Statement of Performance Expectations
Ngā Matapae mō Te Pūteaa

For the period 1 July **2021** // 30 June **2022**

NZ SUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

ELEVATE
NZ VENTURE FUND

Guardians of New Zealand Superannuation

Introduction

He Kupu Whakataki

The Guardians of New Zealand Superannuation is a Crown entity charged with managing the NZ Super Fund and the Elevate NZ Venture Fund.

The NZ Super Fund is a global investment fund set up in 2001 to partially pre-fund the future cost of New Zealand superannuation. By using the Fund to save now in order to pay for future retirement benefits, the Government aims to smooth the cost of New Zealand Superannuation between today's taxpayers and future generations.

Investing began in 2003. The Guardians invests the capital contributions made by the Government, as well as the net returns generated from the investments made (less the tax paid).

In 2019, the Government established a venture capital fund, a second fund managed by the Guardians. The venture capital fund, called the Elevate NZ Venture Fund, is a fund-of-funds programme, managed on behalf of the Guardians by New Zealand Growth Capital Partners Limited (NZGCP). The Elevate NZ Venture Fund consists of $259.5 million of initial contributions. The Government expects to make further contributions, such that total contributions to the fund are $300 million over time.

	NZ SUPER FUND - SINCE INCEPTION (after costs, unaudited, as at 31 March 2021
Government Contributions	$19.43 billion
Investment Returns	$43.84 billion
NZ tax paid	$(7.54) billion
Other movements	$0.02 billion
Fund size, as at 31 March 2021	$55.76 billion

Our Statement of Performance Expectations outlines the activities we will undertake in the financial year to 30 June 2022 towards our long term objectives, and how we will measure our performance.

Our Statement also sets out:

- the Board's expectations for the NZ Super Fund's performance over the 2021/22 financial year;
- the key risks to our performance and the actions being taken by the Board to manage those risks;
- forecast operating costs to be incurred by the Elevate NZ Venture Fund; and
- forecast financial statements for the 2021/22 financial year for both the Guardians and the NZ Super Fund. Forecast financial statements for the Elevate NZ Venture Fund are not required.

Each year we receive a Letter of Expectations from the Minister of Finance outlining the Minister's expectations of the Guardians' activities for the forthcoming year. A number of the activities referred to are multi-year activities that we undertake as part of our business as usual work streams. A copy of the Letter, along with the Guardians' response, is available on our website (www.nzsuperfund.nz).

01

NZ Super Fund

Our ultimate goal (outcome) and strategic objectives

Tā mātou whāinga mātāmua me ngā whāinga rautaki

The Guardians' output is to invest the NZ Super Fund on a prudent, commercial basis and, in doing so, manage and administer it 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 Guardians' mission is to maximise the NZ Super Fund's return over the long-term, without undue risk, so as to support this outcome.

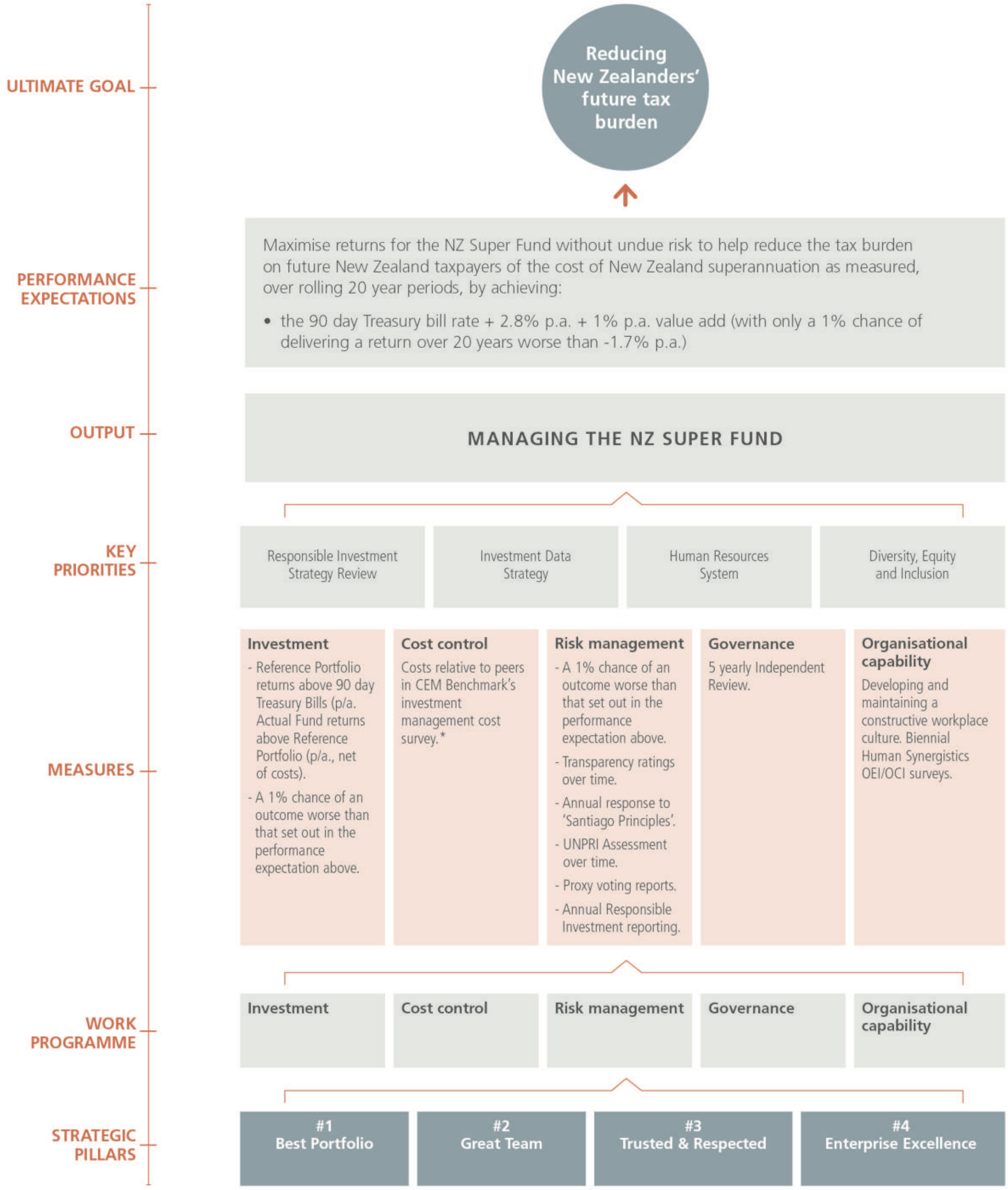
Managing the NZ Super Fund comprises five work streams covering:

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

Our 2021-2026 Strategic Plan sets out our medium term strategic objectives and strategic priorities that we will undertake to achieve these objectives.

More information on these objectives and what success looks like for the NZ Super Fund in the medium term can be found in our 2021-2026 Statement of Intent (pages 7 - 8).

Our strategic framework is outlined in our Statement of Intent 2021-2026 (available on our website at www.nzsuperfund.nz) and is summarised below:



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

How we measure our performance

Te huarahi e inea ai e mātou ā mātou mahi

In line with this, over rolling 20 year periods, we expect the NZ Super Fund to achieve:

- the 90 day Treasury Bill Return
- + 2.8% p.a. in Reference Portfolio Returns
- + 1% p.a. value add in Actual Fund Returns

With only a 1% chance of delivering a return over 20 years worse than -1.7% p.a.

We use a risk-adjusted performance metric, the Sharpe ratio, to assess how much return in excess of the Treasury Bill return has been generated per unit of risk taken. The higher the ratio, the greater the return for the risk, and vice-versa.

The Sharpe ratio is calculated as follows:

$$\frac{\text{(Reference Portfolio Return + Active Return)} - \text{Cash Return}}{\text{Risk}}$$

We expect to achieve a Sharpe ratio of **0.20** for the Reference Portfolio, and **0.26** for our Actual Portfolio.

Reference Portfolio Return is the return of financial assets such as equities and bonds.

Active Return is the additional return the Fund earns by investing outside of the Reference Portfolio and so is calculated as the difference between the Reference Portfolio and the Fund's actual investment portfolio.

Cash Return is the return available on a 'risk-free' investment. It is netted off total return in calculating the Sharpe ratio.

Risk is defined as the level of risk collectively brought into the Fund by the sum of all investment activity in the actual portfolio. It is measured by the volatility (standard deviation) of returns.

As per the formula above, improving the Sharpe ratio requires an increase in returns without a commensurate increase in risk. So, each active investment we undertake must raise the sum of the top line, or reduce the bottom line, or both. We report on the Fund's Sharpe ratio since inception each year in our Annual Report.

More information about the measures used to track our long term performance can be found in our Statement of Intent (pages 10 - 12) and on our website. Our Statement of Intent (pages 12 - 15) also sets out how we measure success in delivering on each of our five work programmes through which we manage the NZ Super Fund.

Those measures will be used to assess our performance in carrying out key activities we expect to achieve in 2021/22. Where possible we look to obtain assessment of our performance from independent third parties and global experts in benchmarking.

We report on the NZ Super Fund's progress towards its long-term and short-term objectives in our Annual Reports, including performance against specific measures in the Statement of Performance.

What we intend to achieve in 2021/22

Ngā kaupapa e whai ana mātou ki te whakatutuki i te tau 2021 me te tau 2022

In this Statement of Performance Expectations we describe the key priorities for the Guardians in respect of the NZ Super Fund in 2021/22. These priorities relate to the work programmes that support the objectives set out in our Statement of Intent.

The performance measures for each of these work programmes are set out in the Statement of Intent. Our expectations for the Fund's financial performance over the 2021/22 financial year are covered later in this document.

We will report on our performance in implementing these activities in our 2021/22 Annual Report.

Strategic Priority	2021/22 Metrics	Key Risks to Achievement	Contribution to Strategic Pillars & Long-Term Goals
1. Responsible Investment Strategy Review (Investment) The current responsible investment strategy has been in place for ten years, and as approaches to responsible investment and the external context have evolved, a review was prioritised for 2020/21. This work remains a strategic priority into 2021/22 and may involve multi-year implementation. *Relevant Strategic Pillar(s): #1 Best Portfolio*	Specific activities and success metrics for 2021/22 will be set once the strategies have been approved in June 2021.	Business as usual demands preventing sufficient resources from being applied to this longer-term planning initiative. Investment frameworks hinder implementation.	Active membership and leadership of influential global forums. Integration of environmental, social and governance (ESG) factors into investment decisions. Best practice ESG and responsible investment strategies integrated into investment processes. Continuing Board education and leveraging of insights and experience.
2. Investment Data Strategy (Investment, Cost Control) The investment data strategy is being established in 2020/21, and the ongoing operating model resourced. The three legs of the data strategy for 2021/22 are:	Ability to measure data accuracy and completeness, providing accountability and insight. Improvements in data accuracy and completeness. Measures of efficiency, both in consuming and managing data. Sentiment feedback regarding trust and	Eagerness to make progress results in too many tactical solutions. Delay in onboarding new cloud services, caution over cyber security risk. Conflicting requirements for change to our legacy platforms could act as a	Single top-down view across a range of opportunities. Greater internal capability in identifying opportunities. Structured and consistent opportunistic investing. Best practice governance, data and information management.

Strategic Priority	2021/22 Metrics	Key Risks to Achievement	Contribution to Strategic Pillars & Long-Term Goals
• Data technology - a decision on the strategic direction for our investment data architecture will be made in 2020/21. Progress on retiring legacy solutions in favour of more efficient, flexible and lower risk solutions is expected. • Data analytics - we will establish a data analytics support function, supporting cross-Guardians' data analysis and reporting needs and the provision of convenient frameworks and ways to access investment data. • Data services - we will establish a data services function to provide a hub for data sourcing, production and maintenance activities, identifying those responsible for data definition and validation of data. *Relevant Strategic Pillar(s): #1 Best Portfolio, #4 Enterprise Excellence*	confidence in our investment data. Agility and flexibility when onboarding new sources of data and when trading new products. Analytical models are robust, efficient and sustainable, resulting in accuracy, completeness, trust and confidence in their output and long-term agility and flexibility.	moving target for our emerging new solutions. Identifying and engaging suitable capability and capacity (people) takes too long. Decision-making process delays progress. Three highly dependent functions are not adequately coordinated, with various side-effects resulting from conflicting priorities. Lack of alignment between end users and service providers.	Frameworks and processes are scalable and flexible to accommodate new initiatives and products.
3. Human Resources System (Organisational Capability) The selected Oracle HCM solution for the new Human Resources system will deliver an integrated set of human resources modules, allowing processes and data to be streamlined. This will increase the value of the workplace experience provided to employees. It will also deliver the revised talent life cycle framework. Project implementation will span multiple financial years, with main deliverables during 2021/22. *Relevant Strategic Pillar(s): #3 Great Team, #4 Enterprise Excellence*	Complete implementation of phase 1 (core HR activities, recruitment and onboarding implementation). Prototype refinement, testing, training and implementation of phase 2 (performance, careers & goals, learning management and health & safety) and phase 3 (compensation management, talent review and succession). Phase 4 (benefits) will be completed in 2022/23.	Underestimating the complexity of this project, including the interconnectedness of the systems and risks to be managed - increasing implementation times, costs, likelihood of business interruption. Buy-in from the team and change management risks.	Frameworks and processes are scalable and flexible. Embed ongoing innovation and leverage technology. Motivated staff with organisational buy-in achieved through development and talent programmes.

Strategic Priority	2021/22 Metrics	Key Risks to Achievement	Contribution to Strategic Pillars & Long-Term Goals
4. Diversity, Equity and Inclusion (Organisational Capability) An external review is being undertaken in 2020/21 to heighten our awareness and deepen our understanding of diversity, equity and inclusion. The objective is to gain actionable insights, at both a strategic and tactical level, into areas for improvement. We expect this will help the organisation to become more diverse, improve employee experience and role model inclusivity. The review will extend throughout the entire employee life cycle and related activity, policies, procedures and systems. *Relevant Strategic Pillar(s): #3 Great Team*	The review will enable us to understand our current state, clarify threats and opportunities, and enable concrete action. A road map will be established with success metrics for 2021/22.	Resourcing the programme of work required. Buy-in from the team and change management risks.	Diversity and inclusiveness policies firmly embedded. Motivated staff with organisational buy-in achieved through development and talent programmes.

Statement of Estimated Fund Performance

Te Tauākī e Whakatau Tata ana i te Tupu o te Tahua

Predicting short-term financial market returns with any useful accuracy over such a near-term horizon is impossible. We therefore show our long-term, or equilibrium, expectations for the Reference Portfolio return (see our 2021-2026 Statement of Intent for more information about the Reference Portfolio).

To that we add our expectations of returns from value-added activities to arrive at the mid-point for the actual Fund. This is shown in the table below. We note that given the volatility of returns there is a range of possible return outcomes around these estimates.

	RISK-FREE RATE		EXCESS RETURN AFTER COSTS		REWARD FOR VALUE-ADDING ACTIVITIES		
COMPONENT OF RETURN	4.0%	+	2.8% (which is the reward for taking market risk above cash or the risk-free rate)	+	1.0%	=	7.8%
EXPLANATION	Our estimate of the equilibrium return on 90-day Treasury Bills.		We define the reward for market risk as the margin between the risk-free rate and the return that would be generated on the Reference Portfolio (after assumed costs of 0.23%). Although the estimates of market risk vary over time, we provide the equilibrium, or long term, expectation of the rewards for market risk on the Reference Portfolio.		Our estimate of the return from the investment activities we undertake to add value. We summarise those activities as part of our explanation of the Reference Portfolio in our Statement of Intent.		The expected value of our estimated range for the Fund's return over the next year is 7.8%.

What are the key risks to the NZ Super Fund's performance in 2021/22 and how are we managing them?

He aha ngā tūraru matua ka pā pea kit e tupu o te Tahua I te tau 2021 me te tau 2022, ā, e pēwhea ana tā mātou noho takatū ki era?

Investment strategies are designed to improve the Sharpe ratio of the NZ Super Fund, that is to increase return without a commensurate increase in risk.

The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the NZ Super Fund to take on. This statement, along with our wider approach to managing risk, is set out in schedule 2 of the Guardians' Risk Management Policy and in our Statement of Investment Policies, Standards and Procedures, available on www.nzsuperfund.nz. Performance against this statement is measured and reported to the Board on a regular basis.

The Guardians has identified five major categories of risk with respect to the NZ Super Fund:

1. Investment risk: The risks attached to investment goals and objectives, including market, credit, counterparty, manager and liquidity risk;
2. Strategic risk: The risk that we make inappropriate strategic choices or are unable to successfully implement selected strategies;
3. Legislative and regulatory risk: The risk of loss due to noncompliance with laws, rules and regulations and prescribed industry practice;
4. Operational risk: The risk of loss from inadequate or failed internal processes, people and systems or from external factors;
5. Reputation risk: The risk of loss of reputation or credibility sufficient to have a commercial or other practical impact due to internal or external factors.

The Board and management of the Guardians are responsible for managing these risks. The Guardians' risk-management framework is reviewed and approved by the Board. The Audit Committee reviews the reports of management, and of the Guardians' external and internal auditors, on the effectiveness of systems for internal controls 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 risk is seen as part of the overall business process, and a robust framework of identification, evaluation, monitoring and control exists.

More information on the Guardians' risk management process can be found in the risk management section of our Annual Report. While each of the five categories of risk identified above affect the performance of the Fund, further comment on key investment risks is set out below.

Market Risk: Market risk is the risk that the fair value of 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. We manage this through diversification between asset classes and by imposing investment constraints at a total Fund level and within individual investment mandates.
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar. This 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.

- Interest rate risk, primarily due to changes in New Zealand and United States interest rates. This is managed by diversification between asset classes and by imposing investment constraints on external investment managers.

The NZ Super Fund is also exposed to market 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.

Additionally, the NZ Super Fund is exposed to market risk in respect of its farming activities due to the global volatility of product prices and the price of key inputs. Prices relative to key inputs are continually monitored so that operations can adapt as required.

Credit Risk: Credit risk is the risk that a third party will default on its obligation to the Guardians, causing the Fund to incur a loss. The NZ Super Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments.

The Board and management mitigate the NZ Super Fund's exposure to credit risk associated with our internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Investment strategy specific constraints are also imposed to limit the NZ Super Fund's net unhedged exposure to individual counterparties and clearing houses.

The credit risk associated with externally managed investments is managed by including specific prudential limits in our investment management agreements which restrict the credit risk the NZ Super Fund is exposed to.

Manager Risk: External investment managers are monitored individually on an ongoing basis. We evaluate our managers in two ways:

1. 'Conviction' - our confidence in the manager's competence to execute an investment opportunity and the general quality and 'fit' of the organisation. Key inputs include the manager's performance, their overall conduct and the extent to which they are meeting any knowledge transfer expectations that we have of them. The management of ESG factors is also a key element. Conviction reviews are undertaken at least annually.
2. Operational Due Diligence - the manager's regulatory, operational, organisational, and financial processes and procedures. If a manager does not pass the operational due diligence review, we do not invest. Once invested, if we have operational concerns, we act on them immediately (including termination if appropriate).

Counterparty Risk: The Board and management closely monitor the creditworthiness of the NZ Super Fund's counterparties by reviewing credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

Liquidity Risk: Liquidity risk is the risk that the NZ Super Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due.

Our liquidity framework is designed to ensure that the NZ Super 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 reviews of the liquidity available by senior management;
- periodic 'stress tests' of the liquidity framework using theoretical scenarios.

02

Elevate NZ Venture Fund

The ultimate goal (outcome)

Te tino whāinga (te putanga)

The outcome of the Elevate NZ Venture Fund is its contribution, over a 15 year timeframe, to a sustainable and productive New Zealand economy.

This is to be achieved through:

- Increased venture capital being available to New Zealand entities;
- More self-sustaining early stage capital markets; and
- Successful and sustainable New Zealand businesses.

The Guardians is responsible for managing and administering the Elevate NZ Venture Fund, according to the high level policy directions provided in the Policy Statement, and using best-practice investment management that is appropriate for institutional investment in those markets. Managing the fund in this manner is our output.

We deliver on this output by:

- Appointing New Zealand Growth Capital Partners Limited (NZGCP) as the external fund manager for the Elevate NZ Venture Fund;
- Ensuring the management agreement reflects best practice in the context of institutional investment in New Zealand venture capital markets;
- Ensuring that information reporting requirements relating to the flow of capital are covered in the management agreement;
- Continuing to monitor the performance of NZGCP; and
- Ensuring compliance with the Statement of Investment Policies and Procedures.

Through 2019/20 the Guardians worked with The Treasury, Ministry of Business Innovation and Employment, and with NZGCP to develop an effective and workable legislative approach to establish the Elevate NZ Venture Fund. We worked closely together on all of the policy detail to ensure that it was consistent with best practice in the context of New Zealand venture capital markets.

The appointment of NZGCP as the external funds manager was anticipated in the Venture Capital Act 2019. The Management Agreement negotiated with NZGCP reflects best practice in the context of New Zealand's venture capital markets. As required in the legislation, the agreement was reviewed by the Minister of Finance before it was signed by both parties in February 2020.

The Elevate NZ Venture Fund was launched in March 2020. In spite of the disruptions caused by the COVID-19 pandemic, the fund has made good progress in allocating capital to New Zealand-focused venture capital managers and in turn those managers have commenced the deployment of capital to investee companies.

What we intend to achieve in 2021/22 and how we will measure our performance

Ko tā mātou e whai nei ki te whakatutuki i te tau 2021/22 me te huarahi ka whāia hei ine i te whaihua o ā mātou mahi

The Elevate NZ Venture Fund is a fund-of-funds programme, managed on behalf of the Guardians by NZGCP.

It is the responsibility of NZGCP to appoint private sector venture capital fund managers who will select the entities to invest in. It is our responsibility to monitor NZGCP's performance in line with the best practice approach we have developed to manage relationships with other local and international investment managers, as applicable to the New Zealand venture capital market.

We use a conviction process to assess a manager's competence to execute an investment opportunity on our behalf. We use eight factors of performance, reflecting our view that for a manager's capabilities to be repeatable, they need to demonstrate:

- *Viability* – the manager is credible and stable as an organisation such that they can deliver on their strategy over time.
- *Structure & Focus* – the manager is appropriately focused on and aligned to the Guardians.
- *Trust* – we are confident that the manager will do what they say they will do, and always act in our interests.
- *Risk Awareness & Management* – the manager has robust systems and processes for identifying, assessing, managing and reporting investment and non-investment risks.
- *People Capabilities* – the manager's team has the necessary competencies and depth to execute on the investment strategy.
- *Process Capabilities* – the manager has the necessary tools, systems, networks and processes to execute on the investment strategy.
- *Opportunity Consistency* – the manager can demonstrate that they understand our investment objective and how their strategy will deliver, and they consistently execute their strategy as we would expect and according to the risk-return profile in line with the opportunity.
- *Performance* – the manager has demonstrated performance in executing on the investment strategy.

Over 2021/22 we will undertake a conviction review of NZGCP, as manager of the Elevate NZ Venture Fund, and report back in the Statement of Performance section of our 2021/22 Annual Report.

03

Financials

Financial Projections for 2021/22

Ngā whakapae ā-pūtea mō te tau 2021 me te tau 2022

COST ALLOCATION

Costs are incurred directly by the Guardians and both of its mandates, the NZ Super Fund and Elevate NZ Venture Fund.

The Guardians' costs – with the exception of those incurred by the Board – are met from the NZ Super Fund and Elevate NZ Venture Fund and include remuneration, staff expenses such as office services, travel, and professional development.

Certain expenses of the Board are met from Parliamentary appropriation and are composed of Board fees, the cost of travel to and from Board meetings and the cost of external audit for the Guardians.

Of those costs not met from appropriations, the Guardians charges the Elevate NZ Venture Fund a flat rate fee, equating to 18 basis points per annum of the planned $300m commitment to that mandate. This amount will be revised if costs are consistently higher or lower than expected. All other costs are recharged to the NZ Super Fund, resulting in the Guardians' incurring a nil gain/loss each year.

All of these operating costs, irrespective of whether they are met from appropriations or from the Guardians' two mandates, are consolidated in the financial statements of the Guardians and subject to the reporting and disclosure obligations of the Crown Entities Act (2004).

NZ Super Fund costs are those incurred in the establishment and implementation of investment policy and the financial and risk management of that fund's assets, including: fees paid to external managers and the master custodian; and the recharge paid to the Guardians noted above.

Elevate NZ Venture Fund costs are primarily composed of: manager fees; fees paid to NZGCP for the day-to-day management of the fund; and the recharge paid to the Guardians.

We have prepared prospective financial statements for both the Guardians and the NZ Super Fund. The NZ Super Fund estimates assume that earnings will be broadly in line with the long-term estimate (i.e. 7.8% p.a. after costs but before New Zealand tax). Some costs are fixed (e.g. audit costs) and can be easily estimated, but the majority are variable (i.e. base and performance fees paid to investment managers or transaction fees paid to the custodian).

We have prepared estimates of these variable costs based on our expectations of the NZ Super Fund over the year.

No prospective financial statements are required to be prepared for the Elevate NZ Venture Fund.

Costs incurred and charged to the Elevate NZ Venture Fund by NZGCP in their day-to-day management of that fund will be disclosed in its Statement of Performance Expectations.

EXPECTED TOTAL COST OF MANAGING THE NZ SUPER FUND 2021/2022

The forecast cost of managing the NZ Super Fund in 2021/22 – excluding performance fees, is $164.0 million or 0.29% of expected average funds under management, compared to the forecast for 2020/21 of $153.3 million or 0.36%.

Of this amount the Guardians' expenses are $89.7 million, amounting to 0.16% of expected average funds under management.

Performance fees are only paid when investment managers outperform their benchmarks and so they are better described as an offset against returns than a cost. If we include forecast performance fees, the total forecast cost of managing the NZ Super Fund in 2021/22 is $182.0 million or 0.32%, compared to the forecast for 2020/21 of $168.4 million or 0.40%.

It is important to emphasise that these are forecast figures and that actual fees will be dependent on investment performance and the availability of suitable investment opportunities and access points.

Actual performance fees paid each financial year are disclosed in our Annual Report.

REPORTABLE OUTPUTS

The Guardians receives an annual appropriation to meet fees and expenses of its Board members and fees paid to its external auditor. The appropriation for 2021/22 is $0.73 million.

All of the Guardians' outputs are funded by payments from the funds rather than from annual appropriations through Parliament.

Prospective Financial Statements

Ngā pūrongo tahua e whakapaetia ana

We have prepared prospective financial statements for the Guardians (in our role as manager and administrator of the NZ Super Fund and the Elevate NZ Venture Fund) and for the NZ Super Fund consistent with this Statement of Performance Expectations. Prospective financial statements are not required for and have not been prepared for the Guardians other mandate, the Elevate NZ Venture Fund.

These prospective financial statements rely on assumptions with respect to unknown or uncertain future events. Assumptions represent a risk in that actual events may vary from the assumption and that all of the outcomes that may flow from actual events cannot be guaranteed.

These prospective financial statements should be read within the context of the 2021-26 Statement of Intent and this Statement of Performance Expectations. Information in these prospective financial statements may not be appropriate for purposes other than those described.

The Board authorised the issue of these prospective financial statements on 14 April 2020. The Board is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The assumptions used in preparing the prospective financial statements have been disclosed following the accounting policies of the Guardians and the NZ Super Fund. Actual financial results have not been incorporated into the prospective financial statements. The Board does not intend to update these prospective financial statements subsequent to presentation.

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GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

NEW ZEALAND SUPERANNUATION FUND

Prospective Consolidated Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDING 30 JUNE 2022	NZD'000
Cost reimbursement from the New Zealand Superannuation Fund	88,884
Cost reimbursement from the Elevate NZ Venture Fund	500
Other revenue	95
Revenue from exchange transactions	**89,479**
Appropriations from the Crown	728
Revenue from non-exchange transactions	**728**
Total revenue	**90,207**
Board members' fees	(404)
Employee entitlements	(58,979)
Other expenses	(30,824)
Total expenses	**(90,207)**
Surplus/(Deficit) for the year	**-**
Total comprehensive revenue and expense for the year	**-**

Prospective Consolidated Statement of Financial Position

AS AT 30 JUNE 2022	NZD'000
ASSETS	
Current assets	
Cash and cash equivalents	3,774
Receivables from exchange transactions	15,764
Receivables from non-exchange transactions	-
Non-current assets	
Receivables from exchange transactions	-
Total assets	**19,538**
LIABILITIES	
Current liabilities	
Payables under exchange transactions	(1,544)
Employee entitlements	(14,486)
Deferred lease incentive	(86)
Non-current liabilities	
Employee entitlements	(2,660)
Deferred lease incentive	(262)
Total liabilities	**(19,038)**
Net assets	**500**
PUBLIC EQUITY	
Accumulated comprehensive revenue and expense	-
General equity reserve	500
Total public equity	**500**

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Prospective Consolidated Statement of Changes in Public Equity

FOR THE YEAR ENDING 30 JUNE 2022	GENERAL EQUITY RESERVE NZD'000	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE NZD'000	TOTAL NZD'000
Balance at 30 June 2021	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2022	**500**	**-**	**500**

Prospective Consolidated Statement of Cash Flows

FOR THE YEAR ENDING 30 JUNE 2022	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash was provided from:	
Receipts from the Crown	728
Receipts from the New Zealand Superannuation Fund	83,347
Receipts from the Elevate NZ Venture Fund	460
Interest received	4
Goods and Services Tax	25
Other receipts	108
Total cash inflow from operating activities	**84,672**
Cash was applied to:	
Payments to Board members	(404)
Payments to suppliers	(35,714)
Payments to employees	(48,455)
Total cash outflow from operating activities	**(84,573)**
Net cash provided by/(used in) operating activities	**99**
Net increase/(decrease) in cash and cash equivalents	99
Cash and cash equivalents at the beginning of the financial year	3,675
Cash and cash equivalents at the end of the financial year	**3,774**

Summary of significant accounting policies

GENERAL INFORMATION

These are the prospective 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 21 Queen Street, Auckland.

The prospective financial statements of the Guardians and Group for the year ending 30 June 2022 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 14 April 2021.

STATEMENT OF COMPLIANCE

The prospective financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989 and comply with Public Benefit Entity Financial Reporting Standard 42: Prospective Financial Statements.

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (NZ Super Fund) and the Elevate NZ Venture Fund (Elevate Fund). The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as it applies to prospective financial statements. They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards.

BASIS OF PREPARATION

The prospective financial statements have been prepared on a historical cost basis.

The prospective financial statements are presented in New Zealand dollars. 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.

The following particular accounting policies that materially affect the preparation of the prospective financial statements have been applied:

a) Basis of consolidation

The prospective consolidated financial statements comprise the prospective financial statements of the Guardians and its subsidiaries as at 30 June 2022.

The prospective financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing prospective consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

b) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians under the provisions of PBE IPSAS 35 Consolidated Financial Statements. The Guardians controls an entity when it is exposed to, or has rights to, variable benefits from its involvement with the entity and has the ability to affect the nature or amount of those benefits through its power over the entity. The Board and management reassess whether or not the Guardians controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

c) Revenue

The Guardians primarily derives revenue through the provision of services to the Crown, the NZ Super Fund and the Elevate 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 NZ Super Fund and the Elevate 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 asset 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.

d) 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.

e) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the prospective financial statements of the Guardians are measured using the currency of the primary economic environment in which the Guardians operates (the functional currency). The functional currency of the Guardians is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

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 Prospective Consolidated Statement of Comprehensive Revenue and Expense.

f) Financial instruments

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 Prospective Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Prospective Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Prospective 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 that are attributable to the acquisition of the financial asset or financial liability.

The classification of financial instruments 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.

SUBSEQUENT MEASUREMENT

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 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 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 Prospective 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.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets 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.

The Board and managment have applied a simplified approach for calculating expected credit losses (ECLs) 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 forecasts of future economic conditions.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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.

g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

h) Receivables

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 less impairment losses using the effective interest method.

i) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised in the prospective 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. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Prospective Consolidated Statement of Financial Position.

j) Payables

Short term trade and other payables are initially recognised at fair value, then subsequently at amortised cost.

k) Employee entitlements

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Prospective 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 NZ Super Fund and is calculated 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 Prospective 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 the NZ Super Fund's performance.

l) Statement of Cash Flows

The following are the definitions of the terms used in the Prospective 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 Prospective 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 IRD, is classified as cash flows from operating activities.

m) Changes in accounting policies

There have been no changes in accounting policies. All accounting policies have been applied consistently throughout these prospective financial statements.

n) Significant judgements and estimates

The preparation of the Guardians prospective 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 amount of assets and liabilities within the next financial year are as follows:

EMPLOYEE ENTITLEMENTS – 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.

EMPLOYEE ENTITLEMENTS – LONG TERM PORTION OF INCENTIVES

Calculation of the long-term portion of the incentive liability utilises assumptions regarding the future performance of the NZ Super Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the NZ Super Fund. Should the performance of the NZ Super 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 Prospective Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Prospective Consolidated Statement of Financial Position. The Board and management mitigate this risk by using a medium-term expectation of the NZ Super Fund's performance.

HEADCOUNT

The Guardians forecast is based on the key assumption that the headcount for the Guardians will increase from the budgeted level of 185.4 as at the end of March 2021 to 208.2 full-time equivalent employees by 30 June 2022. The actual headcount as at end of March 2021 was 166.2.

The forecast increase in headcount numbers is determined from the annual business plan compiled by the Guardians senior management team.

In the event that the Guardians is unable to recruit the additional headcount as forecast, actual results may vary materially from the forecast. Any variance in actual headcount is likely to result in a material reduction of expenses, resulting in a corresponding decrease in revenue received from the NZ Super Fund.

NEW ZEALAND SUPERANNUATION FUND

Prospective Statement of Financial Position

AS AT 30 JUNE 2022	NZD'000
ASSETS	
Cash and cash equivalents	3,301,696
Cash pledged as collateral	777,820
Trade and other receivables	1,192,757
Investments	
Investments in derivative financial instruments and other financial assets	53,382,938
Investments in unconsolidated subsidiaries	5,432,685
Total investments	58,815,623
Property, plant and equipment	4,196
Intangible assets	28,536
Total assets	**64,120,628**
LIABILITIES	
Cash collateral received	(4,110,771)
Trade and other payables	(688,973)
Income tax payable	(198,598)
Provision for performance-based fees	(14,360)
Deferred tax liability	(40,082)
Total liabilities	**(5,052,784)**
Net assets	**59,067,844**
PUBLIC EQUITY	
Retained surplus	36,662,588
Asset revaluation reserve	23,176
Contributed capital	22,382,080
Total public equity	**59,067,844**

Prospective Statement of Comprehensive Income

FOR THE YEAR ENDING 30 JUNE 2022	NZD'000
INCOME	
Interest income	176,563
Dividend income	687,125
Net fair value gains on financial instruments held at fair value through profit or loss	3,485,148
Net foreign exchance gains/(losses)	-
Net operating income	**4,348,836**
EXPENSES	
Reimbursement of Guardians' expenses	(88,884)
Managers' fees - base	(33,013)
Managers' fees - performance	(17,949)
Custody fees	(7,428)
Depreciation	(146)
Amortisation	(14)
Trade expenses	(7,428)
Other expenses	(26,310)
Profit for the year before income tax expense	**4,167,664**
Income tax expense	(1,000,278)
Profit for the year after income tax expense	**3,167,386**
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods	
Gains/(losses) on revaluation of assets	-
Income tax expense on items of other comprehensive income	-
Other comprehensive income for the year, net of tax	**-**
Total comprehensive income for the year	**3,167,386**

Prospective Statement of Changes in Public Equity

FOR THE YEAR ENDING 30 JUNE 2022	ASSET REVALUATION RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 30 June 2021	**23,176**	**19,962,080**	**33,495,202**	**53,480,458**
Profit for the year			3,167,386	3,167,386
Other comprehensive income				-
Total comprehensive income for the year	**-**	**-**	**3,167,386**	**3,167,386**
Fund capital contributions from the Crown		2,420,000		2,420,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements		17,691,000		17,691,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements		(17,691,000)		(17,691,000)
Balance at 30 June 2022	**23,176**	**22,382,080**	**36,662,588**	**59,067,844**

Prospective Statement of Cash Flows

FOR THE YEAR ENDING 30 JUNE 2022	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash was provided from:	
Proceeds from sale of investments	69,109,915
Dividends received	672,997
Interest received	162,637
Cash was applied to:	
Purchases of investments	(72,364,682)
Managers' fees	(36,323)
Payments to suppliers	(139,202)
Income tax paid	(2,742,935)
Net cash provided by/(used in) operating activities	**(5,337,593)**
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash was applied to:	
Purchases of property, plant and equipment	(2,521)
Purchases of intangible assets	-
Net cash provided by/(used in) investing activities	**(2,521)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash was provided from:	
Fund capital contributions from the Crown	2,420,000
Net cash provided by/(used in) financing activities	**2,420,000**
Net increase/(decrease) in cash and cash equivalents	**(2,920,114)**
Cash and cash equivalents at the beginning of the financial year	6,221,810
Effects of exchange rate changes on the balance of cash held in foreign currencies	-
Cash and cash equivalents at the end of the financial year	**3,301,696**

Summary of significant accounting policies

GENERAL INFORMATION

These are the prospective financial statements of the New Zealand Superannuation Fund (NZ Super Fund), a fund established under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) on 11 October 2001.

The NZ Super 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 NZ Super 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 NZ Super Fund in a commercial, prudent manner consistent with:

- Best-practice portfolio management;
- Maximising return without undue risk to the NZ Super Fund as a whole; and
- Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The NZ Super Fund's global master custodian is the Northern Trust Corporation.

The NZ Super Fund is domiciled in New Zealand and the address of its principal place of business is 21 Queen Street, Auckland.

The prospective financial statements of the NZ Super Fund for the year ending 30 June 2022 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 14 April 2021.

BASIS OF PREPARATION

The NZ Super Fund is a profit-oriented entity. The prospective financial statements of the NZ Super Fund have been prepared in accordance with, and comply with, Financial Reporting Standard No. 42: Prospective Financial Statements and Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as it relates to prospective financial statements.

The prospective financial statements have been prepared on a fair value basis, except for certain items as detailed in the policies below.

The prospective financial statements are presented in New Zealand dollars. 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.

The NZ Super Fund meets the definition of an investment entity and has applied the exemption from preparing prospective 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 Prospective Statement of Financial Position. These separate prospective financial statements are the only prospective financial statements presented by the NZ Super Fund.

The following particular accounting policies that materially affect the preparation of the prospective financial statements have been applied:

a) Investment entity

The NZ Super Fund meets the definition of an investment entity as the following conditions exist:

- The NZ Super Fund obtains and manages funds for the purpose of providing its investor with investment management services;
- The NZ Super Fund has committed to its investor that its business purpose is to invest funds solely for returns from capital appreciation and investment income;
- The NZ Super Fund measures and evaluates the performance of substantially all of its investments on a fair value basis;
- The NZ Super Fund has more than one investment; and
- The NZ Super Fund has documented exit strategies for its investments.

Although the NZ Super Fund does not meet all of the typical characteristics of an investment entity (namely, the NZ Super 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 NZ Super 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 prospective financial statements.

b) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the NZ Super Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The NZ Super 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 NZ Super 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 Act, the Guardians must use their best endeavours to ensure the NZ Super 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 NZ Super Fund. A FIV that is controlled by the Guardians is a subsidiary of the NZ Super Fund for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

As outlined above, the NZ Super Fund meets the definition of an investment entity and therefore the Board and management have applied the exemption available under NZ IFRS 10 from preparing prospective consolidated financial statements for the NZ Super Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit and loss in accordance with NZ IFRS 9 Financial Instruments and are classified as ‘unconsolidated subsidiaries’ in the Prospective Statement of Financial Position.

c) Associates

Associates are those entities over which the NZ Super 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. Investments in associates are measured at fair value through profit and loss in accordance with NZ IFRS 9 Financial Instruments and classified as private equity (within 'other financial assets') in the Prospective Statement of Financial Position.

d) 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. Investments in joint ventures are measured at fair value through profit and loss in accordance with NZ IFRS 9 Financial Instruments and classified as private equity (within 'other financial assets') in the Prospective Statement of Financial Position.

e) 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 NZ Super 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 NZ Super Fund invests in structured entities to assist with the implementation of its overall investment strategy. The NZ Super Fund does not sponsor any structured entities.

f) Fair value measurement

The majority of the net assets of the NZ Super 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 NZ Super 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 prospective 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.

Whilst the determination of fair value of investments categorised under Level 3 is subject to careful consideration and consultation with a range of reliable and independent sources, there remains significant uncertainty about certain judgements and estimates used due to the ongoing Covid-19 pandemic and its impact on financial markets. In particular, certain unobservable valuation inputs used may be less reliable e.g. where fair value is determined using valuation models based on the price of recent and comparable transactions.

The level within which as 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 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 and are classified within Level 2 of the fair value hierarchy. 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 financial instruments include longevity contingent swaps and warrants and are classified within Level 3 of the fair value hierarchy. The fair value of longevity contingent swaps is provided by the counterparty at balance date and is based on the fair value of the underlying basket of contracts. The fair value of warrants is determined using a Black Scholes Option Pricing Model.

LISTED EQUITIES

The fair value of listed equities, including those on loan under securities lending and similar agreements, is determined based on the last quoted price on the relevant exchange at balance date and are 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 are classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of liquid fixed income securities, including those on loan under securities lending and similar agreements, is determined based on either the last quoted bid price or the mid price (depending on the market and region of the securities) provided by a reputable pricing vendor (being a financial data provider such as ICE or Bloomberg) or broker at balance date and are 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 are also 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 are 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 are 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 financial 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 are 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 are 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 transactions and are also 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 are classified accordingly within Levels 2 and 3 of the fair value hierarchy.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZUs) and/or other carbon credits that the NZ Super Fund owns are recognised at fair 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.

g) Financial instruments

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 NZ Super Fund is party to financial instruments as part of its normal operations. These financial instruments make up the vast majority of the NZ Super Fund's net assets and include cash and cash equivalents, derivative financial instruments, forward foreign exchange contracts, investments, receivables and payables. All financial instruments are recognised in the Prospective Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Prospective Statement of Comprehensive Income.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Prospective Statement of Financial Position when the NZ Super 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 Prospective 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 NZ Super Fund commits to purchase or sell the financial instrument.

The classification of financial instruments at initial recognition depends on the NZ Super 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 NZ Super Fund and how performance is evaluated and reported to the Board and management.

SUBSEQUENT MEASUREMENT

The NZ Super 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 NZ Super Fund does not have any financial assets classified as financial assets at fair value through other comprehensive income. The NZ Super 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 NZ Super 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 NZ Super 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 NZ Super 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 Prospective Statement of Financial Position at fair value with changes in fair value being recognised in the Prospective Statement of Comprehensive Income in the period in which they arise.

Financial assets at amortised cost

The NZ Super 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 some unlisted debt instruments. Unlisted debt instruments that are classified as financial assets at amortised cost include fixed and floating rate notes.

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 Prospective 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.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or when the NZ Super Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the NZ Super 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 NZ Super 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.

The NZ Super 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 applied a simplified approach for calculating expected credit losses (ECLs) 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 NZ Super 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.

The NZ Super 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.

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.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The NZ Super 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.

The NZ Super 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 NZ Super 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.

h) Collateral

Cash provided by the NZ Super Fund as security for financial arrangements remains a financial asset of the NZ Super Fund and is recognised as cash pledged as collateral in the Prospective Statement of Financial Position, separate from cash and cash equivalents. Cash received by the NZ Super Fund as security for financial arrangements is also recognised as an asset in the Prospective Statement of Financial Position, along with a corresponding liability (cash collateral received) to repay the cash collateral when the underlying transaction is terminated.

For non-cash collateral received by the NZ Super Fund, if the NZ Super Fund has the right to sell or re-pledge the collateral, it is recognised accordingly in the Prospective Statement of Financial Position. However, if the NZ Super Fund does not have the right to sell or re-pledge the collateral, the collateral is not recognised in the Prospective Statement of Financial Position.

i) Securities Lending and similar agreements

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the Prospective 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 Prospective Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Prospective 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 Prospective Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Prospective Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the NZ Super 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.

j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

k) Trade and other receivables

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 NZ Super Fund holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost less impairment losses using the effective interest method.

The NZ Super 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 applied a simplified approach for calculating expected credit losses (ECLs) 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 NZ Super 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.

l) Goods and Services Tax (GST)

Income, expenditure, assets and liabilities are recognised in the prospective 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. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Prospective Statement of Financial Position.

m) Trade and other payables

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. Trade payables are non-interest bearing and are normally settled within 30-day terms. The NZ Super 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.

n) Property, plant and equipment

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 bring 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 Prospective 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 Prospective 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 Prospective Statement of Comprehensive Income immediately.

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.

o) Provision for performance-based fees

A provision is recognised in the Prospective Statement of Financial Position when the NZ Super 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.

p) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the NZ Super Fund less any liabilities, is the property of the Crown. The NZ Super 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 NZ Super 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. Capital contributions to the NZ Super Fund are forecast at $2.42 billion for the year to

30 June 2022. Fund capital contributions are recorded in the Prospective Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, if the required annual capital contribution is less than zero, the Minister may require a capital withdrawal to be made from the NZ Super Fund up to that amount and paid into a Crown Bank Account. Capital withdrawals are projected to commence from 2034/2035 under current Treasury modelling.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the NZ Super Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the NZ Super Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. 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 NZ Super Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the NZ Super Fund. Transfers for superannuation entitlements are recorded in the Prospective Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The NZ Super Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the NZ Super Fund on a prudent, commercial basis and, in doing so, ensure that the NZ Super Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the NZ Super 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 NZ Super Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz.

q) Income

Income is recognised when it is probable that economic benefits will flow to the NZ Super 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 measured 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 NZ Super 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 Prospective Statement of Comprehensive Income.

r) Foreign currency translation

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the prospective financial statements of the NZ Super Fund are measured using the currency of the primary economic environment in which the NZ Super Fund operates (the functional currency). The functional currency of the NZ Super Fund is New Zealand dollars. It is also the presentation currency.

TRANSACTIONS AND BALANCES

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 Prospective Statement of Comprehensive Income.

s) Income tax

In accordance with Section HR 4B of the Income Tax Act 2007, income derived and expenditure incurred by the Crown in activities relating to the NZ Super Fund are determined as if the amounts were being derived or incurred by a company, and are therefore subject to New Zealand tax. The income tax expense recognised in the Prospective 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 sheet 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 NZ Super Fund intends to settle on a net basis.

t) Statement of Cash Flows

The following are the definitions of the terms used in the Prospective 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 NZ Super Fund and accordingly, is not recorded in the Prospective Statement of Cash Flows.

Cash flows are included in the Prospective 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 IRD, is classified as cash flows from operating activities.

u) Changes in accounting policies

There have been no changes in accounting policies. All accounting policies have been applied consistently throughout these prospective financial statements.

v) Significant judgements and estimates

The preparation of the NZ Super Fund's prospective 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 NZ Super 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 NZ Super 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

The Board and management reassess the NZ Super Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

ASSESSMENT OF CONTROL, JOINT CONTROL OR SIGNIFICANT INFLUENCE

The Board and management have assessed the NZ Super 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 NZ Super 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 NZ Super Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

The Board and management have assessed the NZ Super 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 NZ Super 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 NZ Super 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.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The NZ Super Fund's joint arrangements are classified as joint ventures because certain key operating and financial activities require the approval of the NZ Super 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.

ASSESSMENT OF INVESTMENTS IN STRUCTURED ENTITIES

The Board and management have assessed which of the NZ Super 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 NZ Super 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.

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 NZ Super 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.

Valuation Uncertainty due to the Covid-19 Pandemic

Whilst the Covid-19 pandemic persists, there remains significant uncertainty about certain judgements and estimates used in the valuation of investments and the extent of financial impact that the volatility in financial markets will have on the determination of fair value in future periods.

The fair value of investments categorised within Level 1 or Level 2 of the fair value hierarchy reflect market observable prices or inputs, they are inherently less subjective and their valuation less uncertain than those investments categorised within Level 3 of the fair value hierarchy.

The NZ Super Fund's investments categorised within Level 3 of the fair value hierarchy predominantly consist of private equity investments held directly or via investment funds; unconsolidated subsidiaries and other externally managed investment vehicles. Whilst the determination of fair value in relation to these investments is subject to careful consideration and consultation with a range of reliable and independent sources, the volatility in market conditions may result in certain valuation inputs being less reliable e.g. where fair value is determined using valuation models based on the price of recent and comparable transactions. The Board and management will continue to monitor and evaluate the appropriateness of specific valuation techniques and the judgements and estimates used when determining the fair value of these assets to assess whether material adjustments might be required to their carrying value.

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 where 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).

OTHER SIGNIFICANT ESTIMATES AND JUDGEMENTS

Investment returns for the forecast period are based on internal modelling of 20-year returns.

Management fees included in the forecast are based on investment management agreements that were in place on the date the forecast was approved by the Board. The Guardians' expenses are allocated according to the current allocation model.

The forecast has largely been based on actual experience to date with exception of the impact of foreign currency. No foreign currency impact has been forecast.

Material differences between the forecast and actual returns may also occur due to three other major factors:

- Investment markets generate returns at a level that is greater or lesser than the rate assumed in this forecast;
- The asset mix of the NZ Super Fund changes in response to opportunities not anticipated in this forecast; and
- Foreign currency movements.

SIGNED ON BEHALF OF THE BOARD

Catherine Drayton, Chair

Doug Pearce,
Chair Audit Committee

www.nzsuperfund.nz