair value hierarchy

The classification of investments within the fair value hierarchy is reviewed annually. Transfers between the different levels of the hierarchy generally occur when there is a change in the trading status of a financial instrument (such as listing on a recognised exchange, suspension of trading or de-listing).

(d) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	FUND ACTUAL	FUND ACTUAL
	2019	2018
	NZD'000	NZD'000
Opening balance	6,690,222	5,267,784
Unrealised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	123,211	613,351
Realised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	273,933	91,546
Total gains and losses recognised in net fair value gains/(losses) on available-for-sale financial assets	-	5,872
Purchases	723,865	973,360
Sales	(303,094)	(13,086)
Settlements	(476,042)	(281,464)
Transfers to/(from) other categories*	(1,091,338)	32,859
Closing balance	**5,940,757**	**6,690,222**

* On 30 November 2018, a former nominee company of the Guardians, NZSF Timber Investments (No 4) Limited was restructured as a subsidiary of the Fund and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership (refer Note 1(e)). As part of this transaction, the Fund provided debt funding to the subsidiary, held at amortised cost. As a result, the proportion of the Fund's investment held at fair value through profit or loss was reduced. Additionally, a deferred tax liability associated with this investment was transferred into the subsidiary, further reducing the value of the financial assets within this category (refer to Note 7(e)).

SECTION 2: FAIR VALUE (CONTINUED)

(e) Fair value sensitivity

The following table shows the Fund's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, equivalent to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

	FUND ACTUAL			
2019	NON-MARKET OBSERVABLE INPUT	MOVEMENT	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
		%	NZD'000	NZD'000
Longevity contingent swaps	Discount rate	2	2,395	(2,157)
Listed New Zealand equities	Share price	18	-	-
Listed global equities	Share price	23	920	(920)
Fixed income securities	Yield	12	10,731	(10,731)
Collective investment funds	Unit price	13	80	(80)
Private equity	(i)	(i)	426,736	(426,736)
Unconsolidated subsidiaries	Share price	15	438,151	(438,151)
2018				
Longevity contingent swaps	Discount rate	2	6,187	(5,556)
Listed New Zealand equities	Share price	18	-	-
Listed global equities	Share price	26	1,825	(1,825)
Fixed income securities	Yield	17	48,809	(48,809)
Collective investment funds	Unit price	13	480	(480)
Private equity	(i)	(i)	562,834	(562,834)
Unconsolidated subsidiaries	Share price	15	283,285	(283,285)

(i) The fair value of private equity investments is provided by the investment managers or administrators or by independent valuers at balance date. The Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. The Board and management have assessed that the reasonably likely movement in fair value in a one-year period is 20% for private equity investment funds and other private equity investments, 16% for private timber funds, 12% for private infrastructure investments and 10% for life settlements investments based on internal risk modelling.

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Fund. While risk is a necessary part of the Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Fund.

The Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Risk and Investment Committees have been established by management as risk leadership bodies to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy which is available on www.nzsuperfund.co.nz. Performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The Fund is also exposed to commodity price risk in relation to its forestry and farming investments.

SECTION 3: RISK MANAGEMENT (CONTINUED)

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or comparable transactions in a listed equity market.

Equity price risk is managed by imposing investment constraints at a total Fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management on a regular basis.

The following table shows the Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board's and management's assessment of a reasonably possible change in different classes of equity prices, equivalent to one standard deviation, based on internal risk modelling.

	FUND ACTUAL				
2019	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE		IMPACT ON OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
	%	NZD'000	NZD'000	NZD'000	NZD'000
New Zealand equities	18	318,436	(318,436)	-	-
Global equities*	16	4,535,802	(4,535,802)	-	-
Emerging markets equities	26	1,039,517	(1,039,517)	-	-
Private equity	20	661,701	(661,701)	-	-
2018					
New Zealand equities	18	304,806	(304,806)	-	-
Global equities*	16	4,066,402	(4,066,402)	-	-
Emerging markets equities	26	1,080,788	(1,080,788)	-	-
Private equity	20	671,782	(675,544)	3,762	-

* The fair value of global equities is obtained from quoted market prices. However, the likelihood of a change in those prices and the size of any change can vary, depending on the type of equity. These figures therefore represent a weighted average of the reasonably likely movement in fair value in a one-year period for this category. The Board and management's assessment of the reasonably likely movements within this category are: 16% for global large cap equities; 20% for global small cap equities; and 12% for global infrastructure equities, based on internal risk modelling.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total Fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the Fund and the counterparty.

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account. Prior year comparatives have been amended to conform with current year presentation.

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Australian Dollars	980,156	84,177
Brazilian Real	213,126	197,796
British Pounds	1,198,165	262,280
Canadian Dollars	799,614	1,371,084
Chilean Pesos	46,379	47,600
Chinese Yuan	121,614	16,531
Colombian Peso	19,561	20,054
Czech Koruna	9,994	12,802
Danish Kroner	(3,659)	(11,217)
Egyptian Pounds	6,519	5,706
European Union Euros	(643,196)	(1,317,679)
Hong Kong Dollars	326,421	261,816
Hungarian Forints	16,643	14,947
Indian Rupees	256,303	234,905
Indonesian Rupiahs	32,894	61,052
Israeli New Shekels	48,242	37,730
Japanese Yen	(344,783)	(267,535)
Malaysian Ringgits	32,246	50,532
Mexican Pesos	28,427	99,182
Norwegian Krone	2,453	(3,607)
Pakistan Rupee	1,241	3,026
Philippines Pesos	55,418	41,401
Polish Zloty	59,234	54,229
Qatari Rial	45,999	35,399
Russian Rubles	156,505	125,156
Saudi Riyal	69,236	-
Singaporean Dollars	3,524	(7,893)
South African Rand	193,537	226,151
South Korean Won	173,942	129,782
Swedish Kronor	11,456	(12,730)
Swiss Francs	(1,050,234)	(770,134)
Taiwanese New Dollars	136,690	122,822
Thai Baht	55,382	12,788
Turkish New Lira	24,865	33,644
United Arab Emirates Dirham	31,652	25,135
United States of America Dollars	2,098,671	1,744,270
	5,214,237	**2,941,202**

SECTION 3: RISK MANAGEMENT (CONTINUED)

The following table shows the Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The percentages used represent the Board's and management's assessment of a reasonably possible increase or decrease in the value of the New Zealand Dollar, relative to other currencies, equivalent to one standard deviation.

	FUND ACTUAL				
2019	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE		IMPACT ON OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
	%	NZD'000	NZD'000	NZD'000	NZD'000
NZD/USD	10	(151,104)	151,104	-	-
NZD/EUR	10	46,310	(46,310)	-	-
NZD/GBP	10	(86,268)	86,268	-	-
NZD/JPY	10	24,824	(24,824)	-	-
NZD/Others	10	(209,187)	209,187	-	-
2018					
NZD/USD	10	(124,214)	124,214	1,373	-
NZD/EUR	10	94,873	(94,873)	-	-
NZD/GBP	10	(18,884)	18,884	-	-
NZD/JPY	10	19,263	(19,263)	-	-
NZD/Others	10	(181,815)	181,815	-	-

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Fund’s investments in fixed interest securities and cash and cash equivalents will fluctuate due to changes in market interest rates. The Fund is primarily exposed to changes in New Zealand and United States short-term interest rates.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation.

	FUND ACTUAL				
2019	ONE STANDARD DEVIATION	IMPACT ON PROFIT AFTER INCOME TAX EXPENSE		IMPACT ON OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
	BASIS POINTS	NZD'000	NZD'000	NZD'000	NZD'000
Fixed income securities and other interest-sensitive financial instruments	50	40,654	(40,654)	-	-
2018					
Fixed income securities and other interest-sensitive financial instruments	50	9,500	(9,500)	-	-

COMMODITY PRICE RISK

The Fund is exposed to financial risk in respect of its forestry activities due to the global volatility of log prices, exchange rates and transportation costs. These exposures are managed through adjustments to harvest levels and marketing efforts in order to minimise the risk of financial loss.

The Fund is also exposed to financial risk in respect of its farming activities due to the global volatility of milk prices and the price of key inputs e.g. feed and fertiliser. Dairy prices relative to key inputs are continually monitored so that operations can adapt as required. There are procedures, systems and infrastructure in place to minimise and manage the risks to which the land and livestock assets are exposed that could lead to financial loss. Such measures include ongoing animal health management, detailed planning and cost control systems supported by regular visits by agricultural consultants, along with significant investment in farm infrastructure and technology to deal with risks associated with effluent disposal. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. The Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Capital allocated to internally managed investments is governed by the Investment Risk Allocation Policy and relevant Internal Investment Mandates. The Board and management mitigate the Fund's exposure to credit risk through internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Additionally, investment strategy-specific constraints are imposed, limiting the Fund's net unhedged exposure to individual counterparties; collective unhedged exposure to counterparties with credit ratings of 'BBB' or less; and individual clearing houses.

The use of, and capital allocated to, external investment managers is governed by the Investment Risk Allocation Policy and Externally Managed Investments Policy. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. Specific prudential limits for external investment managers are built into these agreements which restrict the credit risk the Fund is exposed to. External investment managers are monitored individually on an on-going basis as well as being considered in the Fund’s overall financial risk management activities.

SECTION 3: RISK MANAGEMENT (CONTINUED)

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

The following tables analyse the Fund's concentration of credit risk by geographical and industrial distribution. The analyses are based on the Fund's net financial assets at balance date, at the aggregate level of each individual investment, and covers both internally and externally managed investments.

	FUND ACTUAL 2019 %	FUND ACTUAL 2018 %
By geography		
New Zealand	15	15
Australia	7	7
North America	47	44
Europe	17	18
Asia	12	13
Other	2	3
	100	**100**
By industry		
Basic materials	6	8
Communications	7	8
Consumer - cyclical	6	6
Consumer - non-cyclical	14	14
Energy	2	2
Financial	27	28
Funds	2	2
Government	8	7
Industrial	7	7
Technology	7	7
Utilities	2	2
Other	12	9
	100	**100**

COUNTERPARTY CREDIT RISK

It is the Fund's policy to enter into financial instruments with reputable counterparties. The Board and management closely monitor the creditworthiness of the Fund's counterparties by reviewing their credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, variance swaps, longevity contingent swaps, total return swaps, credit default swaps, interest rate swaps and other over-the-counter swaps. The table below sets out the net exposures, excluding collateral, by individual counterparty (and, where applicable, specific branch) where instruments have a net positive fair value:

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
ANZ Bank New Zealand Limited	66,349	5,916
ASB Bank	578	206
Bank of America	667	-
Bank of New Zealand	50,204	1,607
Barclays Bank PLC, New York Branch	5,473	21,667
BNP Paribas, London Branch	59,215	-
Citibank N.A., London Branch	2,049	1,905
Citibank N.A., New York Branch	44,519	14,002
Commonwealth Bank of Australia, Sydney Branch	63,736	-
Credit Suisse Securities (Europe) Limited	50,586	92,033
Deutsche Bank AG, London Branch	2	3,287
Deutsche Bank AG, New York Branch	-	13,932
Goldman Sachs International	135,998	61,838
The Hong Kong and Shanghai Banking Corporation Limited	67,297	-
JP Morgan Chase, New York Branch	4,939	35,620
JP Morgan Chase, London Branch	56,049	-
Morgan Stanley & Co. International PLC	106,503	98,067
National Australia Bank	-	27
Nomura International PLC	-	2,604
Societe Generale	9,698	-
Standard Chartered Bank	862	-
The Northern Trust Company	-	1
Toronto Dominion Bank	-	979
UBS AG, Singapore Branch	72,189	49,546
Westpac Banking Corporation, Wellington Branch	61,944	2,597
	858,857	**405,834**

The Board and management restrict the Fund's exposure to loss from derivative financial instruments through requiring collateral and by entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. These arrangements provide for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the Statement of Financial Position unless certain conditions for offsetting under NZ IAS 32 Financial Instruments: Presentation apply. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 3: RISK MANAGEMENT (CONTINUED)

CREDIT QUALITY OF FIXED INCOME SECURITIES

A percentage breakdown of the Fund's fixed income securities, both internally and externally managed, by credit rating is set out below. Ratings are obtained from Standard & Poor's, Moody's and Fitch depending on the availability of data.

	FUND ACTUAL	FUND ACTUAL
	2019	2018
	%	%
AAA/Aaa	16	14
AA/aa	29	28
A/A	21	26
BBB/Baa	6	7
Other credit rating	1	1
Not rated	27	24
	100	**100**

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Fund's liquidity framework is designed to ensure that the Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

Liquidity risk is managed by:

- Forecasting liquidity requirements;
- Maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;
- Regular review of the liquidity available by senior management;
- Periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

FUND ACTUAL								
			FIXED MATURITY DATES					
2019	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1 - 2 YEARS	2 - 5 YEARS	5 - 10 YEARS	10+ YEARS	NON-INTEREST BEARING
	%	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Cash and cash equivalents*	1.83	2,099,304	-	-	-	-	-	257,973
Cash pledged as collateral**	0.00	516,122	-	-	-	-	-	-
Fixed income securities	3.21	-	1,946,533	558,362	1,311,578	1,765,189	1,733,735	675,934
Securities on loan under securities lending and similar agreements	0.00	-	-	-	-	-	-	-
		2,615,426	**1,946,533**	**558,362**	**1,311,578**	**1,765,189**	**1,733,735**	**933,907**
2018								
Cash and cash equivalents*	1.48	1,056,441	-	-	-	-	-	182,439
Cash pledged as collateral**	0.00	1,062,296	-	-	-	-	-	-
Fixed income securities	3.86	-	887,263	957,784	1,855,567	1,631,764	2,004,711	23,610
Securities on loan under securities lending and similar agreements	2.14	-	723	87,583	121,752	88,817	52,043	-
		2,118,737	**887,986**	**1,045,367**	**1,977,319**	**1,720,581**	**2,056,754**	**206,049**

* Non-interest bearing cash and cash equivalents is primarily comprised of non-NZD denominated currencies held in custody, the majority of which earn no interest.

** Cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements and with futures exchanges. The rate of interest earned on this cash, whilst variable, is minimal as a result of the current low interest rate environment, and consequently a weighted average effective interest rate of 0.00% has been applied.

The maturity profile of derivative financial instruments is disclosed in Note 4(e).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 3: RISK MANAGEMENT (CONTINUED)

(e) Risks associated with structured entities

The following table summarises the carrying values recognised in the Statement of Financial Position of the Fund's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Fund's interest in these entities. These values represent the most current available information.

	FUND ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			
2019	CARRYING VALUE OF INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS	ASSETS OF THE STRUCTURED ENTITY*
	NZD'000	NZD'000	NZD'000	NZD'000
Fixed income securities:				
Asset-backed securities	613,848	82,074	695,922	12,882,685
Mortgage-backed securities	989,473	39,607	1,029,080	21,945,176
Agency mortgage-backed securities	380,202	-	380,202	N/A**
Shareholder loans	828,142	-	828,142	2,407,170
Collective investment funds	709,015	148,887	857,902	177,114,679
Insurance-linked investments - catastrophe bonds	83,699	-	83,699	18,176,601
Private equity investment funds	1,090,095	567,369	1,657,464	16,913,838
Unconsolidated subsidiaries	4,040,894	451,734	4,492,628	4,256,778
	8,735,368	**1,289,671**	**10,025,039**	**253,696,927**
2018				
Fixed income securities:				
Asset-backed securities	866,829	23,933	890,762	153,272,772
Mortgage-backed securities	794,307	49,424	843,731	52,712,788
Agency mortgage-backed securities	429,916	-	429,916	N/A**
Shareholder loans	230,615	-	230,615	5,903,430
Collective investment funds	1,046,722	147,700	1,194,422	155,279,514
Insurance-linked investments - catastrophe bonds	71,979	-	71,979	13,825,212
Private equity investment funds	884,310	582,149	1,466,459	25,364,866
Unconsolidated subsidiaries	2,506,891	451,022	2,957,913	2,632,347
	6,831,569	**1,254,228**	**8,085,797**	**408,990,929**

* Including the value of the Fund's investment

** Information is not available as the securities have not yet been issued

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

		FUND ACTUAL				
2019	NOTE	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT AMORTISED COST (previously Loans and Receivables)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (2018 only)	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Cash and cash equivalents	4(b)		2,357,277			2,357,277
Cash pledged as collateral	4(c)		516,122			516,122
Trade and other receivables	4(d)		335,962			335,962
Investments						
Derivative financial instrument assets	4(e)	858,857				858,857
Other financial assets:						
Listed New Zealand equities	4(e)	1,902,246				1,902,246
Listed global equities	4(e)	22,396,349				22,396,349
Fixed income securities	4(e)	6,068,313	1,923,018			7,991,331
Collective investment funds	4(e)	709,015				709,015
Reverse repurchase agreements	4(e)					-
Securities lending and similar agreements	4(e)	5,856				5,856
Insurance-linked investments	4(e)	83,699				83,699
Private equity	4(e)	2,767,258				2,767,258
Total other financial assets		33,932,736	1,923,018	-	-	35,855,754
Investments in unconsolidated subsidiaries	4(e)	4,040,894				4,040,894
Total financial assets		**38,832,487**	**5,132,379**	**-**	**-**	**43,964,866**
Financial liabilities						
Cash collateral received	4(c)				164,196	164,196
Trade and other payables	4(g)				654,998	654,998
Investments - derivative financial instrument liabilities	4(e)	513,156				513,156
Total financial liabilities		**513,156**	**-**	**-**	**819,194**	**1,332,350**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

		FUND ACTUAL				
2018	NOTE	FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	FINANCIAL ASSETS AT AMORTISED COST (previously Loans and Receivables)	AVAILABLE-FOR-SALE FINANCIAL ASSETS (2018 only)	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Cash and cash equivalents	4(b)		1,238,880			1,238,880
Cash pledged as collateral	4(c)		1,062,296			1,062,296
Trade and other receivables	4(d)		591,526			591,526
Investments						
Derivative financial instrument assets	4(e)	405,834				405,834
Other financial assets:						
Listed New Zealand equities	4(e)	1,877,525				1,877,525
Listed global equities	4(e)	18,656,631				18,656,631
Fixed income securities	4(e)	6,134,535	1,226,164			7,360,699
Collective investment funds	4(e)	1,046,722				1,046,722
Reverse repurchase agreements	4(e)		855,183			855,183
Securities lending and similar agreements	4(e)	2,376,269				2,376,269
Insurance-linked investments	4(e)	71,979				71,979
Private equity	4(e)	4,220,719		19,075		4,239,794
Total other financial assets		34,384,380	2,081,347	19,075	-	36,484,802
Investments in unconsolidated subsidiaries	4(e)	2,506,891				2,506,891
Total financial assets		**37,297,105**	**4,974,049**	**19,075**	**-**	**42,290,229**
Financial liabilities						
Cash collateral received	4(c)				944,626	944,626
Trade and other payables	4(g)				540,809	540,809
Investments - derivative financial instrument liabilities	4(e)	1,454,504				1,454,504
Total financial liabilities		**1,454,504**	**-**	**-**	**1,485,435**	**2,939,939**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Fund is party to financial instruments as part of its normal operations. These financial instruments make up the vast majority of the Fund's financial assets and include cash and cash equivalents, derivative financial instruments, investments, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Statement of Comprehensive Income.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Fund becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through profit or loss, transaction costs e.g. trading commission, that are attributable to the acquisition of the financial asset or financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Purchases or sales of financial instruments that require delivery within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e. the date on which the Fund commits to purchase or sell the financial instrument.

The classification of financial instruments at initial recognition depends on the Fund's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information such as the investment objectives of the Fund and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

From 1 July 2018, the Fund's financial assets and financial liabilities are subsequently classified into the following categories:

- Those to be measured at fair value through profit or loss; and
- Those to be measured at amortised cost.

The Fund does not have any financial assets classified as financial assets at fair value through other comprehensive income. The Fund classifies all financial assets that are either held for trading and/or managed or evaluated on a fair value basis, as financial assets at fair value through profit or loss.

The Fund's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial assets and financial liabilities at fair value through profit or loss

The following financial assets and financial liabilities are classified at fair value through profit or loss (FVPL):

- Financial assets, including debt instruments, that do not qualify for measurement at amortised cost;
- Financial assets and financial liabilities that are held for trading; and
- Financial assets for which the Fund has not elected to recognise fair value gains and losses through other comprehensive income.

This category includes investments in derivative financial instruments, forward foreign exchange contracts, listed equities, collective investment funds, insurance-linked investments, private equity and unconsolidated subsidiaries. These financial assets are either held for trading or are managed and have their performance evaluated on a fair value basis.

The Fund does not designate any derivative financial instruments or forward foreign exchange contracts as hedges in a hedging relationship.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

Financial assets at amortised cost

The Fund's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables, reverse repurchase agreements and unlisted debt instruments. Unlisted debt instruments that are classified as financial assets at amortised cost include fixed and floating rate notes and redeemable preference shares.

Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Statement of Comprehensive Income in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes cash collateral received and trade and other payables. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Accounting policies applied until 30 June 2018

The Fund has applied NZ IFRS 9 Financial Instruments retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Fund's previous accounting policy.

Until 30 June 2018, the Fund classified its financial assets in the following categories:

- Financial assets at fair value through profit or loss - held for trading;
- Financial assets at fair value through profit or loss - designated upon initial recognition;
- Loans and receivables; and
- Available-for-sale financial assets.

The classification depended on the purpose for which the financial assets were acquired which management determined at initial recognition.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Fund classified financial assets and financial liabilities at fair value through profit or loss - held for trading if they were acquired for the purpose of selling or repurchasing in the near term. All derivative financial instruments and forward foreign exchange contracts held by the Fund were classified as held for trading.

The Fund designated other financial assets at fair value through profit or loss upon initial recognition on the basis that they were part of a group of financial instruments that were managed and had their performance evaluated on a fair value basis, in accordance with the financial risk management and investment objectives of the Fund. These financial assets included equity and debt instruments.

Loans and receivables comprised non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Financial assets included in this category are now classified as financial assets at amortised cost. Subsequent to initial recognition, loans and receivables were measured at amortised cost, using the effective interest method, less any allowance for impairment.

Financial assets classified as available-for-sale included private equity investments that did not have a quoted market price in an active market or whose fair value could not be reliably measured. The Board and management determined that the fair value for certain private equity investments could not be reliably measured where the entity's financial statements were not prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP. Available-for-sale financial assets also included private equity investments in cooperative and processing companies. The Fund is required to hold these investments to facilitate farming investment operations. As such, the Fund is normally unable to sell these investments without disrupting farming investment operations.

After initial recognition, available-for-sale financial assets were subsequently measured at fair value, where fair value could be reliably measured, with unrealised gains or losses recognised in other comprehensive income and the available-for-sale reserve. Available-for-sale financial assets whose fair value could not be reliably measured were measured at cost less impairment. Transaction costs were included in the cost of the investment.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or when the Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Fund's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset or a group of financial assets is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset or the group of financial assets and the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate.

The following financial assets that are measured at amortised cost are subject to the impairment provisions (the 'expected credit loss model') of NZ IFRS 9 Financial Instruments:

- Cash and cash equivalents;
- Cash pledged as collateral;
- Trade and other receivables;
- Reverse repurchase agreements; and
- Unlisted debt investments carried at amortised cost.

The impairment loss for cash and cash equivalents and cash pledged as collateral is considered immaterial.

Disclosures relating to the impairment of receivables are provided in Note 4(d).

The Fund's investments in reverse repurchase agreements and unlisted debt instruments that meet the criteria for being classified as financial assets at amortised cost and which are therefore subject to the expected credit loss model, are considered to have low credit risk and/or the credit risk has not increased significantly since initial recognition. As a result, the impairment loss recognised is limited to 12-month expected credit losses. The Board and management consider these financial assets to have low credit risk because there is a low risk of default and the issuers have a strong capacity to meet their contractual cash flow obligations in the near term. Refer to Note 3(c) for further disclosures on credit risk.

12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date or a shorter period if the expected life of the financial asset is less than 12 months.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written-off when the Board and management have no reasonable expectations of recovering a financial asset.

Accounting policy applied until 30 June 2018

Until 30 June 2018, a financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash balances on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less, which have an insignificant risk of change in fair value.

At 30 June 2019, cash of $301,068,000 (2018: $380,045,000) had been allocated and was held in Northern Trust's (the Fund's global master custodian) custody awaiting investment by investment managers.

(c) Collateral

In line with standard industry practice, collateral transactions are settled in line with the relevant Credit Support Agreements (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is $196,941,000 (2018: $801,301,000). The counterparties are permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

Cash balances totalling $319,181,000 (2018: $260,995,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $nil (2018: $nil) have been lodged with a clearing broker. These cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2018: $nil) held by the Fund.

CASH COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under CSAs for derivative positions is $162,613,000 (2018: $102,262,000). The Fund is permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

The cash balance received as collateral to meet obligations under securities lending and similar agreements is $1,583,000 (2018: $842,364,000). The Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2019, cash of $nil (2018: $855,183,000) had been used to purchase securities under a reverse repurchase agreement. These will be returned to the counterparties of the securities lending and similar agreements once the underlying transactions are terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle any liability.

NON-CASH COLLATERAL RECEIVED

The fair value of fixed income securities received as collateral to meet obligations under securities lending and similar agreements is $6,040,000 (2018: $782,585,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is $23,000 (2018: $898,953,000). The Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under a reverse repurchase agreement is $nil (2018: $300,695,000). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is $nil (2018: $611,703,000). The Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(d) Trade and other receivables

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Trade receivables	7,830	5,703
Accrued interest	44,176	54,145
Dividends receivable	37,970	36,163
Unsettled sales	245,691	495,086
GST receivable	295	429
	335,962	**591,526**

Accounting Policy

Trade receivables are initially recognised at their transaction price unless they contain significant financing components, in which case they are recognised at fair value. The Fund holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Fund only holds trade receivables that have maturities of less than 12 months and which have no financing components. As such, the Board and management have chosen to apply a simplified approach for calculating expected credit losses (ECL) on trade receivables under NZ IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Fund's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions.

Trade receivables are non-interest bearing and have standard 30-day credit terms. The Fund does not have a history of default on trade receivables and the Board and management consider the probability of default to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions.

As a result of their short-term nature, the carrying value of trade and other receivables held at amortised cost approximates fair value.

(e) Investments

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	493,777	194,332
Cross currency swaps	9,742	3,244
Variance swaps	471	-
Longevity contingent swaps	44,045	75,022
Futures contracts	-	-
Total return swaps - equity	242,139	14,796
Total return swaps - bonds	2	-
Total return swaps - commodities	6,172	-
Credit default swaps	15,077	51,973
Interest rate swaps	47,432	66,467
Warrants	-	-
Total derivative financial instrument assets	858,857	405,834
Other financial assets	35,855,754	36,484,802
Investments in unconsolidated subsidiaries	4,040,894	2,506,891
	40,755,505	39,397,527
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	311,553	1,206,526
Cross currency swaps	-	40,647
Variance swaps	90	-
Futures contracts	-	-
Total return swaps - equity	61,917	132,597
Total return swaps - bonds	-	322
Credit default swaps	62,969	32,829
Interest rate swaps	75,302	35,988
Other over-the-counter swaps	1,325	5,595
Total derivative financial instrument liabilities	513,156	1,454,504
Net investments	**40,242,349**	**37,943,023**

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD FOREIGN EXCHANGE CONTRACTS

Accounting Policy

The Fund enters into a variety of derivative financial instruments and forward foreign exchange contracts to manage its exposure to foreign currency risk, credit risk and interest rate risk and to achieve exposure to assets and asset classes. The use of derivative financial instruments and forward foreign exchange contracts is governed by the Statement of Investment Policies, Standards and Procedures, including the Derivatives Policy, which provide written principles on the use of derivative financial instruments by the Fund. Compliance with policies and exposure limits is monitored on a continuous basis.

At 30 June 2019, the Fund has positions in the following types of derivative financial instruments and forward foreign exchange contracts:

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. Where possible, the Fund seeks to settle all forward contracts on a net basis, but in some instances they are settled gross. Forward contracts that are settled gross are considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Where swap contracts are settled net, the payment flows are usually netted against each other, with the difference being paid by one party to the other. Where possible, swaps are settled net but some cross currency swaps are settled gross. In a cross currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the Fund to counterparty credit risk, market risk and liquidity risk.

Warrants

Warrants are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Funds holds warrants at fair value in respect of two of its private equity investments.

The contract maturities, notional and fair values for all derivative financial instruments are set out below. Fair values presented correspond in total to the net assets and liabilities for each class of derivative financial instrument.

FORWARD FOREIGN EXCHANGE CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(23,632,386)	104,531	(23,826,863)	(430,829)
3 to 12 months	(16,914,457)	77,693	(17,942,623)	(571,069)
Greater than 12 months	-	-	(136,855)	(10,296)
	(40,546,843)	**182,224**	**(41,906,341)**	**(1,012,194)**

Where possible, the Fund seeks to settle all forward foreign exchange contracts on a net basis, otherwise, all forward foreign exchange contracts are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities.

CROSS CURRENCY SWAPS

		FUND ACTUAL	
2019	FOREIGN CURRENCY BUY/ SELL	NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/AUD	208,963	4,878
1 to 2 years	NZD/EUR	50,866	142
2 to 5 years	NZD/EUR	339,105	1,140
	NZD/USD	511,055	1,621
5 to 10 years	NZD/USD	211,717	1,961
		1,321,706	**9,742**
2018			
Less than 1 year	NZD/EUR	344,893	(35,396)
1 to 2 years	NZD/AUD	218,256	(3,868)
2 to 5 years	NZD/EUR	396,627	1,232
	NZD/USD	795,362	(467)
5 to 10 years	NZD/USD	718,300	1,096
		2,473,438	**(37,403)**

Where possible, the Fund seeks to settle all cross currency swaps on a net basis, otherwise, all cross currency swaps are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities. Notional value is derived from the 'buy' leg of these contracts.

VARIANCE SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
1 to 2 years	2,978	(90)	-	-
2 to 5 years	2,978	471	-	-
	5,956	**381**	**-**	**-**

All variance swaps are settled net.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

LONGEVITY CONTINGENT SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Later than 10 years	275,441	44,045	301,307	75,022
	275,441	**44,045**	**301,307**	**75,022**

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	2,830,247	-	5,245,729	-
Fixed interest futures	4,069,022	-	5,155,497	-
Commodities futures	253,418	-	-	-
	7,152,687	**-**	**10,401,226**	**-**

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS - EQUITY

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	9,742,311	180,222	7,360,135	(117,801)
1 to 2 years	76,421	-	-	-
	9,818,732	**180,222**	**7,360,135**	**(117,801)**

All equity total return swaps are settled net.

TOTAL RETURN SWAPS - BONDS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	348	2	59,098	(322)
	348	**2**	**59,098**	**(322)**

All bond total return swaps are settled net.

TOTAL RETURN SWAPS - COMMODITIES

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	169,553	6,172	-	-
	169,553	**6,172**	**-**	**-**

All commodity total return swaps are settled net.

CREDIT DEFAULT SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2019	2019	2018	2018
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	1,082,235	(31,020)	4,647,810	(24,253)
	1 to 2 years	2,549,691	(61,666)	1,090,494	(63,259)
	2 to 5 years	2,968,274	(170,604)	3,349,104	(139,167)
	5 to 10 years	238,219	(6,875)	443,099	(11,841)
		6,838,419	**(270,165)**	**9,530,507**	**(238,520)**
Sell protection	Less than 1 year	967,394	29,286	7,731,275	25,853
	1 to 2 years	2,509,864	56,754	984,787	64,844
	2 to 5 years	2,021,843	122,817	3,901,470	137,518
	5 to 10 years	3,038,823	13,416	3,751,989	29,449
		8,537,924	**222,273**	**16,369,521**	**257,664**

All credit default swaps are settled net.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

INTEREST RATE SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	134,344	(2,121)	253,480	(3,593)
1 to 2 years	195,224	(8,592)	105,738	(3,506)
2 to 5 years	974,000	(17,094)	557,456	(13,165)
5 to 10 years	671,777	(17,020)	286,549	17,931
Later than 10 years	1,600,867	16,957	1,757,921	32,812
	3,576,212	**(27,870)**	**2,961,144**	**30,479**

All interest rate swaps are settled net.

OTHER OVER-THE-COUNTER SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps 2 to 5 years	59,555	(1,325)	59,080	(5,595)
	59,555	**(1,325)**	**59,080**	**(5,595)**

All other over-the-counter swaps are settled net.

WARRANTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2019	2019	2018	2018
	NZD'000	NZD'000	NZD'000	NZD'000
1 to 2 years	19,355	-	19,201	-
2 to 5 years	4,690	-	4,653	-
5 to 10 years	10,636	-	47,476	-
	34,681	**-**	**71,330**	**-**

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	FUND ACTUAL				
2019	LESS THAN 1 YEAR	1 - 2 YEARS	2 - 5 YEARS	5 - 10 YEARS	10+ YEARS
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Net-settled derivative financial instruments	(65,772)	(19,910)	(72,127)	(17,020)	(26,774)
Gross-settled derivative financial instruments - cash inflow	18,338,722	-	-	-	-
Gross-settled derivative financial instruments - cash outflow	(18,650,275)	-	-	-	-
	(377,325)	**(19,910)**	**(72,127)**	**(17,020)**	**(26,774)**
2018					
Net-settled derivative financial instruments	(138,247)	(4,565)	(49,519)	(4,801)	(10,200)
Gross-settled derivative financial instruments - cash inflow	35,071,167	350,943	55,382	-	-
Gross-settled derivative financial instruments - cash outflow	(36,303,016)	(365,107)	(56,541)	-	-
	(1,370,096)	**(18,729)**	**(50,678)**	**(4,801)**	**(10,200)**

SECURITIES LENDING AND SIMILAR AGREEMENTS

Accounting Policy

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position 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 of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Statement of Financial Position, along with a corresponding obligation to repay the cash collateral to the borrower, once the securities have been returned.

Securities purchased under reverse repurchase agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the Fund. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(f) Offsetting financial assets and financial liabilities

At balance date the Fund was subject to multiple master netting arrangements with its derivative financial instrument and securities lending and similar agreements' counterparties.

The Fund offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

The following tables present the Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

	FUND ACTUAL					
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET IN THE STATEMENT OF FINANCIAL POSITION		
2019	GROSS AMOUNTS	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL	NET AMOUNT
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Derivative financial instrument assets	1,192,802	333,945	858,857	-	162,613	696,244
Reverse repurchase agreements*	-	-	-	-	-	-
Securities lending and similar agreements*	5,856	-	5,856	6,063	1,583	(1,790)
Financial liabilities						
Derivative financial instrument liabilities	(847,101)	(333,945)	(513,156)	-	(196,941)	(316,215)
2018						
Financial assets						
Derivative financial instrument assets	872,871	467,037	405,834	-	102,262	303,572
Reverse repurchase agreements*	855,183	-	855,183	912,398	-	(57,215)
Securities lending and similar agreements*	2,376,269	-	2,376,269	1,681,538	842,364	(147,633)
Financial liabilities						
Derivative financial instrument liabilities	(1,921,541)	(467,037)	(1,454,504)	-	(801,301)	(653,203)

* Financial instruments held as collateral against reverse repurchase and securities lending and similar agreements are held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position.

(g) Trade and other payables

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Trade payables	-	-
Accrued expenses	12,698	23,570
Unsettled purchases	631,151	506,739
Amounts owed for reimbursement of the Guardians' expenses	11,149	10,500
	654,998	**540,809**
Represented by:		
Current	654,103	540,167
Non-current	895	642
	654,998	**540,809**

Accounting Policy

Short-term trade and other payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. The average credit period on trade payables is 30 days. No interest is charged on overdue balances. The Fund has risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions.

Other than the non-current portion of trade and other payables, all payables are expected to settle within one year. The non-current payable will settle progressively over a four-year period.

(h) Financial assets and financial liabilities expected to be recovered or settled after more than 12 months

Certain financial assets and financial liabilities combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Financial assets		
Investments - derivative financial instrument assets	118,061	182,882
Investments - other financial assets	9,338,145	8,194,350
	9,456,206	**8,377,232**
Financial liabilities		
Trade and other payables	895	642
Investments - derivative financial instrument liabilities	135,831	84,408
	136,726	**85,050**
Net financial assets	**9,319,480**	**8,292,182**

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Property, plant and equipment

	FUND ACTUAL
	NZD'000
Gross carrying amount	
Balance at 1 July 2017	4,003
Additions	332
Disposals	(21)
Balance at 30 June 2018	**4,314**
Additions	417
Disposals	(45)
Balance at 30 June 2019	**4,686**
Accumulated depreciation	
Balance at 1 July 2017	1,985
Depreciation expense	441
Depreciation recovered	(7)
Balance at 30 June 2018	**2,419**
Depreciation expense	452
Depreciation recovered	(44)
Balance at 30 June 2019	**2,827**
Net book value	
As at 30 June 2018	**1,895**
As at 30 June 2019	**1,859**

Accounting Policy

RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bringing the item to working condition for its intended use.

Subsequent to initial recognition, all items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year in which the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income. Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

Refer to Note 7(c) for the accounting policy on depreciation.

Property, plant and equipment includes computer and office equipment and leasehold improvements. The leasehold improvements relate to office premises leased by the Guardians at 21 Queen Street, Auckland. The Guardians is the legal party to the lease, however all lease expenses incurred are reimbursed by the Fund. The Guardians is able to appropriate funds from the Crown to cover certain expenses, however these do not extend to property, plant and equipment. As a result, the Fund directly meets the cost of all leasehold improvements and accordingly, these assets are reflected in the financial statements of the Fund.

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Provision for performance-based fees

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Opening balance	-	15,642
New provision during the year	599	5,941
Unused provision released during the year	-	-
Current portion transferred to accrued expenses	(599)	(21,583)
Closing balance	**-**	**-**

Accounting Policy

A provision is recognised in the Statement of Financial Position when the Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A provision is recognised by the Fund for performance-based fees payable to external investment managers where it is uncertain how much cash will be required to settle a liability and therefore an estimate is required. Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

All provisions for performance-based fees are non-current.

SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES

(a) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the Fund less any liabilities, is the property of the Crown. The Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. The Government announced in the 2009 Budget a cessation in capital contributions to the Fund. As a consequence, no capital contributions were received between 1 July 2009 and 30 June 2017. In December 2017, the Government announced capital contributions to the Fund would resume, with the first payment being made on 15 December 2017. Capital contributions to the Fund are forecast to increase over the next 5 years under current Treasury modelling. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, no withdrawal of capital is permitted from the Fund prior to 1 July 2020.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. As no capital withdrawals are permitted from the Fund prior to 1 July 2020, the Minister of Finance is obliged to provide funding to meet superannuation entitlements in the interim. The Treasury, through the New Zealand Debt Management Office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the Fund on a prudent, commercial basis and, in doing so, ensure that the Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz.

(b) Reserves

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases and decreases in the fair value of intangible assets.

AVAILABLE-FOR-SALE RESERVE

This reserve records movements in the fair value of available-for-sale financial assets.

SECTION 7: FINANCIAL PERFORMANCE

(a) Income

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Net operating income		
Interest income	304,409	276,992
Dividend income	678,429	551,485
Net changes in fair value on financial instruments at fair value through profit or loss*	1,703,131	3,313,051
Net foreign exchange gains	241,536	346,734
Other income	49	146
	2,927,554	**4,488,408**
Interest income		
Interest income - financial instruments at fair value through profit or loss	190,617	214,645
Interest income - financial assets at amortised cost	113,792	62,347
	304,409	**276,992**

* Net changes in fair value on financial instruments at fair value through profit or loss combines changes in fair value arising from financial instruments that were previously classified as 'held for trading' and changes in fair value from financial instruments that were previously classified as 'designated at fair value upon initial recognition' under NZ IAS 39 Financial Instruments: Recognition and Measurement. For the year ended 30 June 2018, net fair value gains on financial instruments that were 'held for trading' amounted to $669,822,000; net fair value gains on financial instruments that were 'designated at fair value upon initial recognition' amounted to $2,643,229,000.

Accounting policy

Income is recognised when it is probable that economic benefits will flow to the Fund and the income can be reliably measured, regardless of when payment is being made. The following specific recognition criteria must also be met before income is recognised:

INTEREST INCOME

Interest income comprises interest on financial instruments measured at fair value through profit or loss and interest on financial assets measured at amortised cost.

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. For financial assets at amortised cost, interest income is recognised as the interest accrues using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

(b) Income received and fair value gains and losses recognised from interests in unconsolidated structured entities

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through profit or loss recognised in the Statement of Comprehensive Income from interests in unconsolidated structured entities:

			FUND ACTUAL		
2019	INTEREST INCOME	DIVIDEND INCOME	FAIR VALUE GAINS	FAIR VALUE LOSSES	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Fixed income securities:					
Asset-backed securities	32,915	-	1,367	(4,048)	30,234
Mortgage-backed securities	30,123	-	2,602	(3,477)	29,248
Agency mortgage-backed securities	9,821	-	16,173	(7,250)	18,744
Shareholder loans	12,639	-	201	(206)	12,634
Collective investment funds	334	-	47,956	(22,544)	25,746
Insurance-linked investments - catastrophe bonds	7,522	-	214	(5,472)	2,264
Private equity investments	-	1,522	103,547	(98,654)	6,415
Unconsolidated subsidiaries	-	3,626	478,090	(163,054)	318,662
2018					
Fixed income securities:					
Asset-backed securities	15,716	-	1,810	(1,603)	15,923
Mortgage-backed securities	12,863	-	1,259	(5,421)	8,701
Agency mortgage-backed securities	7,819	-	1,496	(9,045)	270
Shareholder loans	9,507	-	311	(70)	9,748
Collective investment funds	-	-	139,286	(8,544)	130,742
Insurance-linked investments - catastrophe bonds	4,516	-	812	(2,100)	3,228
Private equity investments	-	17,911	684,342	(135,893)	566,360
Unconsolidated subsidiaries	-	5,319	268,376	(17,063)	256,632

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(c) Operating expenditure

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Reimbursement of Guardians' expenses	49,671	45,255
Managers' fees - base	31,273	28,821
Managers' fees - performance	599	5,942
Custody fees	5,491	6,404
Depreciation	452	441
Amortisation	392	199
Loss on disposal of property, plant and equipment	45	16
Auditor's remuneration	571	474
Professional advisors	6,377	10,114
Trade expenses	7,846	6,049
Other expenses	6,751	2,489
	109,468	**106,204**

Accounting policy

DEPRECIATION

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to estimated residual value over their estimated useful lives. The estimated useful lives of the major categories of property, plant and equipment are as follows:

Computer and office equipment	3 years
Office fit-out	12 years

The cost of office fit-out is capitalised and depreciated over the unexpired period of the lease (held by the Guardians) or the estimated remaining useful lives of the improvements, whichever is shorter.

(d) Auditor's remuneration

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Audit of the Fund's financial statements	466	416
Audit of the Fund's unconsolidated subsidiaries met by the Fund	87	41
Other fees paid to auditor	18	17
	571	**474**

The auditor of the Fund is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

Audit fees paid to the auditor for the audit of the Fund's unconsolidated subsidiaries relate to the audit of NZSF Land Holdings Limited, NZSF Tui Investments Limited, NZSF Australian Rural Holdings Limited, NZSF Horticulture Investments Limited and NZSF Timber Investments (No 4) Limited. Not all of the Fund's unconsolidated subsidiaries are audited by the auditor of the Fund. As a consequence not all audit fees relating to unconsolidated subsidiaries are reflected in the above fees.

The other fees paid to the auditor of the Fund were for the assurance review of the calculation of Fund performance and the assurance review of the annual self-assessment of the Guardians' adherence to the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles).

(e) Income tax

The income tax expense included in the Statement of Comprehensive Income is analysed as follows:

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Components of income tax expense		
Current tax expense:		
Current period	506,311	270,387
Prior period adjustment	(2,774)	(30,178)
Total current tax expense	**503,537**	**240,209**
Deferred tax expense:		
Current period	21,520	110,076
Prior period adjustment	109	502
Total deferred tax expense	**21,629**	**110,578**
Income tax expense	**525,166**	**350,787**
Reconciliation of income tax expense and accounting profit for the year		
Profit for the year before income tax expense	2,818,086	4,382,204
Income tax expense calculated at 28%	789,064	1,227,017
Fair Dividend Rate*	(222,536)	(708,071)
Dividend imputation credits	5,402	(18,126)
Portfolio Investment Entities (PIE) Regime	(105,904)	(112,623)
Controlled Foreign Companies (CFC) Regime	56,018	(9,086)
Expenses non-deductible for tax purposes	504	-
Prior period adjustments	(2,665)	(29,676)
Other items	5,283	1,352
Income tax expense	**525,166**	**350,787**
Tax expense relating to items charged or credited directly to equity		
Deferred tax on asset revaluation reserve	-	-
	-	**-**

* The Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

The Guardians has a Co-operative Compliance Agreement with the Inland Revenue Department (IRD). Under this agreement, tax positions undertaken on Fund activities, including the tax treatment of new investments, are disclosed to the IRD before the tax return is filed.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

The table below sets out the deferred tax liability recognised in the Statement of Financial Position, together with movements during the year:

	FUND ACTUAL			
	RECOGNISED 2018	CHARGED TO PROFIT OR LOSS	RECLASSIFICATION	RECOGNISED 2019
	NZD'000	NZD'000	NZD'000	NZD'000
Deferred tax liability comprises temporary differences attributable to:				
Timber investments - forest revaluation*	(449,981)	(12,663)	462,644	-
Other items	(25,320)	(8,966)	-	(34,286)
Total deferred tax liability	**(475,301)**	**(21,629)**	**462,644**	**(34,286)**

* On 30 November 2018, a former nominee company of the Guardians, NZSF Timber Investments (No 4) Limited, was restructured as a subsidiary of the Fund and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership (refer Note 1(e)), along with the deferred tax liability associated with this investment. As a consequence, this portion of the deferred tax liability balance now sits within the Fund's 'investments in unconsolidated subsidiaries' rather than being reflected separately in the Fund's financial statements.

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived by the Fund is subject to New Zealand tax determined using the rules applying to companies. The income tax expense recognised in profit or loss in the Statement of Comprehensive Income comprises current and deferred tax and is based on accounting profit, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss other than in a business combination; and
- temporary differences relating to investments in subsidiaries, associates and interests in joint ventures where it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable profit will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the Fund intends to settle on a net basis.

(f) Reconciliation of profit for the year to net cash flows from operating activities

The following is a reconciliation of profit for the year to cash provided by operating activities as per the Statement of Cash Flows.

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Profit for the year after income tax expense	2,292,920	4,031,417
Add/(Deduct) non-cash items:		
Depreciation and amortisation	844	640
Loss on revaluation of property, plant and equipment	-	(7)
Net fair value gains on financial instruments	(1,703,131)	(3,313,051)
Net foreign exchange gains	(241,536)	(346,734)
Increase/(Decrease) in deferred tax liability	(441,015)	110,578
Other non-cash items	497,044	(10,285)
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	45	16
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	255,564	577,785
Other current assets	-	-
Increase/(Decrease) in liabilities:		
Trade and other payables	114,190	(1,826,379)
Provision for performance-based fees	-	(15,642)
Increase/(Decrease) in current tax	430,160	(632,847)
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	(249,396)	(561,656)
Unsettled purchases	(124,398)	1,829,110
Add/(Deduct) net operating cash flows not included in net profit*	(772,746)	(1,998,799)
Net cash provided by/(used in) operating activities	**58,545**	**(2,155,854)**

* Net operating cash flows not included in net profit is primarily comprised of the cash flows arising from the sale and purchase of investments and the net movement in cash collateral.

SECTION 8: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

Accounting Policy

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

The Fund has no operating leases at balance date (2018: nil).

CAPITAL COMMITMENTS

At 30 June 2019, the Fund had outstanding commitments to private equity investment funds and collective investment funds (excluding those classified as unconsolidated subsidiaries) totalling $216,199,000 (2018: $278,709,000), of which $2,286,000 has been called but not yet paid (2018: $203,000). Additionally, private equity investment funds that have reached the end of their contracted investment periods can call for 'follow on capital' under restricted conditions to support existing investments. The Fund has an additional commitment of $500,057,000 for follow on capital (2018: $451,140,000). These commitments are denominated in the foreign currency of the respective private equity investment fund and have been translated at the exchange rate prevailing at balance date.

At 30 June 2019, the Fund had outstanding commitments under loan agreements totalling $121,681,000 (2018: $73,357,000). Under the loan agreements, the borrower can call for cash by giving the Fund up to two business days notice.

CONTINGENCIES

The Fund has no contingent liabilities at balance date (2018: nil).

(b) Subsequent events

There were no reportable events subsequent to balance date (2018: nil).

SECTION 9: OTHER INFORMATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, associates and joint ventures. All related party transactions have been entered into on an arm's length basis.

PARENT ENTITY

The Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of reimbursement to the Guardians for the year ended 30 June 2019 was $49,671,000 (2018: $45,255,000). The related party payable to the Guardians as at 30 June 2019 is $11,149,000 (2018: $10,500,000).

UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Transactions entered into with unconsolidated subsidiaries during the year are as follows:

	FUND ACTUAL	FUND ACTUAL
	2019	2018
	NZD'000	NZD'000
Unconsolidated subsidiaries		
Dividend income	9,537	5,246
Expenses paid by the Fund on behalf of unconsolidated subsidiaries	87	41
Interest on loans made to unconsolidated subsidiaries	2,103	878
Repayment of loans	100,061	-

During the year, the Fund established two new unconsolidated subsidiaries for the purpose of holding, facilitating and managing its investments, as outlined in Note 1(e). Holding these investments via unconsolidated subsidiaries, rather than holding them directly, provides the Fund with greater flexibility in terms of future investment decisions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 9: OTHER INFORMATION (CONTINUED)

The Fund has made the following financial commitments to unconsolidated subsidiaries:

			FUND ACTUAL			
	NOTE	COMMITMENT EXPIRY DATE	TOTAL COMMITMENT	OUTSTANDING COMMITMENT	TOTAL COMMITMENT	OUTSTANDING COMMITMENT
			2019	2019	2018	2018
			NZD'000	NZD'000	NZD'000	NZD'000
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i)	22 Sept 2019	262,805	86,835	267,294	154,516
Canyon NZ-DOF Investing Limited Partnership	(i)	30 Nov 2019	372,218	122,832	369,250	166,163
N-Data Center Portfolio Co-Investor LLC	(iii)	No expiry date	168,689	96,785	-	-
KKR Energy Investor Limited Partnership	(iv)	12 Feb 2019	160,984	55,467	159,701	3,329
NZSF Hobsonville Investments Limited	(ii)	No expiry date	48,737	9,058	46,787	12,082
NZSF Land Holdings Limited	(ii)	No expiry date	11,935	1,150	11,603	3,801
NZSF US Renewables, Inc.*	(i)	31 Jan 2020	70,819	8,338	66,465	13,958
NZSF Side Car (Movac) Limited Partnership	(i)	2 Nov 2021	25,000	9,972	25,000	17,686
NZSF Side Car (Pioneer) Limited Partnership	(i)	2 Dec 2021	60,000	39,262	60,000	48,577
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(i)	14 Dec 2022	50,000	22,035	50,000	30,910

* Additionally, NZSF US Renewables, Inc. has committed to providing financial support to its joint venture, Longroad Energy Holdings, LLC in respect of a letter of credit taken on by that company. In the event that Longroad Energy Holdings, LLC is unable to pay any outstanding amount arising from the letter of credit as it falls due, NZSF US Renewables, Inc. may require additional funding from the Fund to enable it to provide the required support. At balance date, the letter of credit totalled $204,422,000 (equivalent to USD 137,300,000) (2018: $179,012,000) of which NZSF US Renewables, Inc.'s share is $102,211,000 (equivalent to USD 68,650,000) (2018: $89,500,000).

(i) The unconsolidated subsidiary can call on this financial commitment by giving not less than 10 business days' notice.

(ii) The unconsolidated subsidiary can call on this financial commitment by giving not less than 5 business days' notice.

(iii) The unconsolidated subsidiary can call on this financial commitment by giving not less than 7 business days' notice.

(iv) The contracted investment period has expired. The unconsolidated subsidiary can call for 'follow on capital' under restricted conditions to support the administration of the unconsolidated subsidiary and for existing investments.

The Fund has made the following loans to unconsolidated subsidiaries:

	NOTE	FUND ACTUAL	FUND ACTUAL
		2019	2018
		NZD'000	NZD'000
NZSF Rural Land Limited	(i)	29,050	10,000
NZSF Southland Farms Limited	(i)	32,810	8,810
NZSF Waikato Farms Limited	(ii)	14,094	14,093
NZSF Australian Rural Holdings Trust	(ii)	47,275	42,995
Palgrove Holdings Pty Limited	(ii)	9,716	8,916
NZSF Tui Investments Limited	(i)	45,435	61,750
NZSF Timber Investments (No 4) Limited	(i)	630,498	-

(i) Interest free, repayable on demand.

(ii) Interest free, repayable by 14 August 2027.

Transactions entered into with associates during the year are as follows:

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Associates		
Dividend income	1,719	-
Interest income	1,653	3,541

On 30 November 2018, NZSF Timber Investments (No 4) Limited was restructured as a FIV and all interests and contracts entered into on behalf of the Fund were transferred into NZSF Timber Investments (No 4) Limited to hold on its own account. On that date, NZSF Timber Investments (No 4) Limited ceased to hold assets in a nominee capacity and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership and loans to its associated companies. Related party loans from the Fund to Kaingaroa Timberlands Partnership and associated companies therefore now comprise interest-bearing loans of $nil (2018: $50,340,000) and an interest-free loan of $nil (2018: $13,610,000).

Transactions entered into with joint ventures during the year are as follows:

	FUND ACTUAL 2019 NZD'000	FUND ACTUAL 2018 NZD'000
Joint ventures		
Dividend income	6,953	5,921
Interest income	5,568	-
Other income	3,025	1,950
Purchase of property, plant and equipment	-	3
Purchase of intangible assets	-	113

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at 30 June 2019 were $nil (2018: $3,000). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

OTHER GOVERNMENT-RELATED ENTITIES

At balance date, the Fund held fixed income securities issued by the New Zealand Government valued at $nil (2018: $671,000). Interest income earned from these investments during the year was $20,000 (2018: $79,000).

At balance date, the Fund held inflation-indexed securities issued by the New Zealand Government valued at $118,372,000 (2018: $nil). Income earned from these investments during the year was $nil (2018: $nil).

At balance date, the Fund held 28,979,000 (2018: 33,725,000) shares in Meridian Energy Limited, valued at $137,651,000 (2018: $105,223,000). Dividend income earned during the year from holdings in this entity amounted to $6,075,000 (2018: $6,093,000).

At balance date, the Fund held 5,368,000 (2018: 7,303,000) shares in Air New Zealand Limited, valued at $14,224,000 (2018: $23,188,000). Dividend income earned during the year from holdings in this entity amounted to $1,450,000 (2018: $1,129,000).

At balance date, the Fund held 16,581,000 (2018: 15,769,000) shares in Mercury NZ Limited, valued at $77,100,000 (2018: $53,140,000). Dividend income earned during the year from holdings in this entity amounted to $2,671,000 (2018: $2,791,000).

At balance date, the Fund held, through its subsidiary NZSF Tui Investments Limited, 227,789,000 (2018: 227,789,000) ordinary shares and 61,750,000 (2018: 61,750,000) redeemable preference shares in Kiwi Group Holdings Limited. The total cost of these investments was $316,271,000 (2018: $324,250,000). Dividend income earned during the year from holdings in this entity amounted to $5,557,000 (2018: $2,778,000).

During the year, the Fund, through its subsidiary, NZSF Tui Investments Limited, together with Accident Compensation Corporation (ACC), settled a warranty claim dispute with New Zealand Post Limited (NZ Post) with regard to the purchase of Kiwi Group Holdings Limited for $7,979,000.

SECTION 9: OTHER INFORMATION (CONTINUED)

(b) Comparison to budget (unaudited)

During the year ended 30 June 2019 the specific asset mix of the Fund varied from the budgeted figures and market returns were lower than the long-term return expectations on which the budget is based. Given the weight of growth assets in the Fund, management expects significant year to year variations in the Fund's returns. It is not possible to accurately predict these variations and incorporate them into the budget

Building a better working world

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund on his behalf.

OPINION

We have audited the financial statements of the Fund on pages 126 to 188, that comprise the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income, Statement of Changes in Public Equity 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.

In our opinion the financial statements of the Fund on pages 126 to 188:

- Present fairly, in all material respects:
  - Its financial position as at 30 June 2019; and
  - Its financial performance and cash flows for the year then ended; and
- Comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 26 September 2019. 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 Board of Guardians of New Zealand Superannuation (the "Guardians") and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

BASIS FOR OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the Auditor of the Financial Statements section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

The Guardians are responsible on behalf of the Fund for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Guardians are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Guardians are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Guardians intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Guardians regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Guardians are responsible for the other information. The other information comprises the information included on pages 1 to 124, but does not include the financial statements, and our auditor's report thereon.

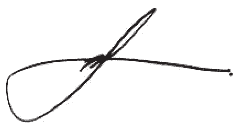
Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Fund in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

We have performed limited assurance engagements in respect of Fund performance and the Fund's self-assessment against the Santiago Principles. Other than these engagements and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.



Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2019

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Performance for the year ended 30 June 2019 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

CATHERINE SAVAGE

CHAIR
26 September 2019

CATHERINE DRAYTON

BOARD MEMBER
26 September 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2019	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2019	2018	2019
		NZD'000	NZD'000	NZD'000
Revenue	2(a)	50,401	46,112	60,635
Expenses	2(b)	50,401	46,112	60,635
Surplus/(Deficit) for the year		**-**	**-**	**-**
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense for the year		**-**	**-**	**-**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2019	2018	2019
		NZD'000	NZD'000	NZD'000
ASSETS				
Current assets				
Cash and cash equivalents	4(b)	2,560	2,392	676
Receivables from exchange transactions	4(c)	10,503	10,133	10,937
Receivables from non-exchange transactions	4(c)	102	97	-
Prepayments		600	436	-
Total current assets		**13,765**	**13,058**	**11,613**
Non-current assets				
Receivables from exchange transactions	4(c)	895	642	-
Property, plant and equipment	4(d)	-	-	-
Total non-current assets		**895**	**642**	**-**
Total assets		**14,660**	**13,700**	**11,613**
LIABILITIES				
Current liabilities				
Payables under exchange transactions	4(e)	1,163	1,496	716
Employee entitlements	4(f)	11,504	10,378	9,290
Deferred lease incentive	4(g)	86	86	86
Total current liabilities		**12,753**	**11,960**	**10,092**
Non-current liabilities				
Employee entitlements	4(f)	895	642	510
Deferred lease incentive	4(g)	512	598	511
Total non-current liabilities		**1,407**	**1,240**	**1,021**
Total liabilities		**14,160**	**13,200**	**11,113**
Net assets		**500**	**500**	**500**
PUBLIC EQUITY				
Accumulated comprehensive revenue and expense		-	-	-
General equity reserve		500	500	500
Total public equity	4(h)	**500**	**500**	**500**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2019	ACTUAL		
	GENERAL EQUITY RESERVE	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	TOTAL
	NZD'000	NZD'000	NZD'000
Balance at 1 July 2017	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2018	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2019	**500**	**-**	**500**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019	NOTE	ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2019	2018	2019
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		579	633	728
Receipts from the New Zealand Superannuation Fund		49,022	45,297	56,376
Interest received		56	46	60
Goods and Services Tax		23	-	78
Other receipts		93	582	133
Total cash inflow from operating activities		**49,773**	**46,558**	**57,375**
Cash was applied to:				
Payments to Board members		(395)	(394)	(404)
Payments to suppliers		(13,960)	(11,701)	(17,990)
Payments to employees		(35,250)	(33,243)	(40,862)
Goods and Services Tax		-	(114)	-
Total cash outflow from operating activities		**(49,605)**	**(45,452)**	**(59,256)**
Net cash provided by/(used in) operating activities		**168**	**1,106**	**(1,881)**
Net cash provided by investing activities		**-**	**-**	**-**
Net cash provided by financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**168**	**1,106**	**(1,881)**
Cash and cash equivalents at the beginning of the financial year		2,392	1,286	2,557
Cash and cash equivalents at the end of the financial year	4(b)	**2,560**	**2,392**	**676**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2019	ACTUAL	ACTUAL
	2019	2018
	NZD'000	NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	(792)	335
Increase/(Decrease) in liabilities:		
Trade and other payables	1,046	856
Deferred lease incentive	(86)	(85)
Net cash provided by/(used in) operating activities	**168**	**1,106**

The attached notes form part of, and should be read in conjunction with, these financial statements.

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) General information

These are the financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 225.

The financial statements of the Guardians and Group for the year ended 30 June 2019 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 26 September 2019.

(b) Statement of compliance

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards.

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in New Zealand dollars, which is the Guardians functional currency. All values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Significant judgements and estimates

The preparation of the Guardians financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Guardians are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Guardians and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Employee entitlements - long service leave (Note 4(f)); and
- Employee entitlements - long-term portion of incentives (Note 4(f)).

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Guardians and its subsidiaries as at 30 June 2019.

The financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONTINUED)

(f) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians. The Guardians controls an entity when it has the power to govern the financial and operating policies of that entity so as to obtain benefits from their activities.

The Guardians has interests in the following subsidiaries:

				OWNERSHIP INTEREST	
NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	2019 %	2018 %
New Zealand Superannuation Fund Nominees Limited	(i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 4) Limited	(ii)	30 June	New Zealand	-	100
NZSF Private Equity Investments (No 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Rural Investments (No 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Aotea Limited	(iii)	30 June	New Zealand	100	100

(i) The principal activity of each subsidiary is to act as a nominee company, holding assets and liabilities on behalf of the Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements. Nominee companies may only act on the direction of the Guardians.

(ii) NZSF Timber Investments (No 4) Limited was originally formed to act as a nominee company for the Guardians, holding the legal interest in certain assets and liabilities on behalf of the Fund. By virtue of the nominee agreement, the assets and liabilities held on behalf of the Fund were recognised in the financial statements of the Fund. On 30 November 2018, NZSF Timber Investments (No 4) Limited was restructured as a Fund Investment Vehicle (FIV) and all the interests and contracts entered into on behalf of the Fund were transferred into NZSF Timber Investments (No 4) Limited to hold on its own account. On that date, NZSF Timber Investments (No 4) Limited ceased to hold assets and liabilities in a nominee capacity and became the beneficial owner of the investment in Kaingaroa Timberlands Partnership. As a result, this subsidiary is no longer disclosed as a subsidiary of the Guardians; it is now disclosed as a subsidiary of the Fund.

(iii) The principal activity of NZSF Aotea Limited is to hold assets and liabilities on behalf of the Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements.

(g) Other significant accounting policies

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

GOODS AND SERVICES TAX (GST)

Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

STATEMENT OF CASH FLOWS

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

Operating activities include all activities other than investing or financing activities. Cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group’s operating activities. Cash outflows include payments made to employees, suppliers and for taxes and levies, other than income tax.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified under cash flows from operating activities.

(h) Changes in accounting policies

The adoption of PBE IFRS 9 Financial Instruments during the year has resulted in changes to the Guardians accounting policies. The nature and effect of these changes are described in Note 1(i). All other accounting policies have been applied consistently throughout these financial statements.

(i) New and amended standards adopted

The Guardians has adopted PBE IFRS 9 Financial Instruments for the first time in these financial statements. The Guardians has also adopted the consequential amendments to PBE IPSAS 30 Financial Instruments: Disclosures as a result of the application of PBE IFRS 9 Financial Instruments. The nature and effect of changes as a result of the adoption of this standard are described below.

PBE IFRS 9 FINANCIAL INSTRUMENTS

PBE IFRS 9 Financial Instruments introduces into PBE Standards the reforms introduced by NZ IFRS 9 Financial Instruments in the for-profit sector. This standard replaces most of the requirements of PBE IPSAS 29 Financial Instruments: Recognition and Measurement and introduces a number of changes to the classification and measurement of financial assets, hedge accounting and impairment. PBE IFRS 9 Financial Instruments is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. However, all entities who report their financial statements in accordance with Crown accounting policies are required to adopt PBE IFRS 9 Financial Instruments at the same time as the for-profit sector. As a result, the Guardians has adopted PBE IFRS 9 Financial Instruments with effect from 1 July 2018.

The adoption of PBE IFRS 9 Financial Instruments has resulted in changes to the Guardians accounting policies, classification of financial assets and impairment in the financial statements. The new accounting policies are set out in Note 4(a). The Guardians has applied PBE IFRS 9 Financial Instruments retrospectively but has elected not to restate comparative information.

Classification and measurement

PBE IFRS 9 Financial Instruments introduces a new model for classifying financial assets whereby financial assets are classified based on the business model under which the assets are held and managed and the nature of their underlying cash flows. PBE IFRS 9 Financial Instruments contains three principal classifications for financial assets: financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income; and financial assets at amortised cost. It eliminates the financial asset categories of held to maturity; loans and receivables; and available for sale that were available under PBE IPSAS 29 Financial Instruments: Recognition and Measurement.

As at 30 June 2018, the Guardians financial assets were classified as loans and receivables. On 1 July 2018, the Board and management assessed which business models apply to the financial assets held and managed by the Guardians and analysed the cash flow characteristics of these assets. They concluded that the Guardians financial assets meet the criteria for amortised cost measurement under PBE IFRS 9 Financial Instruments. As a result, the Guardians financial assets have been reclassified as financial assets at amortised cost with no change to their measurement.

There are no changes in classification and measurement for the Guardians financial liabilities.

Impairment

PBE IFRS 9 Financial Instruments introduces a new, forward-looking impairment model based on expected credit loss, which is different from the incurred loss approach available under PBE IPSAS 29 Financial Instruments: Recognition and Measurement. The new impairment model applies to financial assets held at amortised cost.

The Board and management have determined that application of the new impairment provisions has no impact on the carrying values of the Guardians financial assets held at amortised cost as at 1 July 2018.

(j) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2019. The budget figures are unaudited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 2: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Revenue from exchange transactions			
Cost reimbursement from the New Zealand Superannuation Fund	3(a)	49,671	45,255
Other revenue		90	177
Interest income - financial assets at amortised cost		56	46
		49,817	**45,478**
Revenue from non-exchange transactions			
Appropriations from the Crown	3(a)	584	634
		584	**634**
Total revenue		**50,401**	**46,112**

Accounting Policy

The Guardians primarily derives revenue through the provision of services to the Crown and to the Fund. Revenue is recognised when it is probable that economic benefits will flow to the Guardians and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Rendering of services

Cost reimbursement from the Fund is recognised by reference to the stage of completion of services provided at balance date when the transaction involving the rendering of services can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to date compared with estimated total costs of the transaction.

Interest income

Interest income is recognised as the interest accrues, using the effective interest method. The effective interest method allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Appropriations from the Crown

Revenue is recognised from the Crown when it is probable that appropriations will be received, the value of those appropriations can be reliably measured and the transfer is free from conditions that require the assets to be refunded or returned to the Crown if the conditions are not fulfilled. To the extent there is a related condition attached to the appropriations that would give rise to a liability to repay the appropriate amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

(b) Expenses

	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Employee entitlements and other employment-related expenses		
Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses	26,125	25,324
Employee incentive scheme	8,904	7,976
Employer contributions to KiwiSaver	2,603	1,291
	37,632	**34,591**

Further disclosures on employee entitlements are contained in Note 4(f).

	NOTE	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Other expenses			
Travel and accommodation expenses		2,159	2,242
IT expenses		5,282	4,072
Operating lease expenses		1,137	1,137
Professional fees		818	817
Board members' fees	3(a)	395	394
Auditor's remuneration	2(c)	50	47
Other expenses		2,928	2,812
		12,769	**11,521**
Total expenses		**50,401**	**46,112**

Operating lease expenses relate to office premises in one location with a remaining term of 7 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non-cancellable lease commitments payable in relation to the leased asset have been disclosed in Note 6(a).

Accounting Policy

OPERATING LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

SECTION 2: FINANCIAL PERFORMANCE (CONTINUED)

(c) Auditor's remuneration

	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Audit of the Guardians financial statements	50	47
Audit of subsidiaries of the Group	-	-
	50	**47**

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have audited individual financial statements.

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions.

All related party transactions have been entered into on an arm's length basis. Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: $nil).

PARENT ENTITY

The parent entity in the Group is the Guardians which is a Crown Entity. Crown appropriations for the year ended 30 June 2019 were $584,000 (2018: $634,000). The related party receivable from the Crown as at 30 June 2019 is $102,000 (2018: $97,000).

SUBSIDIARIES

Details of the Guardians interests in subsidiaries are disclosed in Note 1(f). There were no related party transactions with these entities during the year.

OTHER RELATED PARTIES

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. The amount of reimbursement from the Fund for the year ended 30 June 2019 was $49,671,000 (2018: $45,255,000). The related party receivable from the Fund as at 30 June 2019 is $11,149,000 (2018: $10,500,000).

In addition to the above, the Group purchases services from Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the Fund. These purchases totalled $1,731,000 for the year ended 30 June 2019 (2018: $1,557,000). The related party payable to these entities as at 30 June 2019 is $116,000 (2018: $165,000).

OTHER GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (CONTINUED)

KEY MANAGEMENT PERSONNEL

Key management personnel of the Guardians comprise members of the Board and the Leadership Team. The Leadership Team comprises 7 employees (2018: 7 employees).

The compensation of the Board and the Leadership Team is set out below:

	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Leadership team		
Employee benefits (including salaries, annual leave and long service leave)	2,908	2,548
Employee incentive scheme	1,614	1,432
	4,522	**3,980**
Board members' fees		
Board members earned the following fees during the year:		
C Savage (Chair)	98	98
L Wright (Deputy Chair) (retired 31 October 2018)	20	61
H Berkman (appointed 1 October 2018)	37	-
S Botherway (appointed 1 August 2018)	45	-
C Drayton (appointed 1 November 2018)	36	-
S Moir	49	49
D Pearce	49	49
J Williamson	49	49
C Ansley (retired 30 September 2018)	12	49
P Dunphy (retired 31 March 2018)	-	39
	395	**394**

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. The Minister has set the annual base fees for all Board members at $49,000, plus additional annual amounts for the Chair (a further $49,000), Deputy Chair (a further $12,250) and Chair of the Audit Committee (a further $4,900).

Board members' and employees' indemnity and insurance

The Guardians has indemnified Board members and certain employees (and former employees) who have been appointed as directors, nominated by the Guardians, or as other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the role. Each indemnified person is also indemnified in respect of costs incurred by that person in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

(b) Employees' remuneration over $100,000 per annum

For a full discussion of the Guardians' remuneration framework, please refer to page 96 of the Annual Report.

The total remuneration figures in the following table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after balance date. The remuneration bands and benefits are annual amounts. As some employees commenced part-way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, their actual remuneration paid has been reported, rather than their annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

		ACTUAL			
BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2019	NUMBER OF EMPLOYEES 2018	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2019	NUMBER OF EMPLOYEES 2018
100 - 110	5	8	100 - 110	8	7
110 - 120	6	6	110 - 120	10	5
120 - 130	6	10	120 - 130	3	8
130 - 140	8	8	130 - 140	5	6
140 - 150	8	6	140 - 150	3	3
150 - 160	1	4	150 - 160	3	5
160 - 170	6	4	160 - 170	2	4
170 - 180	7	3	170 - 180	9	3
180 - 190	2	4	180 - 190	1	5
190 - 200	1	3	190 - 200	4	2
200 - 210	8	4	200 - 210	9	7
210 - 220	7	8	210 - 220	2	3
220 - 230	9	8	220 - 230	3	1
230 - 240	5	5	230 - 240	1	2
240 - 250	2	3	240 - 250	2	2
250 - 260	3	6	250 - 260	5	5
260 - 270	4	3	260 - 270	2	2
270 - 280	2	1	270 - 280	1	2
280 - 290	2	1	280 - 290	1	3
290 - 300	1	1	290 - 300	-	5
300 - 310	2	-	300 - 310	5	3
310 - 320	-	1	310 - 320	3	2
320 - 330	1	1	320 - 330	7	-
330 - 340	-	-	330 - 340	-	1
340 - 350	1	1	340 - 350	3	4
350 - 360	-	2	350 - 360	2	1
360 - 370	1	-	360 - 370	1	2
370 - 380	1	1	370 - 380	4	2
380 - 390	2	2	380 - 390	2	3
390 - 400	2	2	390 - 400	-	1
400 - 410	-	-	400 - 410	2	2

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (CONTINUED)

ACTUAL

BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2019	NUMBER OF EMPLOYEES 2018	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2019	NUMBER OF EMPLOYEES 2018
410 - 420	1	-	410 - 420	1	-
420 - 430	1	-	420 - 430	1	2
430 - 440	-	-	430 - 440	3	-
450 - 460	-	-	450 - 460	-	1
460 - 470	-	-	460 - 470	1	-
470 - 480	-	1	470 - 480	-	-
500 - 510	1	-	500 - 510	-	2
510 - 520	-	-	510 - 520	1	-
520 - 530	-	1	520 - 530	-	1
550 - 560	-	-	550 - 560	1	2
580 - 590	1	1	580 - 590	-	2
590 - 600	-	-	590 - 600	2	1
600 - 610	-	-	600 - 610	2	2
610 - 620	-	-	610 - 620	1	-
620 - 630	1	-	620 - 630	-	-
630 - 640	-	-	630 - 640	2	-
650 - 660	-	-	650 - 660	1	-
730 - 740	-	-	730 - 740	-	1
780 - 790	-	-	780 - 790	1	-
920 - 930	-	-	920 - 930	-	1
980 - 990	-	-	980 - 990	1	-
	108	**109**		**121**	**116**

During the year ended 30 June 2019 there was one payment made in respect of one individual who resigned during the year and one payment made in respect of one individual who was made redundant during the year totalling $120,093 (2018: one payment in respect of one individual totalling $30,346).

SECTION 4: FINANCIAL POSITION

(a) Financial instruments

2019	NOTE	ACTUAL FINANCIAL ASSETS AT AMORTISED COST (previously Loans and Receivables)	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000
Financial assets				
Cash and cash equivalents	4(b)	2,560	-	2,560
Receivables from exchange transactions (excluding GST receivable)	4(c)	10,267	-	10,267
Receivables from non-exchange transactions	4(c)	102	-	102
		12,929	**-**	**12,929**
Financial liabilities				
Payables under exchange transactions	4(e)	-	1,163	1,163
		-	**1,163**	**1,163**
2018				
Financial assets				
Cash and cash equivalents	4(b)	2,392	-	2,392
Receivables from exchange transactions (excluding GST receivable)	4(c)	9,874	-	9,874
Receivables from non-exchange transactions	4(c)	97	-	97
		12,363	**-**	**12,363**
Financial liabilities				
Payables under exchange transactions	4(e)	-	1,496	1,496
		-	**1,496**	**1,496**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. In making an assessment of the business model for managing a financial asset, the Board and management consider all relevant information.

SECTION 4: FINANCIAL POSITION (CONTINUED)

SUBSEQUENT MEASUREMENT

From 1 July 2018, the Group's financial assets and financial liabilities are subsequently classified into the following categories:

Financial assets at amortised cost

The Group's financial assets are classified at amortised cost if both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect the financial cash flows; and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

This category includes cash and cash equivalents and receivables.

Subsequent to initial recognition, financial assets at amortised cost are measured at amortised cost using the effective interest method and are subject to impairment. When a financial asset is impaired, impairment losses are recognised in the Consolidated Statement of Comprehensive Revenue and Expense in the period in which they arise.

The Group's financial assets are reclassified when, and only when, the business model for managing those financial assets changes.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Accounting policies applied until 30 June 2018

The Group has applied PBE IFRS 9 Financial Instruments retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 30 June 2018, the Group classified its financial assets as loans and receivables. The classification depended on the purpose for which the financial assets were acquired which management determined at initial recognition.

Loans and receivables comprised non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Financial assets included in this category are now classified as financial assets at amortised cost. Subsequent to initial recognition, loans and receivables were measured at amortised cost, using the effective interest method, less any allowance for impairment.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or when the Group has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Group's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether a financial asset is impaired. The amount of the impairment loss is the difference between the contractual cash flows due in relation to the financial asset and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Financial assets that are measured at amortised cost and therefore subject to the impairment provisions (the 'expected credit loss model') of PBE IFRS 9 Financial Instruments comprise cash and cash equivalents and receivables.

The impairment loss for cash and cash equivalents is considered immaterial. Disclosures relating to the impairment of receivables are provided in Note 4(c).

Accounting policies applied until 30 June 2018

Until 30 June 2018, a financial asset was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset that could be reliably estimated. Financial difficulty of a debtor, default payments or receivables of more than 60 days overdue were considered objective evidence of impairment of receivables. The amount of the impairment loss was the difference between the carrying amount of the financial asset and the present value of the estimated cash flows, discounted at the original effective interest rate.

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash balances on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

(c) Receivables

	NOTE	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	10,254	9,858
Trade receivables		13	16
GST receivable		236	259
		10,503	**10,133**
Receivables from non-exchange transactions			
Receivable for Crown appropriations	3(a)	102	97
		102	**97**
Non-current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	895	642
		895	**642**

Accounting Policy

Receivables are initially recognised at fair value which is equal to the amount of consideration that is unconditional. The Group holds receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group only holds receivables that have maturities of less than 12 months. As such, the Board and management have chosen to apply a simplified approach for calculating expected credit losses (ECL) on receivables under PBE IFRS 9 Financial Instruments. As a result, the Board and management do not track changes in credit risk, but instead, recognise impairment losses based on lifetime ECLs at each reporting date. The Group's approach to ECLs reflects a probability-weighted outcome using reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecast of future economic conditions.

Receivables are non-interest bearing and have standard 30-day credit terms. The Group does not have a history of default on receivables and the Board and management consider the probability of default in the future to be very low as the counterparties have a strong capacity to meet their contractual obligations in the short term. Accordingly, no allowance has been made for impairment.

SECTION 4: FINANCIAL POSITION (CONTINUED)

(d) Property, plant and equipment

The Group's property, plant and equipment comprises office and computer equipment that are classified as non-cash-generating assets as they are not held for the primary objective of generating a commercial return. These assets are fully depreciated and were written off during the year ended 30 June 2019.

(e) Payables

	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Payables under exchange transactions		
Trade payables	831	986
Accrued expenses	332	510
	1,163	**1,496**

Trade and other payables represent amounts due to third parties in the normal course of business. The average credit period on trade payables is 30 days. Short-term payables are non-interest bearing and are stated at their nominal value. The Group has risk management policies in place to ensure that all payables are paid within the credit time frame.

(f) Employee entitlements

	ACTUAL 2019 NZD'000	ACTUAL 2018 NZD'000
Current liabilities		
Accrued salaries (including annual leave and long service leave) - key management personnel	312	330
Accrued salaries (including annual leave and long service leave) - other employees	1,739	1,525
Incentives - key management personnel	1,649	1,513
Incentives - other employees	7,804	7,010
	11,504	**10,378**
Non-current liabilities		
Long service leave - key management personnel	65	56
Long service leave - other employees	479	356
Incentives - key management personnel	92	34
Incentives - other employees	259	196
	895	**642**

Accounting Policy

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Consolidated Statement of Comprehensive Revenue and Expense during the period in which the employee rendered the related service, when it is probable that settlement will be required and such employee entitlements are capable of being measured reliably.

Employee entitlements that are due to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee entitlements that are not due to be settled within 12 months are measured at the present value of the estimated future cash outflows. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

LONG SERVICE LEAVE

Employees become eligible for long service leave after five years of service.

INCENTIVES

The Guardians has an incentive scheme in place for all employees. For some employees, a component of their incentive payment is based on the performance of the Fund that vests progressively over a rolling four-year period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the Consolidated Statement of Financial Position reflects the present value of the Guardians' obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of Fund performance.

Key judgement - long service leave

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

Key judgement - long-term portion of incentives

Calculation of the long-term portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption used in the calculation of the long-term portion of the incentive liability, this will impact the employee entitlements expense in the Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Consolidated Statement of Financial Position. The Group manages this risk by using a medium-term expectation of Fund performance.

(g) Deferred lease incentive

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 7 years.

(h) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

SECTION 5: RISK MANAGEMENT

(a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and Fund reimbursements.

The Board and management of the Guardians are responsible for the management of risk. A separate Risk Committee has been established by management as a risk leadership body; to provide leadership on the effectiveness of frameworks and processes at the Guardians.

The Guardians has established risk management policies, procedures and other internal controls to manage the Groups exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Group's cash and cash equivalents will fluctuate due to changes in market interest rates. The Group is primarily exposed to changes in New Zealand short-term interest rates in relation to its cash and cash equivalents which are held in short-term floating interest rate accounts.

The Group invests cash and cash equivalents, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and does not actively monitor exposure to interest rates or interest rate returns. Derivative financial instruments are not used to manage exposure to movements in interest rates.

The following table shows the Group's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates.

		ACTUAL	
		SURPLUS/(DEFICIT) FOR THE YEAR AND EQUITY	
		2019	2018
	BASIS POINTS	NZD'000	NZD'000
Cash and cash equivalents	+100	26	24
Cash and cash equivalents	-100	(26)	(24)

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Group mitigates its exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. The Group does not require any collateral or security to support its financial instruments.

CONCENTRATIONS OF CREDIT RISK

The Group primarily invests cash and cash equivalents with Westpac New Zealand Limited which had a credit rating of AA- as at 30 June 2019 (2018: AA-).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Group has a positive cash position as it recovers all expenses from the Crown or the Fund.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

	ACTUAL	
2019	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FINANCIAL ASSETS AT VARIABLE INTEREST RATE
	%	NZD'000
Financial assets		
Cash and cash equivalents - no fixed maturity	1.46	2,560
		2,560
2018		
Financial assets		
Cash and cash equivalents - no fixed maturity	1.50	2,392
		2,392

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2019

SECTION 6: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	ACTUAL	ACTUAL
	2019	2018
	NZD'000	NZD'000
Less than 1 year	1,268	1,243
1 to 2 years	1,292	1,268
2 to 5 years	3,957	3,904
Later than 5 years	2,698	4,043
Total operating lease commitments	**9,215**	**10,458**

CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2019 (2018: nil).

(b) Events after the reporting date

The 2019 Budget announced on 30 May 2019 included a commitment to establish a new venture capital fund (VCF) of up to $300,000,000 to be managed and administered by the Guardians. As at 30 June 2019 and as at the date of approval of these financial statements, the legislation required to establish the VCF has not been finalised. However, the new fund will represent an additional mandate for the Guardians to administer, and will be completely separate to the New Zealand Superannuation Fund. It is anticipated that the legislation will provide for the Guardians to appoint the New Zealand Venture Investment Fund (NZVIF), a Crown Entity, as the initial manager of the VCF.

(c) Comparison to budget (unaudited)

	ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE/ (UNFAVOURABLE) VARIANCE
	2019	2019	2019
	NZD'000	NZD'000	NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred*	50,401	60,635	10,234
Consolidated Statement of Changes in Public Equity	500	500	-
Consolidated Statement of Financial Position	500	500	-

* Expenses were lower then budget predominantly due to lower remuneration and travel costs. This was due to recruitment activity being slower than was envisaged in the budget.

Building a better working world

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its subsidiaries (the Group). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

OPINION

We have audited:

- The financial statements of the Group on pages 192 to 214, that comprise the Consolidated Statement of Financial Position as at 30 June 2019, the Consolidated Statement of Comprehensive Revenue and Expense, Consolidated Statement of Changes in Public Equity and Consolidated Statement of Cash Flows for the year ended on that date and notes to the financial statements including a summary of significant accounting policies; and
- The performance information of the Group on pages 110 to 112.

In our opinion:

- The financial statements of the Group on pages 192 to 214:
  - Present fairly, in all material respects:
    - Its financial position as at 30 June 2019; 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 Accounting Standards.
- The performance information on pages 110 to 112:
  - Presents fairly, in all material respects, the Group's performance for the year ended 30 June 2019, including:
    - For each class of reportable outputs its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - Complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 26 September 2019. 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 Board and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

BASIS OF OUR OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the Auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

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

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

OTHER INFORMATION

The Board is responsible for the other information. The other information comprises the information included on pages 1 to 124, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENCE

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor we have no relationship with, or interest in, the Guardians of New Zealand Superannuation or its subsidiaries.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Appendix
He Āpitihanga

07

COMPLIANCE STATEMENTS

SIPSP COMPLIANCE

The Guardians' Statement of Investment Policies, Standards and Procedures (SIPSP) is published on our website www.nzsuperfund.nz. On behalf of the Board and Management of the Guardians of New Zealand Superannuation, we hereby certify that, to the best of our knowledge, the SIPSP has been complied with during the 2018/19 financial year.

CATHERINE SAVAGE, CHAIR

MATT WHINERAY, CEO

PRESENTATION OF THE ANNUAL REPORT

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2019.

CATHERINE SAVAGE, CHAIR

CATHERINE DRAYTON, CHAIR - AUDIT COMMITTEE

GLOSSARY

Access point	The actual investment the Guardians makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, stress test outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
Active return	Any return differential between the actual portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as 'Value-add'.
Active risk	Any deviation in risk in the actual portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value-adding strategies. Note that the actual portfolio can have the same total or absolute risk as the Reference Portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns.
Active strategies	Value-add strategies.
Actual portfolio	The Fund's portfolio at any point in time reflecting all the positions arising from our value-adding strategies as well as drift. Conceptually, the actual portfolio equals the Reference Portfolio (cash plus risk premiums) plus drift plus active risk.
Asset class	An asset class is a group of securities or assets that share common risk and return characteristics.
Basis point	One-hundredth of a percentage point.
Belief	Our stated view on some aspect of financial markets and investing. It a result of mixed judgement and evidence.
Benchmark	A standard against which the performance of a security, index or investor can be measured.
Beta	The sensitivity of a security or asset class to the market or Reference Portfolio.
BMO	Bank of Montreal – the Fund's responsible investment engagement service provider.
Capability	Management's ability to execute a value-add strategy. Incorporates depth and breadth of experience, risk management abilities etc.
Capital	A corpus of funds that can be invested to generate economic value.
Cash	Generally taken to mean a very short-term investment earning interest from a highly rated bank or an equivalent bank bill.
CEM	CEM Global Benchmarking - a provider of benchmarking services and peer comparisons.
Collateralisation	The primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions.
Compensation	Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash, that the investment offers.
Conviction	A measure of the degree of confidence we have in an active manager's investment skill. The Guardians' approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors.
Cost-asset ratio	Operating expenses ÷ average assets over the period.
Counterparty	A counterparty describes a legal entity that presents an exposure to financial risk. The Guardians' counterparties are typically banks.
Crown entity	An organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004. Crown entities are legal entities in their own right. A decision to assign a government activity or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's board directs the entity's day-to-day operations.
Currency management	The Reference Portfolio's foreign currency exposures are 100% hedged to the New Zealand dollar. This means that we receive the actual return of the assets we are invested in without the currency fluctuations adding or detracting from performance. Occasionally we 'step away' from 100% hedging in order to, for example, take advantage of temporary price dislocations and add value to the Fund.

GLOSSARY (CONTINUED)

Cybersecurity	Technologies, processes and practices that are designed to protect networks, computers, programmes and data from attack, damage or unauthorised access.
Derivative	A financial instrument that derives its value from the value of underlying entities such as an asset, index or interest rate - it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in the value of the underlying asset. Derivatives can be used to manage risk, reduce cost and enhance returns.
Direct	A direct activity is a financial market transaction undertaken by the Guardians' management.
Diversification	The potential improvement in a portfolio's Sharpe ratio that arises from introducing assets into the portfolio that behave differently from the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains.
DM	Developed Markets.
Double-arm's length	The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double-arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and Management of the Guardians.
EM	Emerging Markets.
Endowment	A characteristic of the Fund that provides the Guardians with a natural advantage or edge over the typical investor.
Equilibrium	The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns.
Equities	More commonly known as shares or stocks. Securities that signify ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
ESG	Environmental, Social and Governance.
Externally managed	An investment managed by an appointed external manager.
Fixed income	Assets providing income to investors via a fixed periodic payment. In the context of the Reference Portfolio, fixed income is a very well-diversified set of exposures, including sovereign bonds, investment grade credit, agency debt, high yield bonds and emerging market debt. Inflation-linked securities are also included though an element of the income is variable because it is linked to future inflation out-turns.
Foreign exchange	The Fund's exposure to non-NZD cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZD denominated assets (i.e., foreign funded assets) are hedged back to NZD. Hedging back to NZD essentially replaces foreign cash returns with NZD cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
Fund Investment Vehicle (FIV)	An entity formed or controlled by the Guardians for the purpose of holding, facilitating or managing investments in the Fund.
Futures	A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
Global Reporting Initiative (GRI)	An international independent organisation that helps businesses, governments and other organisations to understand and communicate the impact of business on critical sustainability issues.
Growth assets	In the Reference Portfolio, growth assets comprise equities and REITs. Some private market assets are also growth assets, e.g., private equity. Over the long-term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth.
Hurdle	The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of that investment.
Illiquid	The inability to buy or sell an investment in a timely manner with minimal transaction costs.
Initial margin	Collateral exchanged between parties to protect against the potential future exposure of changes in the mark-to-market value of a derivatives transaction during the time it takes to close out and replace the position in the event the other party defaults.

Internal Investment Mandate (IIM)	The policy governing the management of an internal mandate falling under an active strategy.
Investment	An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by our internal management under an Internal Investment Mandate (IIM).
Iwi	Meaning 'peoples'. Iwi is often translated as a tribe. Iwi forms the largest social units within Māori culture.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the assets price.
Long	A long or long position is an investment strategy where an entity buys a security, currency or derivative with the expectation that it will rise in value.
Mandate	An official order or commission to do something.
Market risk	Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. The risk in the market portfolio. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class.
Merger arbitrage	Involves simultaneously purchasing and selling the stocks of two merging companies to take advantage of the difference in price of those stocks pre-merger.
NAV	Net Asset Value
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.
Opportunity	A feature of the investment environment that is conducive to generating positive risk-adjusted active returns.
OTC	An over the counter financial instrument (securities, derivatives, stocks) traded in some context other than on a formal exchange. The phrase 'over the counter' (OTC) can be used to refer to financial instruments that trade via a dealer network as opposed to a centralised exchange.
Passive management	Passive management, or 'index-tracking', is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision.
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio	A portfolio can be thought of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to achieve an appropriate risk-return portfolio allocation.
Portfolio completion	A value-adding strategy that seeks to access and manage the Fund's portfolio exposure to equities and bonds. It does this by rebalancing (see 'Rebalancing' below) the Fund to our desired Reference Portfolio weightings and managing the currency overlay and liquidity risk in the most effective manner possible.
Portfolio construction	The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies, as well as the specific allocations of risk capital to individual investments.
Private equity	Private placement of capital with defined ownership rights (i.e., claims to the profits generated by the business).
Rebalancing	Rebalancing is the process of realigning the weightings of one's portfolio of assets. The Fund's passive exposures change as markets move over time. Periodically, therefore, we consider whether to rebalance (buy and sell listed equities and fixed income assets) the Fund's actual passive exposures back in line with the weightings in the Reference Portfolio. Minimising the costs of rebalancing this activity is an important objective.
Reference Portfolio	A simple low cost, passively managed and well-diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZD) plus a set of risk premiums or excess returns that also sum to 100%.

GLOSSARY (CONTINUED)

Risk	The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions.
Risk Allocation Process (RAP)	The process by which risk capital is allocated to the Fund's opportunities. Under the RAP: 1. opportunities are assessed for relative attractiveness; 2. allocation approaches determine how much risk capital should be allocated for various levels of attractiveness; and 3. the approaches are scaled to meet risk budgets set for groups of opportunities and for the Fund as a whole. This latter budget is referred to as the total active risk budget and the groups of opportunities as risk budget baskets.
Risk budget	Articulates the average amount of active risk that is expected to be allocated to an opportunity or group of opportunities referred to as risk budget baskets. Risk budgets aggregate to the total active risk budget. Risk budgeting is a stage of the risk allocation process.
Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.
Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds.
Securities lending	Loaning a stock, derivative or other security to an investor or a firm.
Sharpe ratio	A characterisation of how well the return of an investment compensates the investor for the risk taken.
Short	A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant instrument at a lower price.
Side-car investment	A side-car investment occurs where one investor allows a second investor to control where and how to invest the capital.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Skill	Active investment expertise. The ability to generate active returns.
Sovereign Wealth Fund	Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens.
Strategic tilting	Tilting is a value-adding strategy where the mix of the Fund's market or currency exposures relative to the Reference Portfolio is changed to increase exposure to undervalued asset classes.
Swap	A derivative in which two parties agree to exchange one stream of cash flows against another.
Synthetic	Obtaining exposures using derivatives. Generally does not require funding.
Theme	Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment.
Tilt	Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than through drift or the proxies). Tilting is a value-add strategy.
Total risk	Generally referring to the Fund's total or absolute risk.
Treasury Bill	Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit.
UNPRI	United Nations Principles for Responsible Investment.
Value-add	See 'Active returns'. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures.
Value-adding strategies	Board approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies.
Variation margin	Collateral exchanged between parties to protect against current exposures caused by changes in the mark-to-market value of a derivatives transaction.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

CORPORATE DIRECTORY

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New Zealand Superannuation Fund
Westpac New Zealand Limited

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