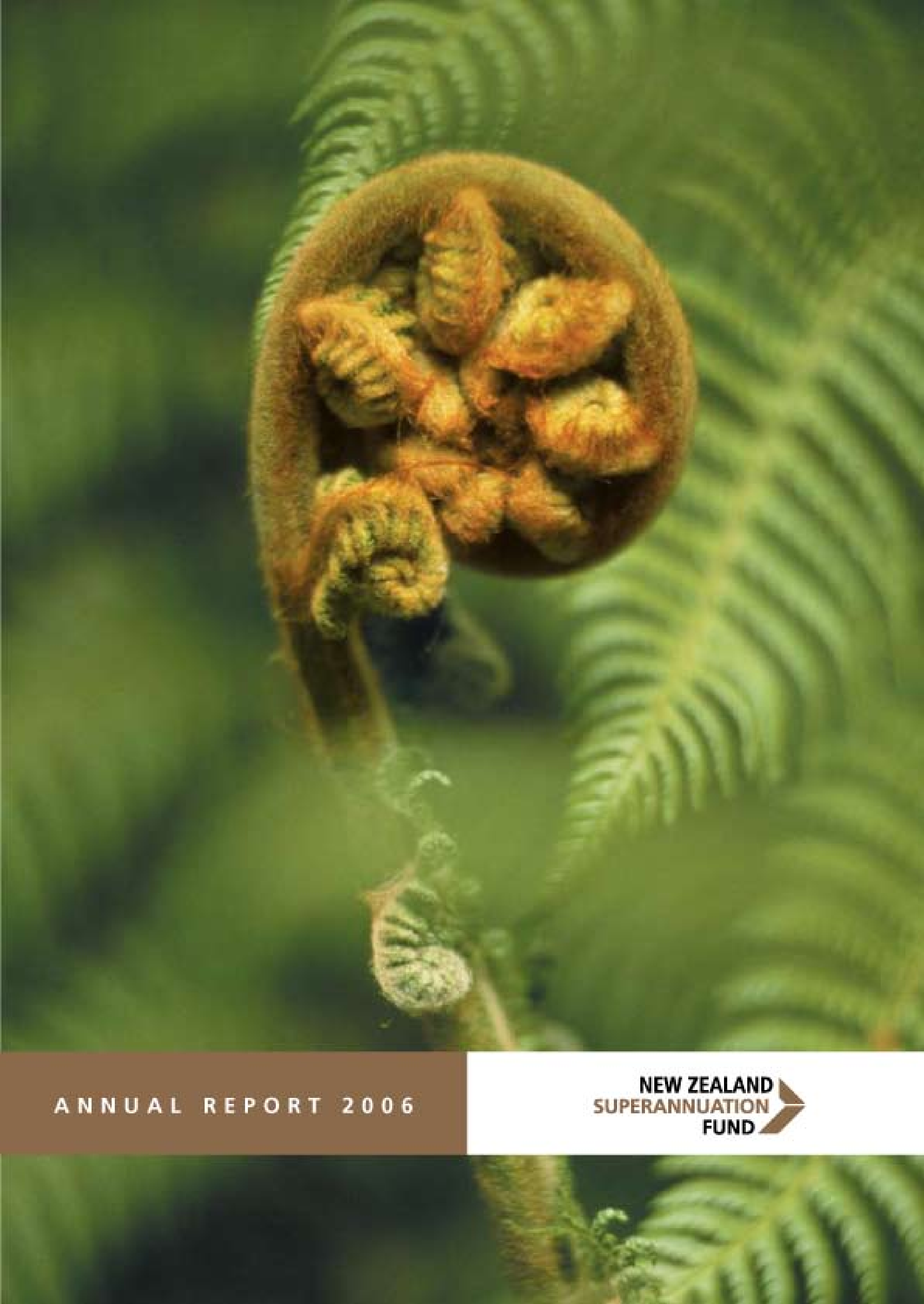


ANNUAL REPORT 2006

NEW ZEALAND
SUPERANNUATION
FUND

Why This Report?

The aim of this Annual Report is to clearly communicate the New Zealand Superannuation Fund's activities and performance for the 2005/6 financial year, as well as to summarise the key priorities for the year ahead. In producing this Report we also hope to improve readers' understanding of why we exist and what we do.

Our audience is a combination of individuals and organisations interested in the Fund's activities and performance. Our audience includes: the Minister of Finance and Parliament; the local and international investment community, including our external managers, advisors and peers; the local business community; journalists and commentators; and the public in general.

We hope the section 'Why Does the Fund Exist?' (page 2) will go some way to explaining New Zealand's ageing population crisis, and the circumstances that led to the creation of the Fund.

The section 'How Do We Approach Investing?' (page 8) covers our investment beliefs, portfolio construction, and our approach to investing in public and private markets. Our aim is for readers to come away with a good insight into our thinking and future course.

How we manage our responsibilities as a share-owner – particularly in relation to socially responsible investing and the exercise of voting rights – is of growing interest. On page 16 we address the issues and challenges we face, and outline our approach and progress in these two important areas.

In addition, our governing legislation, the New Zealand Superannuation and Retirement Income Act 2001, requires us to include a report against our Statement of Intent for the 2005/6 financial year, and a Statement of the Investment Policies, Standards and Procedures for the Fund. These can be found on pages 26 and 28 respectively.

The nature of what we do is often technical and complex. To help our readers we have included a glossary at the back of this Report.

A great deal more information about the Fund can be found on our website www.nzsuperfund.co.nz.

What's Inside?

What Were The Highlights In 2005/6?

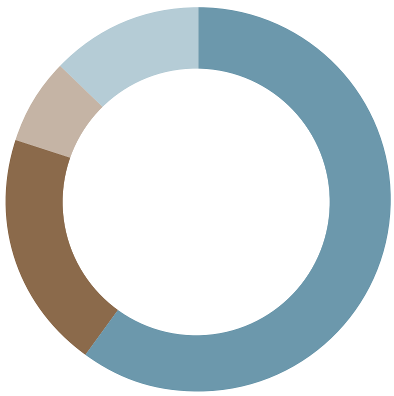
Financial Overview

- Fund assets grew from $6,613.5 million to $10,108.7 million*
- Net contributions of $2,337.0 million
- Return on investments of $1,441.4 million (after costs, but before tax)

Investment Performance

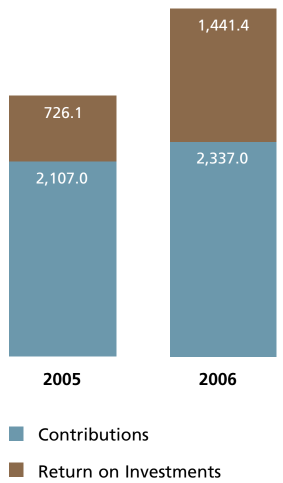
- Rate of return of 19.2%, against risk-free rate of return of 6.8%
- Annualised rate of return since inception of 14.9% p.a. against risk-free rate of return of 6.2% p.a.**

Asset Allocation as at 30 June 2006

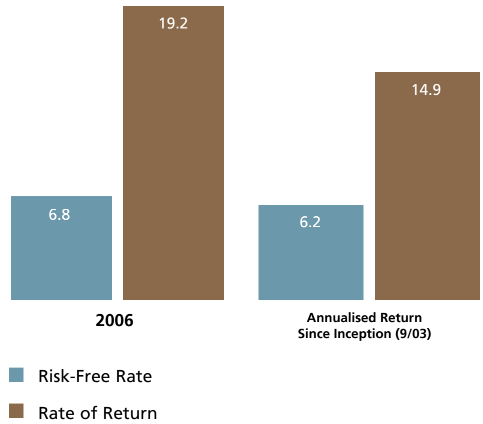


Equities	60.0%
Fixed Interest and Cash	20.1%
Property	7.2%
Alternative Assets	12.7%

Growth in Fund Size (NZD Millions)



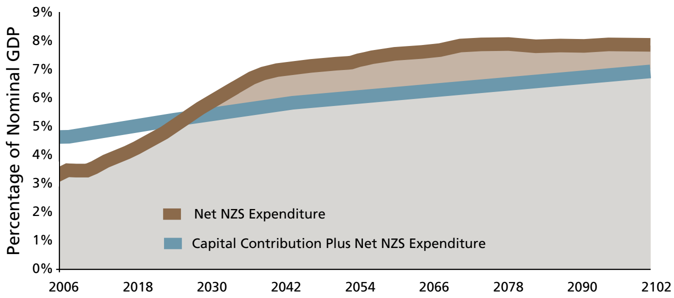
Return Against Risk-Free Rate (%)



* Net assets after adjustment for deferred tax liabilities and tax receivables
** Investing began on 30 September 2003

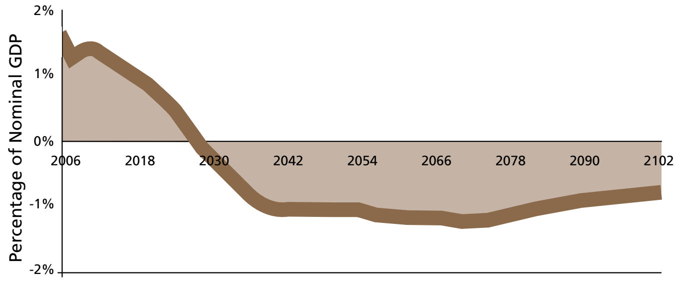
Smoothing the Cost of New Zealand Superannuation

Source: New Zealand Treasury (www.treasury.govt.nz)



Capital Contribution to Fund

Source: New Zealand Treasury



Why Does the Fund Exist?

A Tax Payer Funded Pay-as-You-Go Retirement Income System

In New Zealand we have a tax payer funded 'pay-as-you-go' retirement income system, which means that current pensions are paid by people currently in work. We call the 'pension' New Zealand Superannuation.

New Zealand Superannuation is neither asset nor income tested and is available to everyone 65 years and over who meets the residency criteria, except for some exemptions. To give readers an idea of what people are entitled to, a single person living alone receives an after tax payment of about NZ$13,000 p.a. and a married couple about NZ$21,000 p.a.

New Zealand's Ageing Population

The cost of providing New Zealand Superannuation is currently 3.4% of GDP. Projections indicate that by 2030 the cost will be about 5.8%, and by 2050 about 7.1% of GDP.

Why the increase? Like other developed countries, New Zealand faces an ageing of its population over the first half of this century. This is due to both increased life expectancy and lower birth rates. Life expectancy increased by an average two years per decade during the 20th Century, while fertility (after a post-World War Two surge) has fallen to below replacement levels.

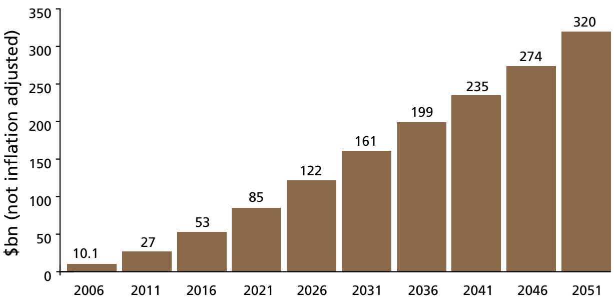
There are currently eight people under the age of 65 for every one person over the age of 65. This ratio is expected to fall to four people for every person over the age of 65 by 2030. It is this increase in the number of retired people relative to the working age population that will lead to the significant increase in the cost of providing New Zealand Superannuation.

Meeting The Cost With A Smoothed Pay-As-You-Go System

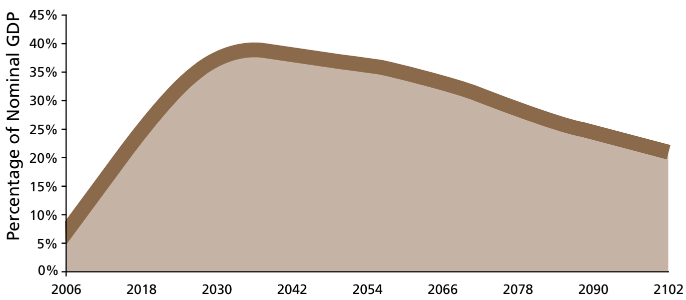
One way to alleviate the financial pressure on future governments is to move from a complete reliance on the 'pay-as-you-go' system to a partially pre-funded system. This is what New Zealand has done with the creation of the New Zealand Superannuation Fund.

Established under the New Zealand Superannuation and Retirement Income Act 2001, the New Zealand Superannuation Fund is an investment fund that accumulates and invests government contributions. These contributions, which are paid out of general taxes, are expected to average around $2 billion a year over the next two decades. The Fund then invests the money in a way that maximises returns, without undue risk, over the long term.

Projected Size of Fund Assets (NZD Billions)
Source: New Zealand Treasury



Projected Size of Fund Assets (Percentage of Nominal GDP)
Source: New Zealand Treasury



The purpose of the Fund is to build up a portfolio of Crown-owned financial assets while the cost of New Zealand Superannuation remains relatively low. Those assets will then be progressively drawn on to supplement the Government's annual budget as its finances adjust to the much higher level of ongoing expense for New Zealand Superannuation. In effect, the Fund provides a smoothing mechanism for what remains, fundamentally, a 'pay-as-you-go' system.

Drawing On The Fund

Under law, no capital withdrawal is allowed from the Fund before 1 July 2020. According to current Treasury modelling, capital contributions are likely to cease around 2028, at which time the Government will start to draw on the Fund. The Fund's assets are projected to peak at around 39% of GDP sometime between 2036 and 2038, and will then fall as a proportion of GDP gradually over the ensuing decades. Because capital withdrawals are forecast to always be less than the Fund's income, the Fund is expected to continue to grow in nominal (dollar) terms.

Who Oversees The Fund?

The Fund is governed by a separate Crown entity called the Guardians of New Zealand Superannuation. This entity is overseen by a Board selected for their skills and experience by the Minister of Finance.

While accountable to government, the Guardians operate at arm's length from government. Under law, the Minister of Finance may give directions to the Guardians regarding the Government's expectations as to the Fund's performance, but must not give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. The Guardians must have regard to any direction from the Minister. Any direction given by the Minister must be tabled in Parliament.

NOTES:

Demograhic projections are taken from Statistics New Zealand (www.stat.govt.nz). Projections of future New Zealand Superannuation costs are taken from Treasury's Contribution Rate Model (www.treasury.govt.nz).

To learn more about New Zealand Superannuation take a look at these websites: www.winz.govt.nz (Work and Income) and www.osc.govt.nz (The Office for Senior Citizens).

From The Board

The dominant theme, in the four years since the Board was established to manage the New Zealand Superannuation Fund, has been how to achieve best-practice portfolio management for a rapidly growing investment pool.

That growth has been phenomenal, not only in terms of funds under management (which grew from $6.6 billion to $10.1 billion last year) but also in the breadth and complexity of the investment arrangements.

We currently employ 25 external investment managers operating under 34 distinct mandates in New Zealand and globally. We also receive valuable insights from a number of external advisors covering areas as diverse as shaping investment strategy, manager research, private markets asset classes through to tax, legal and internal audit specialists. We rely on a range of services from our custodian and foreign exchange partners and have recently engaged advisors on how we should exercise our responsibilities and voting rights as share-owners.

Diversification

In the first three years our focus was on planning and implementing investment arrangements in listed equity and fixed interest markets. In 2005/6 the emphasis switched to seeking additional diversification by both asset class and investment mandate.

The plan to diversify by asset class was finalised in March 2005 when we set a long-term target of investing 35% of the Fund in a combination of property, commodities and private markets. Conscious of the difficulty of entering those markets rapidly, we set an interim target of achieving a 20% exposure by 30 June 2007.

While much preparatory work was carried out in 2004/5 only limited progress was made in implementation. Over the past year we are pleased to have invested almost 20% in these sectors – effectively achieving our interim target a year ahead of schedule.

We have also significantly diversified our sources of active return (the different ways we seek to outperform market indices) which to date have been dominated by the positions taken by our global large cap equity managers.

Objectives And Expected Returns

Our objective is to maximise investment returns without taking undue risk to the Fund as a whole. Because no withdrawals are permitted before 2020, the Board has considered the balance between risk and return over the very long term.

This has led to a relatively high allocation towards growth assets, which, while they produce volatile returns on a year-by-year basis, are expected to significantly outperform lower-risk fixed interest investments over the longer term. We recognise that weighting the majority of the portfolio to these assets will bring individual years of significant outperformance of the risk-free rate as well as significant underperformance, including years of negative returns.

The Board's expectation is that this strategy will deliver, again over the long term, a return that exceeds the risk-free rate by an average of 2.5% p.a. While most of this is expected to come from holding these more volatile asset classes, approximately 0.5% should come from performing better than the market itself, through employing managers who outperform their respective benchmark indices.

Performance

It is pleasing to report that each of the first three years has seen outperformance of the risk-free rate with the current year ending producing the best result to date.

The investment return of 19.2% exceeded the risk-free rate by 12.4%. The preceding two years produced outperformance of 7.8% and 5.1% respectively. Since 30 September 2003, when investing began, the outperformance of the risk-free rate has averaged 8.7% p.a. compared with our long-term expectation of 2.5% p.a.

Most of the outperformance last year was a result of listed equity markets doing well. However, our active equity managers made a significant contribution. Once again they collectively outperformed their respective benchmarks – this year by an unexpectedly high 3.5%. This is particularly gratifying given the rigorous process that we apply to the selection of external managers.

While the Fund has clearly benefited from both the asset allocation strategy and the manager selection programme, the Board is keen not to overstate the significance of these results. Even a period of three years is influenced by good or bad fortune and is still relatively short in the context of the Fund's time horizon. A longer period is required before we can draw conclusions of the success of the strategy adopted.

Progress

The continued growth in the size and complexity of the Fund requires us to build capacity to manage operational as well as investment risk. Last year we established a separate internal risk management function and appointed Deloitte to develop and carry out our internal audit function. These two initiatives will form the basis of our risk management controls in the future.

While our main objective is to achieve satisfactory investment returns, we are also determined to act as responsible share-owners. In April 2006 we joined a group of the world's largest investment funds in signing up to the Principles for Responsible Investment established by the UN Secretary-General. We also established a process for exercising our voting rights as share-owners in a consistent manner across the world.

Acknowledgements

We would like to thank the other Board members for their robust input into the many new areas we have addressed during the year. Particular thanks are owed to Dr Michaela Anderson, a founding Board member, who did not seek re-appointment at the expiry of her term. Her contribution is much appreciated.

Our thanks also go to the staff for their continued initiative and determination in developing and implementing increasingly complex investment arrangements. Acknowledgement is due to Paul Costello, who is returning to Melbourne in November to become General Manager of the Australian Government's newly established Future Fund. In his three-and-a-half years as CEO, Paul has made a tremendous contribution in leading the Fund through its establishment phase and in building the excellent team we employ today.

During the year we initiated a programme to bring external perspectives to the Board to assist in reviewing our progress and performance against global best-practice standards. This "Reference Group" meeting was very successful and will now be convened annually. The contribution of our guests, Mr Charley Ellis, Chairman of the Investment Committee of Yale Endowment and Mr Roger Urwin, Global Head of Investment Consulting at Watson Wyatt, is valued by the Fund.

In fact, our early progress has been assisted considerably by the many people from our peer organisations who, in addition to our managers and advisors, have helped us build confidence and knowledge by freely sharing their own experiences and advice.

David May

David May
CHAIRMAN

Sir Douglas Graham
DEPUTY CHAIRMAN

How Did The Fund Perform?

Asset Growth

In 2005/6 total assets grew from $6,613.5 million to $10,108.7 million (net of current and deferred tax). The growth consisted of $2,337.0 million in government contributions and a return on investments of $1,441.4 million.

Since October 2003, when the investment programme commenced with $2.4 billion, a further $5.8 billion has been received in government contributions. Around $2.4 billion in pre-tax investment income has been generated over the period.

Overall Performance

The Fund's objective is to maximise returns and our expectation is to exceed, before tax, the risk-free rate of return (measured as the yield on 90-day Treasury bills) by an average of at least 2.5% p.a. over rolling 20-year periods.

The Fund's rate of return for the 12 months to 30 June 2006 was 19.2% (after costs and foreign withholding tax, but before New Zealand tax). This was ahead of the risk-free rate of return of 6.8% by 12.4% (equivalent to approximately $930 million above the risk-free rate of return).

This means that since 30 September 2003, when investing began, the Fund's return has averaged 14.9% p.a., against the risk-free rate of 6.2% p.a.

Sector Performance

The majority of the Fund's assets (60%) are allocated to equity markets around the world. Continued strength in these markets underpinned the strong results for the year. Most of our exposure to world share markets is actively managed and the value delivered by our allocation to these markets was boosted by the skill of the investment managers we selected. The table below summarises the relative contributions.

Equities Sector (By Mandate)	Proportion Of Fund	Index Return	Portfolio Return (After Fees)	Excess Return From Active Management
New Zealand Equities *Weighted average of NZSX 50/NZSX mid cap/small cap*	7.6%	16.8%	23.9%	7.1%
Global Large Cap Equities *MSCI World in NZD (Unhedged)*	40.2%	33.4%	36.6%	3.2%
Global Small Cap Equities *Weighted average of Russell 2000/Citigroup Extended Markets (ex US) in NZD (Unhedged)*	8.6%	38.4%	41.4%	3.0%
Emerging Markets *MSCI Emerging Markets in NZD (Unhedged)*	3.6%	54.5%	48.9%	(5.6%)
Total Equities Sector (Weighted average including the effect of portfolio currency hedging)	**60.0%**	**24.8%**	**28.3%**	**3.5%**

As our policy during the year was to hedge approximately 72% of the foreign currency exposure in global equity portfolios back to NZD, the actual returns in each sector were lower than those quoted above.

The following table shows the Fund's top 10 equity holdings in New Zealand and internationally as at 30 June 2006. A full list of our equity holdings can be found on our website.

Top 10 Equity Holdings at 30 June 2006

NEW ZEALAND	Market Value	% of Fund	INTERNATIONAL	Market Value	% of Fund
Fletcher Building	$66,161,308	0.65%	Citigroup Inc	$51,011,907	0.50%
Contact Energy	$61,946,941	0.61%	Exxon Mobil	$41,509,492	0.41%
Ryman Healthcare	$42,234,556	0.42%	Bank of America	$38,578,098	0.38%
Guinness Peat Group	$41,576,376	0.41%	JP Morgan Chase	$36,869,786	0.36%
Telecom	$39,392,351	0.39%	General Electric	$33,717,909	0.33%
Sky City Entertainment Group	$38,554,925	0.38%	Microsoft	$32,972,321	0.33%
Sky Network Television	$34,842,861	0.34%	Pfizer Inc	$32,253,679	0.32%
Fisher & Paykel Healthcare	$32,319,449	0.32%	Johnson & Johnson	$29,224,018	0.29%
Metlifecare	$26,973,779	0.27%	Toyota Motor Corp	$26,948,809	0.27%
Mainfreight	$25,739,912	0.25%	Credit Suisse Group	$26,197,083	0.26%

Yields in the global listed property sector were also very strong during the year with the UBS Global Investors Index producing a return of 37.0% in NZD. Our exposure in this sector replicates the index. The exposure to domestic property generated a return of just over 10.5% for the year.

The Fund's fixed interest allocation is overwhelmingly to sovereign bonds and is generally passively managed. This will change in 2006/7. Rising interest rates around the world depressed the returns from this sector with the Citigroup World Government Bond Index generating around 2.9% in NZD on a fully hedged basis. The New Zealand fixed interest markets produced returns of 5.4%.

Operating Costs

The management expense ratio (MER) of the Fund was 0.71% of average assets in 2005/6. This includes fees (including performance fees) paid to external investment managers (0.54%); fees to custodians (0.09%); fees to professional advisors and auditors (0.03%); and internal operating costs (i.e. Board and staff costs) of 0.05%.

This is higher than the MER in 2004/5 of 0.48%. The increase is due to a combination of:

- the increase in alternative assets in the portfolio (timber, infrastructure, private equity, commodities and property) from 3% to 20% over the year. These sectors incur higher establishment costs (due diligence, legal and tax reviews) as well as higher ongoing fees than the fixed interest and equities portfolios which they replaced;
- the introduction of multi-strategy mandates (now 15% of total assets) which incur higher base fees than the single-strategy mandates which they replaced; and
- the introduction of performance fees for superior results. Around one quarter of the total fees paid to managers was for generating risk adjusted performance above an agreed hurdle. The payment of performance fees, while increasing total costs in the current year, is positive in that they are directly related to strong results for the Fund.

Value for the Crown is about delivering returns after expenses. This creates a different focus to simply operating the Fund at the lowest possible cost. We recognise that skill in investment management commands a premium and we are prepared to incur the cost to access superior insights. Our decision to introduce performance-based fees is an example of our commitment to this principle. In addition, we are prepared to invest in the experience of specialist advisors to assist in structuring the portfolio.

How Do We Approach Investing?

The Fund's Objectives

Our governing legislation requires us to invest the Fund on a prudent, commercial basis in a manner consistent with:

(a) best-practice portfolio management;

(b) maximising return without undue risk to the Fund as a whole; and

(c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The liability for providing New Zealand Superannuation payments lies solely with the Crown. The Fund is expected to meet only part of this cost. In other words, there is no clear link between the Fund's assets and Crown liabilities. Rather, the Fund can be thought of as an inter-generational smoothing mechanism. By ensuring that the total cost of funding entitlements remains broadly constant as a proportion of GDP, the burden is borne evenly over time.

Smoothing the cost of entitlements does not necessarily require investment in risky assets. We could conceivably hold only low-risk securities, such as sovereign debt. Investing in a broader range of assets can be expected to raise returns, but at the cost of more uncertain outcomes.

This perspective has a number of implications. First, returns are generally measured relative to the risk-free rate, defined as the return on New Zealand Treasury Bills. This provides a measure of alignment with the sponsor's interests. Returns above the risk-free level, often termed "excess returns", improve the Crown's overall financial position relative to lower-risk investment alternatives and vice versa. The excess returns generated are thus a measure of whether investment risk has been rewarded.

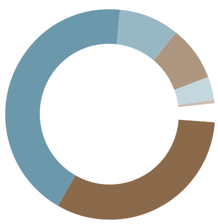
A second implication is that we are concerned with risk-adjusted returns. Our investments cover a wide spectrum, from low-risk sovereign debt to relatively high-risk assets such as private equity or emerging markets equity. Some investments will be risky in their own right, but when combined with a broader portfolio contribute only marginally to total Fund risk. Acceptable returns differ greatly depending upon the level of risk inherent in each programme. The performance hurdles and incentive arrangements negotiated with our external investment managers reflect this.

A third implication is the way in which returns are measured. The Fund is taxed as a corporate. However the Government, as the owner, is indifferent between receiving returns via tax revenue or through accumulation within the Fund. By contrast, tax paid to foreign jurisdictions is a leakage from New Zealand. For these reasons, we focus on maximising returns before New Zealand tax, but after all foreign taxes and expenses. Returns are reported on this basis.

Long-Term Strategic Asset Allocation

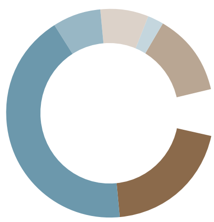
The Strategic Asset Allocation (SAA) is a key component of our overall investment strategy. The SAA determines the proportions of the total Fund made up by the various asset classes, such as global large cap shares, emerging market shares, and property. Our previous, current and long-term asset allocations are summarised below.

Portfolio As At 30 June 2005



Sector	Previous SAA
Global Large Cap Equities	43.2%
Global Small Cap Equities	9.3%
New Zealand Equities	8.4%
Emerging Market Equities	3.6%
Alternative Assets	0.5%
Property (NZ and Global)	2.9%
Fixed Interest	32.1%
Total	**100.0%**

Portfolio As At 30 June 2006



Sector	Current SAA
Global Large Cap Equities	40.2%
Global Small Cap Equities	8.6%
New Zealand Equities	7.6%
Emerging Market Equities	3.6%
Alternative Assets	12.7%
Property (NZ and Global)	7.2%
Fixed Interest	20.1%
Total	**100.0%**

Longer-Term Target Portfolio

Sector	Longer-Term SAA
Global Large Cap Equities	34.5%
Global Small Cap Equities	6.0%
New Zealand Equities	7.5%
Emerging Market Equities	2.0%
Alternative Assets	25.0%
Property (NZ and Global)	10.0%
Fixed Interest	15.0%
Total	**100.0%**

The key distinguishing characteristics of the Fund are:

- a long investment horizon;
- positive cashflow envisaged for approximately the next 20 years; and
- indifference to local taxation.

In setting the Fund's asset allocation, we found it useful to begin with the concept of the "global wealth portfolio" (a portfolio of all readily investable assets around the world, in their relative proportions). A representative investor might seek to replicate this. Our approach is to modify the "global wealth portfolio" to reflect the characteristics of the Fund. Relative to the weights in the "global wealth portfolio", the modifications involve:

- An increase in the growth:income split from around 50:50 in the "global wealth portfolio" to 80:20. This reflects the long horizon of the Fund and a greater than average tolerance for investment risk. We have adopted this split since inception.
- An increase in the total allocation to property and other "private market" assets, to 35% of the total Fund over time. This reflects our lack of need for liquidity. As a result, we can benefit from the higher returns generally offered for assets such as private equity, timber, infrastructure and property to compensate investors for not being able to liquidate them at short notice. The increased allocation to these assets, compared with our current 13% allocation, will mostly be funded by a reduction in the weight for global listed equities.
- An allocation to New Zealand equities of 7.5%, compared with a negligible weight in the "global wealth portfolio". This change reflects the greater value of dividend imputation credits for New Zealand shares to the Fund than for international investors, which therefore do not fully price in their value. The 7.5% weight reflects a balance between this benefit to returns and the risk associated with concentration in a small market. We have maintained this allocation since inception.
- A reduction in the amount of foreign currency, through currency hedging, relative to the exposure associated with unhedged global assets. This reflects the reduction in risk available from currency hedging.

We recognise that implementing some portions of the portfolio presents significant implementation challenges. Although broad exposure to listed equity and fixed income markets can be achieved quickly, and at low cost, this is not the case for private markets. Opportunities to invest are often lumpy and require specialist insights. Moreover, access to high-quality deal flow and managers is usually scarce. For these reasons most organisations increase allocations to these programmes gradually. While we increased our exposure from negligible levels to almost 20% (including property) during 2005/6, we are only a little over halfway to our target allocation of 35%. It is important to stress that the quality of the investment programme will not be compromised by setting this target. If we cannot identify appropriate opportunities, we will not progress with the allocation to these sectors.

The Return For Risk

The risk-return assumptions behind the SAA analysis, together with the long-term expected contributions to the Fund, provide a basis for projecting Fund returns into the future, assuming the current SAA is maintained over this period. Given the inherent inaccuracies in projections of this sort, they should be considered as an indication rather than a precise measure.

Our most recent review of the SAA (March 2005) contains projections over a 30-year horizon. These suggest an average annual return of approximately 9% p.a. or an expected excess return of around 3.5% p.a. Our expectations for the next few years are set out on page 26.

This gain is not a free lunch. Rather, it represents the expected reward for bearing investment risk. A wide range of outcomes is possible. We believe there is a 3:1 probability that we will achieve returns of at least 2.5% p.a. above the risk-free rate but acknowledge that there is a small (around 4%) chance of not exceeding the risk-free rate at all.

Risk can also be expressed in terms of the variability of returns along the way. For example, our modelling suggests that the Fund has about a 10% chance of reporting a negative return in a given three-year period combined with at least two negative years out of three.

We constantly review our assumptions, and medium-term market conditions, to ensure our SAA remains appropriate. A copy of the Investment Strategy Review which underpins the current SAA can be found on our website.

How Do We Add Value In Public Markets?

In the 2005 Annual Report we discussed our approach to how we select active managers for the Fund. We set out how we try to identify skilful managers, the "conviction threshold" we apply and the technique we use to estimate the return above benchmark or "alpha" that we expect a particular strategy to deliver. We then went on to discuss how we can think of the active risk inherent in a manager's strategy as distinct and separable from the market risk taken within the strategy. We said that our challenge was to build a genuinely diversified active risk portfolio including active risk taken in a variety of asset classes.

Refining How We Evaluate Managers

Over the year under review we have made some refinements to how we evaluate managers. In particular we are paying increased attention to understanding the factors that drive their excess returns. We want to make sure that we are not paying active management fees based on excess returns that come largely from systematic exposure to easily replicable factors. For example, at times value-biased managers will generate excess returns relative to the broad market simply because the markets are favouring stocks with those characteristics. What we are interested in is how that manager performs against a universe of stocks with value characteristics because, if we wanted to, we could simply and cheaply replicate exposure to those stocks.

A further focus has been on exploiting the full range of a skilful manager's ability. Traditional mandates constrain a manager to only being able to take positions in stocks they believe will go up in value. The most they can do with stocks that they expect to fall (or go up less) in value is to hold none of them. Assuming the manager has insight into what might cause a stock to lose value, that long-only constraint severely diminishes their ability to add value. The long-only constraint can be relaxed to the point where a manager takes equal and opposite long and short positions. At that point they have eliminated their exposure to the market as a whole and the return they generate is pure alpha. Not all managers, however, have the ability to take short positions. It requires not only the insight mentioned but also a far greater focus and sophistication in risk management.

Typically a less constrained mandate such as we have discussed here carries with it higher fees. Almost always there is a performance fee component included within that. We are very attracted to performance fees because, if structured correctly, we pay the fee only if the manager has generated returns above an agreed hurdle, after costs. Having said that, they are complex arrangements containing an option element that must be carefully evaluated and factored into our equations. The option element arises because the manager does not have to pay us when they return less than the market. We use a "bonus bank" arrangement to dampen that impact – effectively carrying forward a negative fee to be offset against future positive fees.

In an ideal world we would pay largely for excess performance with very low base or fixed fees. That is because typically we can gain broad market exposure (through index replication funds) at low cost. Most managers, however, are reluctant to accept very low base fees – they have overheads to cover and staff to pay – so typically we end up with a blend of base and performance fees. Our alpha estimation approach, which we discussed in last year's report, allows us to determine acceptable trade-offs between the two. Because we have modest excess return expectations we think, all else being equal, that shifting towards performance fees will lower the total fees we pay. However, we should not be perturbed if the outcome is significant performance fee-related payments. That outcome would signal that our managers are performing beyond our expectations.

Putting It Into Practice

We put these thoughts into practice in manager selection last year. We have been active in identifying managers that: diversify our sources of active return; have been freed from the long-only constraint; and for whom we have performance fee arrangements. To date we have selected four managers that fit those characteristics and more are in the pipeline. In fact, those characteristics are likely to dominate our future selection decisions.

To illustrate what these new mandates look like we briefly review below the four managers we selected; three of them were already part of our stable of managers and as our relationship with them grew we gained greater understanding of the breadth of their management ability. A characteristic of all of them is that their strategies are either market-neutral – that is they have no systematic ongoing exposure to a particular market – or the market exposure resulting from their strategy is not one that we desire. In each case then the manager overlays a market exposure of our choosing, either a global equity or global bond exposure so that the Fund's market exposure remains in line with our strategic asset allocation. These overlays are a new feature of how we invest the Fund.

We appointed Numeric Investors LLC to a multi-strategy global equity mandate. Numeric was already one of our stable of managers – we appointed them to manage a US small cap mandate in 2004. As we came to know the firm we saw that they applied the same processes and discipline used in the small cap mandate to other equity strategies. Because we favour high breadth strategies in which lots of decisions are made, we saw logic in trying to capture that by broadening the strategies we engaged them for. Those other strategies included both long-only and market-neutral. The new mandate allows Numeric to choose whatever combination of their strategies they wish provided that ultimately they deliver an underlying market exposure of the developed world large cap equity market. That affords us access to underlying strategies that might otherwise be difficult to obtain from them and early access to newly developed strategies. It is a model for how we want to build relationships with our investment managers.

Bridgewater Associates derives their returns from a quite different source. Their focus is on identifying relative valuation disparities within and between broad asset classes: bonds, equities and currencies. They focus on market-level, not security-level, disparities. While at any one point in time the strategy might have a positive (or negative) exposure to a particular market there is no ongoing systematic exposure. To meet our strategic asset allocation desire for a market exposure they overlay exposure to global sovereign bond markets.

Grantham Mayo van Otterloo (GMO) and Goldman Sachs Asset Management (GSAM) were both managers that we had earlier engaged for specific long-only mandates (global ex-US small cap equities and global growth equities in the case of GMO and US small cap equities in the case of GSAM). In the year under review both were appointed to manage global multi-strategy mandates. Each brings a different approach to investing but both attempt to generate alpha by making a large number of investment decisions spanning security selection in bond and equity markets and, like Bridgewater, relative valuation decisions between markets. GMO overlays a global equity market exposure and GSAM a global bond market exposure on our behalf.

A year ago our mix of active risk was dominated by stock selection decisions within large cap global equity markets. The five managers we had engaged specifically for that task collectively represented two thirds of our active risk budget. With the appointment of the multi-strategy managers (who collectively represent one third of our active risk budget) our mix is becoming much more diversified. We now have contributions coming from securities selection in equity, bond and currency markets as well as relative valuation decisions between the country-level components of those markets, and no one manager represents more than 14% of the Fund's active risk. Further diversification will increase the relative share of risk coming from selection within bond, currency and commodity markets.

The Challenges Ahead

Looking forward we have two major challenges: we would like to increase the level of active risk the Fund takes and we need to find sufficient capacity within managers to accommodate the Fund's growing appetite. Properly defined, the Fund's active risk bears almost no relation to the market risk the Fund takes – that is to say it is lowly correlated. If we are satisfied that we can deliver a sufficiently attractive return per unit of active risk then we should be prepared to take much more of it than we currently do (a very small fraction) so as to further diversify the Fund. To maintain the Fund's current level of active risk, let-alone increase it, we need to continue to find high-calibre managers in whom we have a high degree of conviction and from whom we expect a suitably compelling net-of-fee return on risk, and that, perhaps most importantly, have available capacity. Many of the strategies that interest us are currently closed to further client inflows. The Fund will be a lot larger in the future than it is now so we need to be innovative in how we think about and access capacity to meet that future demand.

What Is Our Approach To Private Markets?

Private markets is a collective term for investments that are not securitised nor easily traded on recognised exchanges. Areas we have identified include private equity, infrastructure, timber, absolute return funds, mezzanine debt and distressed debt. Many others could be added to this list. Commodities, though often referred to as an alternative asset, are not included. This is because commodity exposure is typically taken via commodity futures contracts, which are liquid and readily tradeable.

Our approach to investing in private markets does not differ materially from that of public markets. Indeed, many areas overlap the public/private boundary and the distinction is often artificial. Essentially similar assets may be held in listed or unlisted investment vehicles, with real estate being a leading example. Many assets move back and forth and entities list or de-list from stock exchanges. For these reasons we do not generally distinguish on the basis of legal structure when we consider an investment. While listed assets usually carry a liquidity advantage, this is not a high priority for the Fund.

Understanding The Differences

Private markets assets do differ from public market assets in some important respects:

- It is not usually possible to distinguish market returns from managers' relative performance ("alpha").
- Opportunities to invest are often lumpy and irregular.
- Transaction costs are usually high and consequently portfolio turnover lower.
- Commitments to managers need to be made over longer horizons, and are usually difficult to reverse.
- Use of performance fees to align managers with investors is more common.
- The dispersion of returns between different investors tends to be much greater than in public markets. In public markets the asset class return usually dominates, with manager performance having less impact. By contrast, in private markets the divergence between manager performance is often the most important factor. Reported asset class or index returns are normally difficult to replicate.
- Boundaries between types of investments are fluid. Some commentators speak of "asset clusters" rather than "asset classes".
- Private market investment vehicles are more likely to employ leverage.
- A wider range of governance issues arises. Supply of services via related party transactions, and the allocation of available investments between multiple clients can become issues which need to be carefully managed.

As a result, private markets programmes are more complex to manage than investments in public markets. Our long-term SAA includes a 25% allocation to a combination of private markets and commodities, with an additional 10% allocation to property. However, within this total there is no fixed allocation to any component. Private markets assets are collectively viewed as absolute return generators. The mix within the portfolio will reflect the availability of quality investment opportunities at any time.

Implementing Our Private Markets Programmes

The process for investing in private markets usually follows a standard pattern.

1. The initial stage includes identifying the role that the investment would play within the SAA. This incorporates factors such as its risk-return characteristics, diversification advantages against existing assets, size, ease of implementation and likely availability of suitable investment partners.
2. Then follows a process of background checks on the sector. This will include identifying the major players, typical vehicle structures and key issues for investors. A specialist advisor may be employed at this point.
3. Once a universe of potential investment partners has been identified and screened to a manageable size a formal request for information (RFI) will be issued. As well as the standard investment characteristics, in private markets we place emphasis upon alignment of interests with managers, the ability to access quality deal flow and proven specialist expertise. Manager appointments eventually follow from this process.
4. Funding of each mandate may be made as a commitment in advance (typically the case for closed-end funds); at semi-regular intervals (sometimes possible with open-ended arrangements); or else may

be specific to a particular opportunity on an "as needs" basis.

Given the challenges of getting established in these sectors, we have had to prioritise between programmes. In principle, emphasis has been given to the programmes that were expected to offer greatest diversification benefits against existing assets, and to those that were more straightforward to implement.

Infrastructure

The first programme initiated was within infrastructure, with the appointment of Capital Partners in early 2005. This mandate permits investment in a wide range of infrastructure assets, both within New Zealand and globally. Infrastructure is a medium-risk asset, with risk-return characteristics somewhere between equity and debt. In March 2006 a second manager, Morrison and Co Funds Management Limited, was added. Morrison and Co is also the investment manager for Infratil Limited, a public investment company in infrastructure assets.

These manager appointments were carefully chosen. Both firms are specialist infrastructure investors, with little or no other business focus. Both have broad global perspective, with a long history of analysing and investing in infrastructure assets in many jurisdictions. Both were perceived as free of conflicts of interest, which sometimes bedevil the sector.

As at 30 June 2006 the combined infrastructure portfolio totalled $388 million, or 3.8% of the Fund.

Private Equity

In March 2005 we stated our intention to invest up to $100 million in New Zealand private equity funds, or related transactions, over the next three to five years. We also announced the appointment of specialist advisory firm, Quentin Ayers, to review investment opportunities in the New Zealand private equity market.

The first commitments were made during mid-2005. A $24 million commitment was made to the Pencarrow Private Equity Fund. This was followed by a $20 million commitment to the Direct Capital Partners (DCP) III Fund. These commitments will be progressively drawn down and invested over the next few years. Our next focus is expanding our programme to the global marketplace.

Timber

The past year also saw initial timber investments. In October 2005 we acquired 12,000 ha of New Zealand timber estates, previously held in a listed vehicle, Evergreen Forests Limited. The assets are managed on our behalf by the Rotorua office of GMO Renewable Resources Ltd.

In November we announced three additional timber investments. These comprised:

- timber management rights to the Tahorakuri property near Wairakei in the Central North Island. This property is 5,867 ha of mature Radiata Pine;
- a timberland investment located in Washington State in the US North West. Our interest comprises approximately 7,284 ha of Hemlock and Douglas Fir; and
- a timberland investment located in Texas in the US South. Our interest comprises approximately 18,210 ha of predominantly Loblolly Pine.

All three properties are managed by the Hancock Timber Resource Group (HTRG). These assets comprised part of approximately 376,358 ha of timberland or timber rights acquired by HTRG from Harvard Management Company, the investment manager for The Harvard University Endowment.

As at 30 June 2006 the total value of timber investments was $368 million, or 3.6% of Fund assets.

Property

Our property portfolio continued to grow in size, though no new manager appointments were made over the past year. The portfolio presently consists of a passively managed exposure to global listed property (mostly REITs), managed by Vanguard Investments, as well as a holding in the unlisted AMP Property Portfolio, managed by AMP Capital Investors. Looking ahead, these core holdings will in time be supplemented by a range of higher-yielding, more value-added property investments. As at year end the global and local investments totalled $529 million and $202 million respectively.

Who Are Our External Investment Managers?

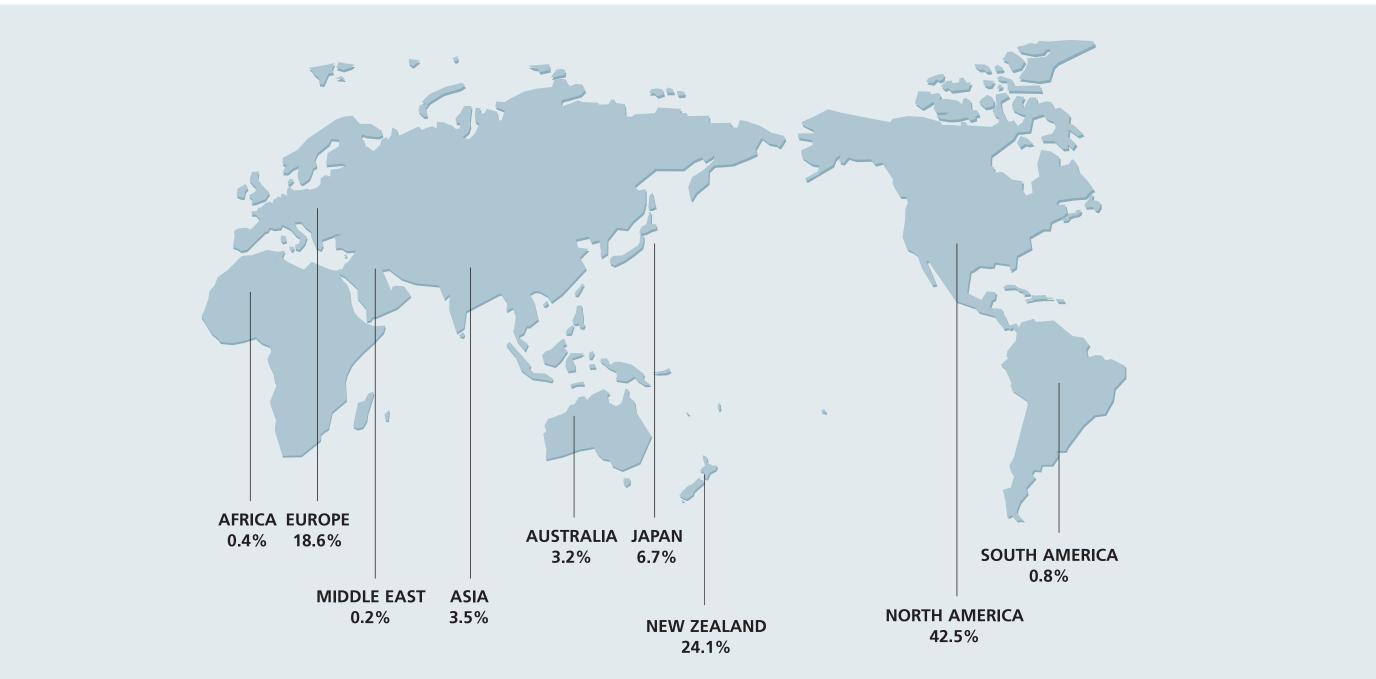
Our governing legislation states the Annual Report must include a schedule of the external investment managers as at 30 June 2006, and the classes of investments for which each was responsible. The schedule is set out below. In addition, the Fund maintains relationships with a number of counterparts in order to manage exposure to equity, fixed income, currency and commodity markets.

We awarded 11 external investment mandates in 2005/6, bringing the total number to 34. For a review of our public markets and private markets appointments, please see pages 10 and 12 respectively.

MANAGER	New Zealand Equities	New Zealand Fixed Interest	New Zealand Property	Global Equities (Large Cap)	Global Equities (Small Cap)	Global Equities (Emerging Markets)	Multi-Strategy Alpha	Global Property	Infrastructure	Global Fixed Interest	Private Equity	Timber	Currency	Cash
Alliance Capital Australia Limited				■										
AMP Capital Investors (NZ) Limited	■		■											
AMP Pencarrow (No. 2) Limited											■			
AXA Rosenberg Investment Management Asia Pacific Limited					■									
Barclays Global Investors Australia Limited				■										
Overlay Asset Management													■	
BNP Paribas Securities Services														■
Bridgewater Associates, Inc.							■							
Brook Asset Management limited	■													
Capital Partners Pty Ltd									■					
Direct Capital Management Limited											■			
Fisher Funds Management Limited	■													
Goldman Sachs Asset Management, L.P.					■		■							
Grantham, Mayo, Van Otterloo & Co, LLC				■	■		■							
Hancock Timber Resource Group, Inc.												■		
ING (NZ) Limited		■												■
Legg Mason International Limited						■								
LSV Asset Management Limited				■		■								
Morrison & Co Funds Management Limited									■					
Numeric Investors LLC					■		■							
GMO Renewable Resources LLC												■		
Smartshares Limited	■													
Sterling Johnston Capital Management Limited					■									
Thompson, Siegel & Walmsley, Inc.					■									
Vanguard Investments Australia Ltd								■		■				

AllianceBernstein – Alliance Growth Equities
AMP capital investors
AXA Rosenberg
Barclays Global Investors
AllianceBernstein – Bernstein Value Equities
brook
Bridgewater
Capital Partners
Direct Capital
Fisher Funds
Goldman Sachs Asset Management
GMO North America | Europe | Asia-Pacific
GMO Renewable Resources Ltd – An affiliate of GRANTHAM, MAYO, VAN OTTERLOO & CO.LLC Boston USA
Hancock Timber Resource Group® – An MFC Global Investment Management Company
ING
Legg Mason International Equities
LSV Asset Management
Morrison & Co
numeric investors limited liability company
Overlay Asset Management
Pencarrow Private Equity Limited
smartshares
Vanguard Investments™
Sterling Johnston Capital Management, LP
TS&W Thompson, Siegel & Walmsley, Inc. Investment Management

The diagram below shows the Fund's investments by geographic region (as at 30 June 2006).



How Do We Manage Our Responsibilities As A Share-Owner?

Our Position

One of our core beliefs is that the long-term financial performance of companies we invest in can be affected by environmental, social and governance (ESG) issues. This is consistent with our obligation under our governing legislation to develop policies on ethical investment and on the exercise of voting rights attached to shares owned by the Fund.

During the past year we made substantial progress in incorporating this perspective into the operation of the Fund.

We have become a founding signatory of the Principles for Responsible Investment, an initiative of the United Nations, in conjunction with many of the world's largest institutional investors. In addition, we adopted the United Nations Global Compact as a benchmark by which we measure the non-financial performance of the companies we invest in.

We also appointed International Shareholder Services (ISS) to co-ordinate, research and exercise our international voting rights and assist us in the development of a corporate governance standard for New Zealand.

The Principles For Responsible Investment

In early 2006, we committed the Fund to adhering to the Principles for Responsible Investment (www.unpri.org), an initiative of the UN Secretary-General implemented by the UNEP Finance Initiative and the UN Global Compact. We believe the Principles provide a framework for achieving better long-term investment returns and more sustainable markets. The commitments we have made are:

Where consistent with our fiduciary duties and responsibilities:

1. We will incorporate ESG issues into investment analysis and decision making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

We recognise the challenges ahead of us in committing to these requirements. Our aim is to continue moving forward in each area and be able to demonstrate constructive progress each year.

An issue facing institutional investors is whether certain types of activities should be excluded from the portfolio on the basis that they are inappropriate. Our policy on this issue is clear. We will not permit investment in a business activity (i.e. the goods/services produced) that is illegal in New Zealand, even if it is legal in a foreign jurisdiction. If we determine that an investment has been made that contravenes this standard, we will divest it. Conversely, if an activity is legal in New Zealand, we will not prohibit its inclusion in the portfolio.

We recognise that it is often the standards by which companies operate, rather than the nature of the business itself, which attracts criticism. Here our approach is to measure the companies in our portfolio against the standards set out in the United Nations Global Compact (www.unglobalcompact.org). We believe this provides transparent, objective and widely accepted criteria to identify entities whose behaviour is such that investment in them by us could prejudice New Zealand's reputation as a responsible member of the world community.

Global Compact

The Global Compact has 10 Principles which are summarised below. More than 2,500 companies in 90 countries around the world have committed themselves to these Principles.

Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2	Make sure they are not complicit in human rights abuses.
Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4	The elimination of all forms of forced and compulsory labour;
Principle 5	The effective abolition of child labour; and
Principle 6	The elimination of discrimination in respect of employment and occupation.
Principle 7	Businesses should support a precautionary approach to environmental challenges;
Principle 8	Undertake initiatives to promote greater environment responsibility; and
Principle 9	Encourage the development and diffusion of environmentally friendly technologies.
Principle 10	Businesses should work against all forms of corruption including extortion and bribery.

Where we identify, through our monitoring programme, that companies appear to be operating inconsistently with these Principles, we aim to undertake constructive engagement with them. It is our intention to operate in concert with other institutional investors in these discussions to make them more effective.

Exercising Our Voting Rights

During our first three years, resources were focused on the development of investment policy and the matter of exercising our proxy votes was delegated to our external investment managers. As the number of investment managers has expanded, so has the number of securities – the Fund is now the registered owner of more than 3,000 securities around the world.

During the year we recognised that to meet our intention to vote all our shares, where possible, we would need to centralise our voting to ensure votes were cast and to enable us to report on how we voted. This centralisation brought with it the need to more clearly define our own expectations for standards in corporate governance.

We have appointed ISS to collect and research our proxy votes. Outside New Zealand, ISS has been delegated to vote on our behalf following a set of agreed guidelines. We monitor the reasoning applied and action taken by ISS.

A Corporate Governance Standard For New Zealand

We believe it is important for the Fund to promote a high standard of corporate governance in the domestic companies in the portfolio. The careful exercise of our proxy voting rights, guided by a well articulated set of principles and guidelines, should positively influence corporate behaviour and increase the long-term value of the Fund's investments.

In conjunction with ISS, our investment managers and other New Zealand institutional investors, we commenced development of a set of guidelines for the domestic market and are committed to constructive discussion with issuers around this.

How Is Our Organisation Structured?

Effective governance is essential in order to safeguard the assets entrusted to us, and to ensure that appropriate objectives are pursued and achieved in line with our legislated mandate.

This section of the Annual Report presents information on our mandate, the Board and Board committees, the division of responsibility between the Board and management, and key policies designed to guide our activities and behaviour.

The Guardians Of New Zealand Superannuation

The Fund is governed by a separate Crown entity called the Guardians of New Zealand Superannuation. The Guardians' mandate is to invest the Fund on a prudent, commercial basis and, in doing so, ensure that the Fund is managed and administered in a manner consistent with:

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

Independence From Government

While accountable to government, the Guardians operate at arm's length from government. The Board is required to report to the Minister of Finance on the Fund at those intervals that the Minister may require and currently we provide a quarterly written report on the Fund's progress.

Under the law, the Minister of Finance may give directions regarding the Government's expectations as to the Fund's performance, including its expectations as to risk and return. However, the Minister may not give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. The Guardians must have regard to any such direction and must notify the Minister how they propose to do this, as well as report the direction in the Annual Report. Any direction given by the Minister must be tabled in Parliament. No directions have been received to date.

Board Of The Guardians

Members of the Board are appointed by the Governor General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from an independent nominating committee. On receiving those nominations the Minister must consult with representatives of other political parties in Parliament before recommending the Governor General appoint a person to the Board.

Board members are chosen for their experience, training and expertise in the management of financial assets, as well as their mix of complementary skills and commitment to the Fund's goals.

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

At 30 June 2006, seven Board positions were occupied. Full biographical information on each Board member is available on our website.

Board Committees

The Board has established three committees to assist in the fulfilment of its obligations:

- Audit and Risk Committee;
- Responsible Investing Committee; and
- Employee Policy and Remuneration Committee.

The Audit and Risk Committee comprises Dr Michaela Anderson [Chair], Sir Douglas Graham and David Newman. The Committee oversees the internal and external audit of the Fund, the risk management framework and its application, compliance (including tax compliance) and the accuracy of key financial statements.

The Responsible Investing Committee comprises Bridget Liddell [Chair], Dr Michaela Anderson, Sir Douglas Graham and Glen Saunders. The Committee oversees the development and implementation of the ethical investment policy (under s61(d) of the Act) and the policy for the exercise of voting rights (under s61(i) of the Act).

The Employee Policy and Remuneration Committee, which comprises David May [Chair] and Sir Douglas Graham, oversees the development of employment and remuneration policies for the organisation.

Recommendations of Board committees are subject to approval of the full Board. Further information on Board committees, including their specific terms of reference, can be found on our website.

Assessment of Board Performance

A formal independent review of how effectively and efficiently the Board is performing its function is carried out every five years. The Minister of Finance sets the terms of reference for the review, which is conducted by an independent person appointed by the Minister. The report is then presented to Parliament. The first review was conducted in July 2004 and is available on our website. On a day-to-day basis, The Treasury monitors the activities of the Board on behalf of the Government.

Board Of The Guardians Of New Zealand Superannuation

DAVID MAY, CHAIRMAN: Currently Deputy Chairman of the Government Superannuation Fund Authority and Director of Southern Cross Medical Care Society. David is an actuary with 35 years' experience in the financial services, superannuation and insurance industries. David was formerly Managing Director of Colonial in New Zealand and Chief Executive of Jacques Martin NZ Ltd.

SIR DOUGLAS GRAHAM, DEPUTY CHAIRMAN: Currently Chairman of the Lombard Group, Director of Watercare Services Limited, Director of OTPP NZ Forest Investments Ltd and the Commonwealth Special Envoy to the Kingdom of Tonga. A Member of Parliament from 1984 until his retirement from politics in 1999, Sir Douglas was Minister of Justice from 1990-1998. Prior to his distinguished political career, Sir Douglas practised law from 1965-1984.

DR MICHAELA ANDERSON: Currently Director - Policy and Research at the Association of Superannuation Funds of Australia (ASFA). Michaela has 20 years' experience in the superannuation industry. Prior to her ASFA appointment in 1994, Michaela was the Manager of Policy Advice to the State Authorities Superannuation Board, a statutory board which governs the superannuation funds for employees of the state of New South Wales.

BRIDGET LIDDELL, CFA: Currently Chair of the US Beachhead Programme, a New Zealand Government initiative that assists high-growth businesses enter the US market. Before moving to the US in 2003, Bridget was Chief Executive Officer of University of Auckland Development Ltd. She has been a Director of Sky City Entertainment Group, Fisher & Paykel Appliances Holdings Ltd and Uniservices Ltd. Bridget has also held senior executive positions at Carter Holt Harvey, and was a Director of CS First Boston NZ Ltd.

The Board: from left, David May, Sir Douglas Graham, Dr Michaela Anderson, Bridget Liddell, David Newman, Glen Saunders and Mark Tume.

DAVID NEWMAN: Currently Chairman of Infratil Limited and its subsidiary Wellington International Airport Limited and a Director of Infratil Airports Europe Limited. David is also Chairman of Austral Pacific Energy Ltd. Previously Chief Executive Officer of the Institute of Directors in New Zealand. Prior to this, David spent 22 years with BP, culminating in four years as Chief Executive and Managing Director of BP New Zealand Limited.

GLEN SAUNDERS: A consultant, investment banker and qualified accountant, Glen was previously UK Managing Director of Netherlands-based bank, Triodos. He is a former Director of the Wind Fund plc and the Local Investment Fund, a public-private partnership funding community-based initiatives in the UK. He has also served as Non-Executive Director of the Western Partnership for Sustainable Development and the Earth Centre Advisory Board.

MARK TUME: Currently Managing Director of Lake Taupo Capital Ltd, Director of Transpower New Zealand Ltd and Director of Grosvenor Financial Services Group. Over his 20-year career, Mark has held a variety of senior roles within the finance sector, in areas such as investment banking, capital markets, asset and liability management and risk control. He was a former President of the New Zealand Financial Markets Association.

Board Meeting Attendance

The Board met eight times during 2005/6 and its committees held 10 meetings. The table below reflects the number of meetings attended by each Board member relative to the total meetings that Board member could have attended.

	1/8/05	12/9/05	28/11/05	19/12/05	13/2/06	27/3/06	8/5/06	19/6/06
David May (Chair)	■	■	■	■	■	■	■	■
Sir Douglas Graham	❍	■	■	■	■	■	■	■
Dr Michaela Anderson	■	❍	■	■	■	■	■	■
Bridget Liddell	❍	■	■	■	■	■	■	■
David Newman	■	■	❍	■	■	■	■	■
Glen Saunders	■	■	■	■	■	■	■	❍
Mark Tume*	–	–	–	–	–	–	■	■

* Joined the Board in April 2006

Remuneration

The remuneration paid to Board members during 2005/6 is summarised in Note 16 to the Guardians' Financial Statements. Further information on the fees framework for members of statutory and other bodies appointed by the Crown is available on our website. The total remuneration of those employees earning more than $100,000 p.a. is detailed in Note 15 to the Guardians' Financial Statements.

Code Of Conduct

A Code of Conduct for Board members and employees sets out standards for appropriate ethical and professional conduct, and procedures for dealing with conflicts of interest.

Among other things, the Code deals with: honesty and integrity; compliance with the law; use of confidential information; reporting of personal investment transactions; receiving of gifts and entertainment; membership in and public representation of non-profit and professional associations; and personal use of the Fund's resources, assets and facilities. It also includes a "whistle-blowing" provision, designed to encourage employees to step forward and report any questionable practices.

The Audit and Governance Committee is responsible for the implementation and enforcement of the Code. The full Code is available on our website.

Conflict Of Interest Procedures

The Conflict of Interest procedures for Board members and employees are intended to provide a process for identifying, minimising and resolving potential conflicts of interest.

The procedures include: a requirement to disclose the nature and extent of a Board member's or employee's interest in a transaction or proposed transaction; prohibit a Board member or employee from participating in a discussion relating to any transaction involving their interests; prohibit a Board member from voting on a resolution; prohibit a Board member or employee from using confidential information gained through their position for personal gain or for the benefit of any other person; prohibit a Board member or employee from buying or selling a security, or property, when in possession of information gained through their position which may affect the value of that security or property; and prohibit a Board member or employee from engaging in front-running, or any other practice that seeks to benefit them or other persons, through their understanding of the investment activities of the Fund.

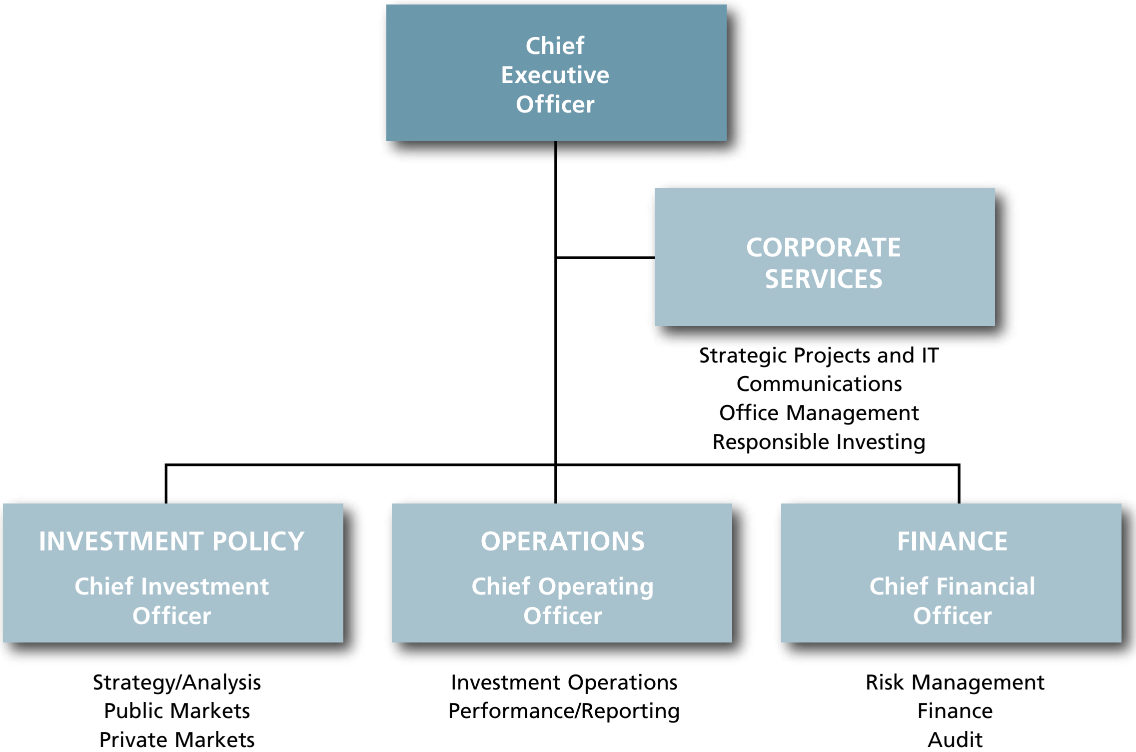
Equal Employment Opportunities

The Board is committed to ensuring equality of opportunity for all employees and recognises the benefits of diversity in the skills and experience that employees contribute. The Board ensures that all policies and procedures are aligned with the overriding Equal Employment Opportunities programme. An EEO policy was in place, and complied with, during the year.

Management Team

At 30 June 2006 there were 15 employees. Recruitment of an additional 10 employees is envisaged during 2006/7 in order to effectively respond to the investment opportunities available to the Fund, and to manage the associated implementation challenges.

An organisational chart as at 30 June 2006 follows, along with brief profiles of all staff. Full profiles can be found on our website.



The Management Team

PAUL COSTELLO, CHIEF EXECUTIVE OFFICER: Responsible for general management of the Fund under delegation from the Board. Joined the Fund in May 2003 after 15 years in the superannuation and funds management industries in Australia, most recently as Chief Executive Officer of the Superannuation Trust of Australia. Paul is Deputy Chairman of the NZX Asset Management Advisory Board, and is a Fellow of the Financial Services Institute of Australasia.

PAUL DYER, CHIEF INVESTMENT OFFICER: Responsible for overseeing the development and implementation of investment policy. Joined the Fund in April 2004 after eight years with AMP Capital Investors (NZ Ltd), most recently as Chief Investment Officer. Prior to AMP Capital, Paul was Director, Strategy at SBC Warburg (Australia). He has also held positions as Chief Economist with Buttle Wilson and economist with the New Zealand Treasury.

TORE HAYWARD, HEAD OF STRATEGY: Responsible for leading research on the structure of the portfolio including asset allocation. Joined the Fund in January 2006 from AMP Capital Investors (NZ Ltd), where he was Chief Investment Officer. Tore previously headed the foreign reserves management team at the Reserve Bank of New Zealand. Before that he led the wholesale investment management operations for the ANZ Bank in New Zealand.

TIM MITCHELL, HEAD OF PUBLIC MARKETS: Responsible for the appointment of investment managers in public markets. Joined the Fund in April 2003. Tim was previously a consultant to the Board with responsibility for establishing the Fund's infrastructure and policies. Prior to that he was a principal advisor at Treasury. Before moving into the public sector, he spent seven years with Colonial First State Investment Managers, most recently as Chief Investment Officer.

GARETH HEDGES, SENIOR RESEARCH ANALYST: Responsible for manager research in public markets. Joined the Fund in January 2005 after spending six years with Mercer Investment Consulting in London and Auckland, where he provided investment advice to a range of institutional clients including superannuation schemes.

PAUL HODGE, CHIEF OPERATING OFFICER: Responsible for the development of operational strategy. Joined the Fund in May 2006 from Abbey Financial Markets in London, where he was Head of Asset Servicing and Settlements. Before that Paul was a manager within CSFB's equity finance operations in Zurich and London. He has also worked at BNP Paribas in London and Morgan Stanley in London and New York.

PETER BENNIE, HEAD OF OPERATIONS: Responsible for the implementation of operational strategy. Joined the Fund in December 2005. Peter was previously Senior Relationship Manager with BNP Paribas in Wellington. He spent a number of years in Europe, most recently as Head of Reporting with Credit Suisse (Deutschland) AG and prior to that as Senior Operations Manager with State Street Bank in Munich.

Management Team: from left, Paul Costello, Paul Dyer, Tore Hayward, Tim Mitchell, Gareth Hedges, Paul Hodge, Peter Bennie, Ryan McCulloch, Stewart Brooks, Mark Thomas, Melanie Duff, Glenn Read, Sarah Loutit, Sheryl Coker and Carolyn Andrews.

RYAN MCCULLOCH, INVESTMENT OPERATIONS MANAGER: Responsible for managing the Fund's daily operational transactions. Joined the Fund in August 2004 after returning from the UK where he worked for The Bank of New York (Europe), Schroder Salomon Smith Barney and the Mellon Financial Group. Prior to that Ryan worked for the National Bank of New Zealand.

STEWART BROOKS, CHIEF FINANCIAL OFFICER: Responsible for financial control and external audit. Joined the Fund in August 2003 from Sterling Grace Portfolio Management Group, where he was Group Company Secretary. Stewart was previously Financial Controller for Motorola Cellular and worked in private equities for seven years. Prior to this he worked for a computer multinational in the UK.

MARK THOMAS, HEAD OF RISK: Responsible for internal audit and risk management. Joined the Fund in February 2006 from Vodafone, where he was Regional Risk Advisor for New Zealand and Australia. Mark was previously a Director in risk management for Deloitte. He has also worked as an economist and strategy consultant.

MELANIE DUFF, HEAD OF FINANCE: Responsible for financial reporting. Joined the Fund in April 2006 after spending six years with Ernst & Young in Auckland, most recently as Audit Manager. During that time Melanie provided audit and advisory services to large corporate clients, including Crown entities, listed companies, financial services clients and multinationals.

GLENN READ, HEAD OF STRATEGIC PROJECTS AND IT: Responsible for technology/data/process management. Joined the Fund in February 2005 after 12 years in Frankfurt and London, where he worked within the investment banking and asset management arms of JP Morgan, Merrill Lynch, Dresdner, Saloman Brothers and Schroders.

SARAH LOUTIT, COMMUNICATIONS MANAGER: Responsible for external communications and media relations. Joined the Fund in January 2004. Sarah was previously Vice President Corporate Communications for Australian-listed technology company Telemedia Networks. Before that she was Head of Corporate Communications for European law firm, Eversheds, based in London.

SHERYL COKER, OFFICE MANAGER: Responsible for the provision of administration and support services. Joined the Fund in August 2003 from Air New Zealand, where she was Executive Assistant to the Vice President, HR. Sheryl has held a number of senior PA roles over the past 10 years, including PA to the Chief Executives of The Knowledge Wave Trust and U-BIX Document Solutions.

CAROLYN ANDREWS, OFFICE ADMINISTRATOR/RECEPTIONIST: Responsible for reception and administration support. The youngest member of our team, Carolyn joined the Fund in April 2005 after completing a Legal Secretary Diploma.

Report Against The Statement Of Intent

Our governing legislation requires us to provide, in the Annual Report, an analysis and explanation of the performance of the Fund compared with our expectations as set out in the Statement of Intent issued at the beginning of the year. In addition, we are required to report progress against the key objectives we set for the 2005/6 year. This section deals with these requirements.

Fund Performance

In the Statement of Intent issued in July 2005, we estimated that Fund earnings (after costs, but before tax) would be around 8.7% in the 2005/6 year. Forecasting earnings for a single year is difficult and our approach is to estimate these over the next decade and then assume that the coming year will be typical of that. Accordingly it should not be surprising to find that short-term results vary from this medium-term estimate.

Nevertheless the fact that earnings were more than double our estimate may raise the question of whether our forecasting framework is appropriate.

Our response is that last year's result is only just outside the normal range for a one-year period. Our modelling suggests that, in any given year, returns will fall in a range of +/-10% around our estimated average approximately two-thirds of the time. Naturally, as we extend the period, the range around the estimate contracts (to approximately 6% over a three-year period and less than 2% over 30 years).

Therefore, the +/-10% volatility around our 8.7% estimate means we would expect results in any given year to be between minus 1.3% and 18.7% two-thirds of the time. The return of 19.2% in 2005/6 can be seen in this context.

In our 2006/7 Statement of Intent, we have reduced our estimate of earnings over the next 10 years from 8.7% to 8.2%. As markets around the world begin to slow down after the significant increase in value over the last few years, future returns are looking more subdued. A copy of the Statement of Intent, where our thinking is set out in more detail, can be found on our website.

Report Against Key Objectives

The key objectives we established for the 2005/6 year are outlined at right, with a report on progress against them.

STRATEGIC OBJECTIVE
INTELLIGENTLY USE RISK TO DELIVER SUPERIOR RETURNS
OPERATE TO BEST-PRACTICE STANDARDS
MAXIMISE EARNINGS THROUGH OPERATIONAL EFFICIENCY WHILE MANAGING RISK THROUGH EFFECTIVE CONTROLS
BUILD AND MAINTAIN EFFECTIVE RELATIONSHIPS WITH STAKEHOLDERS
DEVELOP A GOVERNANCE MODEL AND ATTRACT TALENTED AND COMMITTED PEOPLE
BUILD EFFECTIVE PARTNERSHIPS WITH EXTERNAL PROVIDERS

OPERATIONAL OBJECTIVE	PROGRESS
Enhance the risk budgeting framework to accommodate adjustments to the strategic asset allocation based on the relationship between current market pricing and forecast future returns	*Completed. Forecasting framework established and integrated into portfolio analysis. No adjustment to long-term asset allocation was undertaken pending a comprehensive review in 2006/7.*
Refine strategies for the effective utilisation of active manager risk, including separation of market and active risk in the portfolio, and building this into the risk budget	*Completed. Risk budget has been updated with clear separation of market and active risk and proportion of active risk in the portfolio, while still modest, has been increased.*
Implement allocations to infrastructure, commodities, property, timber and domestic private equity to build towards 2007 targets	*Completed. Investment in all sectors was commenced and the 2007 target asset allocation was met ahead of schedule by June 2006 (20% outside listed equities and bonds).*
Develop and implement global private equity and absolute return strategies programme	*Partially completed. Approximately one-third of the active risk budget is allocated to multi-strategy/absolute return mandates. The global private equity programme was not initiated in 2005/6 due to other priorities but will commence in calendar year 2006.*
Further integrate policies for responsible investing, including engagement with investee companies, into portfolio management	*Completed. The Fund is part of a UN-sponsored global initiative incorporating environmental, social and governance insights into management of the portfolio. In addition, the management of voting rights attached to international shares is now coordinated by a specialist international agency. Guidelines for the New Zealand market were also developed.*
Undertake comprehensive review of current model for middle/back office support to ensure adequacy for expected future requirements	*Commenced but not completed. The terms of reference for the review have been set and the project commenced. This will be completed by December 2006.*
Enhance database of Fund transactions to ensure future capability for portfolio analysis	*Completed. The Fund data warehouse is now an integral tool in the analysis and reconciliation of the portfolio.*
Formalise internal control policies and build into comprehensive risk management plan for the Fund	*Partly completed. Key appointment, Head of Risk, made and internal controls continue to be formalised and integrated into an organisation-wide plan. This is expected to be completed in the first half of 2006/7.*
Develop and implement internal audit programme	*Not completed. The appointment of appropriate staff took longer than expected with a consequent delay to implementing the programme. An internal audit firm has been appointed and the programme will be undertaken over the 2006/7 year.*
Implement strategies for capturing transactional leakage from the Fund and/or for reducing operational risk	*Partly completed. Numerous controls have been put in place throughout the year to improve our focus on daily operational risk including: the monitoring of back-dated trades; automated FX validation; automated hedge compliance reporting; and automated calculation and reporting of significant Fund holdings. Initiatives to add value through improved transactional efficiency will be a major focus in 2006/7.*
Review structure and functionality of Guardians' website to promote greater understanding of Fund activities	*Completed. A number of improvements to the website were made during the year including a comprehensive listing of portfolio holdings.*
Maintain media and community profile to promote comfort with Guardians' operations	*Completed. Media coverage of Fund activities during the year was accurate and relevant. Multiple opportunities were taken to address interested groups on Fund strategy and operations.*
Scope appropriate organisational model with balance of internal and external resources and undertake further recruitment, as appropriate, for development of skills complemented by strategies for retention of skilled staff	*Completed. The current business plan clearly identifies the relative roles of in-sourcing and out-sourcing of services. Staff recruitment has been advanced through a review of the funding model for the Guardians aimed at providing improved value for the Fund as a whole.*
Further develop the regime for accessing and leveraging off international experience in institutional management	*Completed. Institutional networking remains a priority for staff with demonstrated transfer of insights achieved. Initial meeting of Board advisory group undertaken in 2005 to provide an independent review of the organisation's progress. This will be repeated in 2006/7.*
Review arrangements with key service providers to promote financial alignment through appropriate performance fees	*Completed. Performance fees feature in the significant majority of new appointments in both public and private markets.*

Statement Of Investment Policies, Standards And Procedures

Our governing legislation states the Annual Report must include a Statement of Investment Policies, Standards and Procedures for the Fund.

A full copy of the Statement is available on our website. A summary is provided below.

Asset Classes And Selection Criteria

Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes

The Fund shall be invested in the following general asset classes and sub-categories:

(a) Global equities comprising separate allocations to large/mid capitalisation; small capitalisation; and emerging markets equities;

(b) New Zealand equities incorporating a constrained allocation to Australian equities;

(c) Global fixed interest comprising separate allocations to sovereign and non-sovereign debt;

(d) New Zealand fixed interest comprising separate allocations to sovereign and non-sovereign debt;

(e) Property comprising New Zealand and international unlisted assets and listed property securities;

(f) Private market assets which have less liquidity than, and/or are lowly correlated with, listed equities. These include New Zealand and international private equity, absolute return strategies, timber and infrastructure; and

(g) Commodities, comprising a broad basket of futures prices for frequently traded commodities.

The strategic asset allocation identifies the mix of asset classes determined to best meet the long-term performance target for the Fund. This is reviewed from time to time.

The Investment Management Agreement with each external investment manager details the constraints on security selection. Typically those constraints include: maximum exposure to a particular company, sector, country or credit rating; maximum deviation from the manager's benchmark exposure to a particular company, sector, currency or country; minimum and maximum number of stocks that can be held; ranges for ex-ante tracking error relative to the manager's benchmark; and maximum issued capital or debt of an individual company that can be held.

Benchmarks

Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, classes of investments, and individual investments, will be assessed

Benchmarks must be consistent with the risk and return assumptions that underpin the strategic asset allocation for the Fund.

The benchmarks for individual asset classes must be broadly representative of that asset class. The performance of asset classes will be assessed by comparing the aggregate performance of investment managers within that asset class against the benchmark for that asset class.

The benchmarks for individual managers should be either the benchmark for the asset class within which that manager is selected, or broadly representative of the universe of securities from which the manager makes its selections. A manager's performance will be assessed by comparing its performance against its respective benchmark, taking into account the amount of risk the manager has adopted relative to that benchmark.

The performance of the Fund as a whole is assessed against the risk-free rate of return. Performance against this benchmark is reported monthly, and should be measured over rolling five-year periods as milestones towards achieving the stated 20-year objective of exceeding the risk-free rate of return by an average minimum of 2.5% p.a.

Investment performance for the Fund as a whole is measured after the deduction of fees, transaction costs and foreign taxes.

Reporting Standards

Section 61(c) – standards for reporting the investment performance of the Fund

The external investment manager and custodian reports must contain sufficient detail to enable management to make an assessment of the investment manager's performance against its mandate and its progress towards achieving its investment objectives, as well as to analyse manager, asset class and whole-of-Fund performance.

Management reporting to the Board will enable the Board to determine the effectiveness of manager selection and the Fund's strategic asset allocation decisions.

Public reporting through the website and statutory reports will be as open and transparent as commercial sensitivities allow.

Ethical Investment

Section 61(d) – ethical investment, including policies, standards and procedures for avoiding prejudice to New Zealand's reputation as a responsible member of the world community

The general policy of the Fund is that investment in any activity that is consistent with the laws of New Zealand shall be permitted. As a benchmark for standards expected of the companies in which the Fund invests, the UN Global Compact has been adopted. The Global Compact is a set of principles that cover human rights, employment conditions, the environment and corrupt business practice.

It will be a breach of policy if a company is regarded internationally as having materially failed to meet the principles of the UN Global Compact. Where a company is in breach of the standards, the Fund's approach is to engage with that entity to encourage a change to that behaviour.

As part of the Fund's ongoing work on ethical investment, the Fund became a founding signatory of the Principles for Responsible Investment. This is an initiative of the UN Secretary-General implemented by UNEP Finance Initiative and the UN Global Compact. The Principles include environmental, social and governance criteria, and provide a framework for achieving better long-term investment returns and more sustainable markets.

Balance Between Risk And Return

Section 61(e) – the balance between risk and return in the overall Fund portfolio

Analysis of the risk/return trade-off, over 20 years, of various asset allocation options resulted in setting a performance objective of exceeding, before New Zealand tax, the risk-free rate of return by an average of at least 2.5% p.a. over rolling 20-year periods.

The policy is that in order to achieve the investment objective while minimising the risk to the Fund as a whole, the mix of assets within the Fund should be as efficient as possible (that is, should offer the highest level of return for a given level of risk). Portfolio optimisation techniques are used to achieve this balance.

In addition, it is recognised that the use of active management of assets carries costs and risks, but is an appropriate policy where there is an expectation of a reward for that risk.

Fund Management Structure

Section 61(f) – the Fund management structure

The Guardians have overall responsibility for the management of the Fund. The Board of the Guardians has appointed an internal management team, supported by a range of external advisors and a global custodian. A custodian provides appropriate separation between the investing function and the settlement of transactions, as well as the recording and reporting of investment activities. The Guardians have also appointed external investment managers to manage portfolios within nominated asset classes.

Derivatives

Section 61(g) – the use of options, futures and other derivative financial instruments

Derivatives are permitted as part of the investment strategy to manage risk, achieve or reduce exposure to asset classes and achieve transactional efficiency. Derivatives are not to be used for investment activity where derivative exposure combined with physical exposure results in a net exposure for that asset class, or the portfolio as a whole, that is inconsistent with the investment strategy.

All derivatives must be in the form of an exposure over the same asset class as the physical instrument.

Risk Management

Section 61(h) – the management of credit, liquidity, operational, currency, market and other financial risks

The Guardians have determined that the quality of all its risk management procedures must be of best-practice standard.

Financial risks are managed through clearly specifying eligible assets in investment mandates, ensuring adequate diversification within and between portfolios, ensuring there are adequate procedures to manage operational risks including effective internal controls, separation of roles and codes of conduct, and implementing policies for the hedging of foreign currencies.

At 30 June 2006 the policy for managing foreign currency exposure was that 72.5% of the Fund's exposure in the global growth assets sector (equities, property and private market assets), and 100% of the global fixed interest portfolio, would be hedged back to New Zealand Dollars.

Voting Rights

Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments

The Fund holds substantial interests in a number of New Zealand and international companies. To assist with the objective of maximising return without undue risk, the Fund will directly or indirectly exercise its voting rights. Where appropriate the Fund will engage with the companies in which it is a shareholder to further its commercial aims and encourage sound corporate governance.

The Fund has developed guidelines to guide it in monitoring the governance of companies in which it is a shareholder.

The voting policy views proxy voting as the key to maintaining shareholder oversight of directors and company policies. In general, where a proposal meets best practice, and is in the Fund's long-term interest, the Fund will generally endeavour to vote for the proposal. Where a proposal does not meet best practice, and is not in the Fund's long-term interest, the Fund will endeavour to oppose the proposal.

The Fund will seek, through engagement with the companies in which it invests, or may invest, to influence changes in corporate behaviour in line with this policy.

Valuation Of Illiquid Assets

Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange

Investments not regularly traded on public exchanges will generally be held in pooled vehicles, where they will be valued by managers on behalf of all investors based on external valuation methodologies.

Where investments are neither held via public exchanges nor in pooled vehicles, fair value will be determined on the basis of independent valuations based on accepted market practice. These valuations will be conducted at least annually by recognised professional advisors who are suitably qualified and possess appropriate experience and expertise relevant to the nature of each specific underlying asset.

Investment Constraints

Section 61(k) – prohibited or restricted investments or any investment constraints or limits

The Fund will not invest in any asset that does not fall into one of the asset classes described in the strategic asset allocation.

In addition, the Fund will not invest in any security that breaches the ethical investment policy, nor will it own any business outright.

Contractual arrangements with each external investment manager will prescribe constraints on that manager's security selection discretion that are consistent with the risk budget for that manager and the risk budget for the Fund as a whole.

In seeking to achieve the performance objective for the Fund, the Guardians will not enter into arrangements with other parties that have an intended result that diminishes the New Zealand tax base.

On behalf of the Board and Management of the Guardians of New Zealand Superannuation we hereby certify that to the best of our knowledge the investment policies, standards and procedures for the Fund have been complied with throughout the 2005/6 financial year.

David May

Chairman

Chief Executive

2006	June 2006	Third multi-strategy mandate awarded
	May 2006	Second multi-strategy mandate awarded
	March 2006	Second global infrastructure mandate awarded
2005	November 2005	Second New Zealand timber purchase First US timber purchase First equity only multi-strategy mandate awarded First global tactical asset allocation mandate awarded
	October 2005	First New Zealand timber purchase First investment in commodity futures First Reference Group meeting held
	September 2005	Second commitment to New Zealand private equity
	August 2005	Fourth New Zealand equities mandate awarded
	July 2005	Passive currency overlay mandate awarded Third global emerging markets mandate awarded
	June 2005	First commitment to New Zealand private equity First New Zealand unlisted property mandate awarded
	March 2005	First review of strategic asset allocation completed First global infrastructure mandate awarded
	February 2005	First global listed property mandate awarded Fifth global equities (large cap) mandate awarded Second global emerging markets mandate awarded
2004	November 2004	First independent review of the organisation conducted
	October 2004	Second US equities (small cap) mandate awarded
	July 2004	Additional global equities (large cap) mandate awarded First US equities (small cap) mandate awarded First non-US equities (small cap) mandate awarded First global emerging markets mandate awarded
	May 2004	First three global equities (small cap) mandates awarded
	March 2004	Further two global equities (large cap) mandates awarded
	January 2004	Additional New Zealand equities mandate awarded
2003	November 2003	First global fixed interest mandate awarded
	October 2003	First New Zealand fixed interest mandate awarded
	September 2003	Fund commenced investing with $2.4 billion in cash First global equities (large cap) mandate awarded First two New Zealand equities mandates awarded
	August 2003	Initial strategic asset allocation announced
	March 2003	Chief Executive Officer and legal/tax advisors appointed
	February 2003	Advisor for initial SAA appointed
2002	November 2002	Board strategy planning undertaken
	August 2002	Board of the Guardians of New Zealand Superannuation appointed
2001	October 2001	New Zealand Superannuation Fund created by an Act of Parliament

Financial Statements

Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for the preparation of the annual Financial Statements of the New Zealand Superannuation Fund and Group and the judgments used in them.

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting of the New Zealand Superannuation Fund and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation the annual Financial Statements for the year ended 30 June 2006, fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund and Group.

David May

D MAY
Chairman
Date: 11 September 2006

P COSTELLO
Chief Executive
Date: 11 September 2006

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2006

		GROUP ACTUAL		BUDGET
		2006	2005	**2006**
	Notes	**$'000**	$'000	**$'000**
REVENUE				
Investment income	2	350,212	189,480	264,522
Unrealised gains and (losses) on investments and foreign currencies	3	1,020,893	106,781	251,929
Realised gains and (losses) on investments and foreign currencies	3	138,768	450,248	167,953
Miscellaneous income		1,005	1,326	–
Total operating revenue		**1,510,878**	**747,835**	**684,404**
EXPENSES				
Operating expenses	4	80,915	21,711	38,716
Total expenses		**80,915**	**21,711**	**38,716**
SURPLUS BEFORE INCOME TAX EXPENSE		**1,429,963**	**726,124**	**645,688**
Income tax expense	12	468,776	234,192	200,163
Net surplus		**961,187**	**491,932**	**445,525**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Movements in Public Equity

FOR THE YEAR ENDED 30 JUNE 2006

		GROUP ACTUAL		BUDGET
		2006	2005	**2006**
	Notes	**$'000**	$'000	**$'000**
Net surplus		961,187	491,932	445,525
Foreign currency translation reserve movement	6	4,109	-	-
Land revaluation reserve movement	6	7,289	-	-
Total recognised revenues and expenses		**972,585**	**491,932**	**445,525**
Fund capital contributions from the Crown		2,337,000	2,107,000	2,337,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	17	6,413,619	6,083,189	-
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	17	(6,413,619)	(6,083,189)	-
Movements in public equity for the year		**3,309,585**	**2,598,932**	**2,782,525**
Public equity at beginning of year		**6,554,830**	**3,955,898**	**6,474,275**
Public equity at end of year		**9,864,415**	**6,554,830**	**9,256,800**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2006

	Notes	GROUP ACTUAL **2006** **$'000**	GROUP ACTUAL 2005 $'000	BUDGET **2006** **$'000**
ASSETS				
Investments				
Cash and cash equivalents	7	357,317	177,347	10,000
Investments	7	9,732,491	6,407,791	9,379,282
Total investments		**10,089,808**	**6,585,138**	**9,389,282**
Receivables	10	105,491	71,210	56,602
Other assets		40	-	-
Taxation receivable		84,580	19,337	-
Total assets		**10,279,919**	**6,675,685**	**9,445,884**
LIABILITIES				
Payables	11	86,629	42,845	59,214
Deferred tax liability	13	328,875	78,010	129,870
Total liabilities		**415,504**	**120,855**	**189,084**
Net assets		**9,864,415**	**6,554,830**	**9,256,800**
Retained surplus		1,614,938	653,751	1,018,721
Foreign currency translation reserve	6	4,109	-	-
Land revaluation reserve	6	7,289	-	-
Contributed capital		8,238,079	5,901,079	8,238,079
Total public equity		**9,864,415**	**6,554,830**	**9,256,800**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL **2006** **$'000**	2005 $'000	BUDGET **2006** **$'000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Dividends		219,474	109,264	39,468
Interest		119,667	62,632	89,102
Receipts from customers		15,713	-	-
Miscellaneous income		-	851	-
Tax refund		24	-	-
Total cash inflow from operating activities		**354,878**	**172,747**	**128,570**
Cash was applied to:				
Managers' fees		(25,980)	(12,477)	(36,454)
Tax paid		(294,712)	(204,775)	(97,933)
Payments to suppliers		(15,242)	(5,452)	-
Net GST paid		(354)	-	-
Total cash outflow from operating activities		**(336,288)**	**(222,704)**	**(134,387)**
Net cash inflow/(outflow) from operating activities	15	**18,590**	**(49,957)**	**(5,817)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of investments		7,774,530	3,583,721	3,900,000
Total cash inflow from investing activities		**7,774,530**	**3,583,721**	**3,900,000**
Cash was applied to:				
Purchases of investments		(9,855,948)	(5,796,387)	(6,231,183)
Purchase of subsidiaries, net of cash acquired		(103,201)	-	-
Total cash outflow from investing activities		**(9,959,149)**	**(5,796,387)**	**(6,231,183)**
Net cash inflow/(outflow) from investing activities		**(2,184,619)**	**(2,212,666)**	**(2,331,183)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Capital contributions from the Crown		2,337,000	2,107,000	2,337,000
Net cash inflow from financing activities		**2,337,000**	**2,107,000**	**2,337,000**
NET INCREASE / (DECREASE) IN CASH		**170,971**	**(155,623)**	**-**
Cash at beginning of the year		177,347	327,091	10,000
Effects of exchange rate changes on cash		8,999	5,879	-
Cash at end of the year		**357,317**	**177,347**	**10,000**

The attached notes form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

These are the financial statements of the New Zealand Superannuation Fund (the "Fund"), a fund created under section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (the "Act"). This Act commenced on 11 October 2001.

The consolidated financial statements comprise the New Zealand Superannuation Fund and its subsidiaries (the "Group").

The New Zealand Superannuation Fund is managed and administered by the Guardians of New Zealand Superannuation (the "Guardians"). The Guardians was established as a Crown entity by section 48 of the New Zealand Superannuation and Retirement Income Act 2001 and became operative from 30 August 2002.

The Crown is required to make capital contributions to the Fund for investment based on a percentage of GDP as set out in the Act. Capital contributions are made by the Crown into the Fund on a fortnightly basis for the purpose of investment, and funding the net cost of New Zealand superannuation entitlements ("superannuation entitlements").

STATUTORY BASE

The financial statements have been prepared in accordance with the New Zealand Superannuation and Retirement Income Act 2001.

MEASUREMENT BASE

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

SPECIFIC ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance and financial position are set out below.

(a) Budget figures

The budget was included in the Statement of Intent of the Guardians and was approved by the Guardians on behalf of the Fund for the year.

(b) Capital contributions

(i) Fund capital contributions

The Crown is required to make capital contributions to the Fund in accordance with sections 42 to 44 inclusive of the Act. Capital contributions are made by the Crown to the Fund on a fortnightly basis for investment and for the purpose of contribution to the net cost of paying superannuation entitlements after 2020. These capital contributions are recorded in the statement of movements in public equity.

(ii) Superannuation entitlement payments

The Minister of Finance, under section 45 of the Act, must ensure that sufficient money is transferred to the Fund in each year to meet the net cost of superannuation entitlements. These transfers are treated as capital contributions from the Crown in respect of funding the net cost of superannuation entitlements and are offset by capital withdrawals and recorded in the statement of movements in public equity.

(c) Capital withdrawals

(i) Fund capital withdrawals

In terms of section 47 of the Act no withdrawals of Fund capital contributions are permitted in any financial year before 1 July 2020.

(ii) Superannuation entitlement payments

The net cost of superannuation entitlements are treated as capital withdrawals by the Crown in respect of funding the net cost of superannuation entitlements and are recorded in the statement of movements in public equity. These amounts equate to the associated capital contributions.

The payment of superannuation entitlements is an expense of the Crown and is recorded separately in the Crown financial statements.

(d) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

The Group financial statements incorporate the financial statements of the Fund and its subsidiaries, which have been consolidated using the purchase method. The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

All inter-entity transactions, balances and unrealised profits are eliminated on consolidation.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries is recognised as an asset and separately disclosed. Goodwill is amortised in the statement of financial performance on a straight line basis over the period of expected benefits.

To the extent that the unamortised balance of goodwill is no longer probable of being recovered from the expected future economic benefits, it is recognised immediately as an expense.

(f) Income tax

In accordance with section 76 of the Act the Fund is treated as if it is a body corporate for tax purposes and is therefore subject to income tax on any income derived from investments, and that income is treated as gross income of the Fund under the Income Tax Act 1994.

The income tax expense recognised for the year is based on the operating surplus, before taxation adjusted for permanent differences between accounting and taxable income.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

Deferred tax is provided for on unrealised gains and losses on investments.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

(g) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, investments, receivables and payables. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group offsets financial assets and financial liabilities when the Group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(i) Investments

Investments are initially recognised at cost on a trade date basis. Subsequent to initial recognition investments are recorded at fair value. Changes in fair value are recognised in the statement of financial performance.

Transaction costs are expensed immediately.

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

Fair value is determined as follows:

- Fixed interest securities are valued at the last quoted sales price on the relevant exchange as of the close of business at balance date.
- Listed securities are stated at the last sales price as quoted on the relevant exchange as of the close of business at balance date.
- Investments in listed unit trusts are stated at the last quoted sales price as quoted on the relevant exchange as of the close of business at balance date.
- Investments in unlisted unit trusts are stated at the net asset value per unit as provided by the investment managers or administrators at balance date.
- Private equity investments are valued based on the basis of independent valuations utilising valuation models based on the price of recent investments, earnings multiples or net assets. Where no reliable fair value can be estimated using such techniques, private equity investments are carried at cost less any provision for impairment.
- Forests are valued based on discounted cash flow models.
- Land is stated at fair value, as determined by an independent valuer. Revaluations are transferred to the land revaluation reserve. If the revaluation reserve has a deficit, that deficit is recognised in the statement of financial performance in the period it arises. In subsequent periods any revaluation surplus that reverses previous revaluation deficits is recognised as revenue in the statement of financial performance.
- Investments in multi-strategy funds (unlisted open-ended investment funds) are stated at the net asset value per share as provided by the investment managers or administrators of the underlying investment funds at balance date.
- Fair value for over-the-counter derivatives such as swaps and forward contracts is determined based on the quoted market prices for underlying assets. The fair value of commodity swap instruments is provided by the investment manager based on the value of the underlying instruments as quoted on the relevant index at balance date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

(ii) Derivatives

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, including forward foreign exchange contracts, and achieve exposure to assets and asset classes including futures contracts, equity swaps and over-the-counter commodity swaps. The use of financial derivatives is governed by the Group's Statement of Investment Policies, Standards and Procedures approved by the Guardians of New Zealand Superannuation, which provides written principles on the use of derivatives by the Group.

Derivatives are recorded at fair value. Fair values are determined using valuation models and broker quotations.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

The fair value of all forward foreign exchange contracts is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at balance date. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of futures contracts and equity swaps is calculated as being the difference between the contract price and the closing price reported on the primary exchange of the futures contract.

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

(iii) Receivables

Receivables are stated at their estimated realisable value.

(h) Income recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income is recognised when the shareholders rights to receive payment has been established, normally the ex-dividend date.

Where the Group has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the statement of financial performance.

Any unrealised gains and losses arising from the revaluation of investments or conversion to New Zealand dollars at balance date, and realised gains and losses on the sale of investments during the year, are included in the statement of financial performance. Realised gains and losses are calculated with reference to the weighted average cost of investments.

(i) Foreign currency transactions

Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rate in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised in the statement of financial performance. Realised foreign currency gains and losses represent gains and losses upon sale of investments that relate to foreign exchange movements in assets, and gains and losses upon settlement of forward foreign exchange contracts. Unrealised foreign exchange gains and losses represent the translation of foreign dominated assets and liabilities.

(j) Translation of the financial statements of independent foreign operations

Assets and liabilities of independent foreign operations are translated at the closing rate. Revenue and expense items are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Exchange differences arising from the foregoing are taken to the foreign currency translation reserve and recognised in the statement of movements in public equity.

The financial statements of integrated foreign operations are translated in the same way as if the underlying transactions had been entered into by the Fund itself.

Exchange differences on monetary liabilities designated as a hedge against investments in independent foreign operations are taken to the foreign currency translation reserve and recognised in the statement of movements in public equity to the extent that they are offset by the exchange differences on the net investments.

On disposal of an independent foreign operation, the accumulated amount of the exchange differences taken to the foreign currency translation reserve that relate to the foreign operation and to any monetary liability designated as a hedge of that operation are transferred out of the foreign currency translation reserve direct to retained surplus.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

(k) Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

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

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

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements (from 2020). As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development it is not considered cash flow of the Fund and is accordingly not recorded in the statement of cash flows.

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

(l) Goods and Services Tax

The financial statements are prepared exclusive of Goods and Services Tax ("GST"), except for those expenses where GST is non-recoverable as an input tax (as the Fund does not make taxable supplies) or where GST is included in receivables and payables balances.

(m) Prior year comparatives

Certain prior year comparatives have been reclassified to conform to current year presentation.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year and the accounting policies are consistent with those used in the previous period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	GROUP ACTUAL 2006 $'000	GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
NOTE 2: INVESTMENT INCOME				
New Zealand fixed interest - Crown		50,099	33,987	
New Zealand fixed interest – State Owned Entities		106	129	
New Zealand fixed interest – Crown Entities		-	8	
New Zealand fixed interest – Local Bodies		3,704	1,864	
New Zealand fixed interest – Other		31,957	10,512	
Total New Zealand fixed interest		**85,866**	**46,500**	
Global fixed interest		27,258	24,313	
Other interest		3,326	896	
Timber sales	5	15,420	-	
Dividend income		218,342	117,771	
Total other income		**264,346**	**142,980**	
Total investment income		**350,212**	**189,480**	**264,522**

NOTE 3: REALISED AND UNREALISED GAINS AND (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES

	Notes	GROUP ACTUAL 2006 $'000	GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
Unrealised gains and (losses) on investments and foreign currencies:				
Unrealised gains on investments		343,779	343,530	
Unrealised appreciation in forest value	5	29,205	-	
Unrealised foreign currency gains/(losses) on investments		763,461	(178,346)	
Unrealised foreign currency hedging (losses)		(115,552)	(58,403)	
Total unrealised gains and (losses) on investments and foreign currencies		**1,020,893**	**106,781**	**251,929**
Realised gains and (losses) on investments and foreign currencies:				
Realised foreign currency gains/(losses) on investments		98,980	(129,762)	
Realised foreign currency hedging gains /(losses)		(471,225)	434,154	
Realised gains on investments		511,013	145,856	
Total realised gains and (losses) on investments		**138,768**	**450,248**	**167,953**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

		GROUP ACTUAL		BUDGET
		2006	2005	**2006**
	Notes	**$'000**	$'000	**$'000**

NOTE 4: OPERATING EXPENSES

	Notes	2006 $'000	2005 $'000	Budget 2006 $'000
Timber harvesting and operating expenses	5	7,257	-	
Write off of goodwill	5	9,945	-	
Depletion of timber assets	5	8,800	-	
Managers' fees		45,212	15,277	30,250
Custody fees		7,096	5,090	6,990
Auditor's remuneration		228	139	208
Other expenses		2,377	1,205	1,268
Total operating expenses		**80,915**	**21,711**	**38,716**

Managers' fees include base fees and performance fees, which vary between managers and asset classes.

NOTE 5: SURPLUS FROM TIMBER INVESTMENTS (EXCLUDING MANAGER FEES)

	Notes	2006 $'000	2005 $'000	Budget 2006 $'000
Timber sales	2	15,420	-	
Less: Harvesting and operating expenses	4	(7,257)	-	
Depletion of timber assets	4	(8,800)	-	
Write off of goodwill	4	(9,945)	-	
Unrealised appreciation in forest value	3	29,205	-	
Surplus from timber investments (excluding manager fees)		**18,623**	**-**	

NOTE 6: RESERVES

	Notes	2006 $'000	2005 $'000	Budget 2006 $'000
Foreign currency translation reserve				
Balance at the beginning of the year		-	-	
Foreign exchange difference arising on translation of foreign operation		23,789	-	
Effect of hedging of net investment in foreign operation		(19,680)	-	
Balance at the end of the year		**4,109**	**-**	
Land revaluation reserve				
Balance at the beginning of the year		-	-	
Revaluation of land		7,289	-	
Balance at the end of the year		**7,289**	**-**	

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
NOTE 7: INVESTMENTS			
Cash balances in New Zealand Dollars	102,056	109,922	
Cash balances in foreign currencies	255,261	67,425	
Total cash	**357,317**	**177,347**	**10,000**
New Zealand equities – State Owned	2,203	2,116	
New Zealand equities – Other	831,392	547,315	
Global equities	5,306,844	3,715,210	
Total equities	**6,140,439**	**4,264,641**	
New Zealand fixed interest - Crown	813,181	836,483	
New Zealand fixed interest – State Owned Entities	1,504	1,738	
New Zealand fixed interest – Local Bodies	47,116	28,969	
New Zealand fixed interest – Other	577,959	89,657	
Global fixed interest	572,175	1,050,271	
Total fixed interest	**2,011,935**	**2,007,118**	
New Zealand timber investments - land	38,880	-	
New Zealand timber investments - forests	147,400	-	
Global timber investments - land	35,965	-	
Global timber investments - forests	141,661	-	
Total timber investments	**363,906**	**-**	
Forward foreign exchange contracts	(149,111)	(33,548)	
Futures contracts	(3,008)	-	
Equity swaps	(2,670)	-	
Commodity swaps	18,960	-	
Multi-strategy funds	1,081,618	-	
Private equity	17,683	-	
Global unit trusts	252,739	169,580	
Total other investments	**1,216,211**	**136,032**	
Total investments	**9,732,491**	**6,407,791**	**9,379,282**
Total cash and investments	**10,089,808**	**6,585,138**	**9,389,282**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 7: INVESTMENTS (CONTINUED)

As at balance date the Group had cash balances totaling $357,317,000 (2005: $177,347,000) of which $277,711,000 (2005: $89,087,000) had been allocated and is held by Investment managers awaiting investment.

The Group invests either directly or indirectly in a number of countries, and derives income from these sources.

This exposes the Group to the risks associated with investing in these countries. The investment holdings of the Group are represented by geographical segments as follows:

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
Regional concentration			
New Zealand	2,434,410	1,494,126	
Australia	321,786	208,495	
Japan	677,918	609,704	
United States	4,288,063	2,179,120	
Europe	1,874,866	1,550,274	
Other	492,765	543,419	
Total investments and cash	**10,089,808**	**6,585,138**	**9,389,282**

NOTE 8: INVESTMENTS IN SUBSIDIARIES

	PERCENT HELD		BALANCE DATE
	2006	2005	
CNI Timber Holdco	100%	0%	30 June
CNI Timber Operating Company Limited	100%	0%	30 June

CNI Timber Holdco is a holding company for 100% of the shares in CNI Timber Operating Company Limited. Until 31 May 2006, CNI Timber Operating Company Limited owned a forest estate, and undertook forestry activities. On this date the forest was sold to a nominee company which holds assets and liabilities on behalf of the New Zealand Superannuation Fund. As such the net assets of the New Zealand Superannuation Fund did not change as a result of this transaction.

It is intended that both CNI Timber Holdco and CNI Timber Operating Company Limited will be liquidated.

The assets and liabilities of these companies have been stated on the basis of net realisable value.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 9: ACQUISITION OF SUBSIDIARIES

On 1 November 2005, the Fund acquired 100% of the shares of CNI Timber Holdco, which owns 100% of CNI Timber Operating Company Limited.

At acquisition, assets and liabilities of the consolidated entity increased as follows:

	$'000
Net assets acquired:	
Cash	2
Forest asset	104,286
Receivables	836
Payables	(306)
Deferred taxation liability	(11,560)
	93,258
Goodwill	9,945
Consideration paid	103,203

Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 restricts the Fund from taking an enduring controlling interest in any other entity. From time to time opportunities to purchase privately traded assets carry associated obligations to take over operating entities specific to that asset. There is a need to balance the benefit to the Fund of progressing with the transaction against the restriction on taking control of the operating entity. The acquisition of CNI Timber Holdco and CNI Timber Operating Company Limited arose during the purchase of a timberland estate. The Fund is currently working to liquidate these entities "as soon as practicable" as is required under the Act.

NOTE 10: RECEIVABLES

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
Accrued interest	23,974	27,210	
Other receivables	1,018	571	
Dividends receivable	10,217	11,349	
Unsettled sales	70,282	32,080	
Total receivables	**105,491**	**71,210**	**56,602**

NOTE 11: PAYABLES

Accrued expenses	27,928	7,816	
Unsettled purchases	58,701	35,029	
Total payables	**86,629**	**42,845**	**59,214**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
NOTE: 12: INCOME TAX EXPENSE			
Surplus before income tax	1,429,963	726,124	645,688
Plus/(Less) permanent differences:			
Non-deductible expenditure	-	254	
Permanent differences	53,417	-	
Imputation credits on taxable dividends	9,651	7,924	
Surplus subject to income tax	**1,493,031**	**734,302**	**645,688**
Tax at 33% of net income	492,700	242,320	
Imputation credits on dividends	(9,651)	(7,924)	
Tax losses	(2,627)	-	
Imputation credits accrued	-	(75)	
Prior year adjustment	(11,646)	(129)	
Tax expense	**468,776**	**234,192**	**200,163**
Represented by:			
Current tax - prior year	118	(598)	
Current tax - current year	228,955	195,716	
Deferred tax - prior year	(11,764)	469	
Deferred tax - current year	251,467	38,605	
	468,776	**234,192**	**200,163**
NOTE 13: DEFERRED TAX LIABILITY			
Balance brought forward	78,010	39,247	
Current year deferred tax liability	251,467	38,605	
Withholding tax offset against deferred tax	(400)	(311)	
Prior period adjustment	(202)	469	
Closing deferred tax liability	**328,875**	**78,010**	**129,870**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14: FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, receivables, and payables. Investments are stated at fair value and any resultant gains or losses are recognised in the statement of financial performance.

(a) Fair value

The Group's financial assets and liabilities are stated at fair value in the statement of financial position.

(b) Credit risk

Credit risk is the risk that a counterparty will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Fund to risk include cash, investments and other receivables. Collateral in the form of cash is held in respect of the Commodity Swap instruments.

The Group invests in a wide range of assets in New Zealand and overseas in accordance with its Statement of Investment Policies, Standards and Procedures. This contains credit and exposure policies to limit credit risk from the Group's investments.

(c) Interest rate risk

The Group is exposed to interest rate risk in that future interest rate movements will affect market value of fixed interest assets. Interest rate risk management activities are undertaken by the investment manager in accordance with the Investment Mandate. The intention of the Group is not necessarily to hold these assets to maturity, but to realise and purchase similar assets as part of the ongoing management of the investments of the Group.

Weighted average effective interest rates and maturity periods in the following table are based on the earlier of contractual repricing or maturity period:

	EFFECTIVE INTEREST RATE	LESS THAN ONE YEAR	1 – 2 YEARS	2 – 5 YEARS	5 – 10 YEARS	OVER 10 YEARS	TOTAL
	%	$000	$000	$000	$000	$000	$000
New Zealand Government Stock	6.09%	119,885	-	230,138	388,492	74,666	813,181
New Zealand Stated Owned Enterprises and Crown Entities	6.59%	-	-	-	-	1,504	1,504
Other fixed bonds and securities	2.34%	380,522	178,577	299,644	197,134	141,373	1,197,250
Total fixed income		**500,407**	**178,577**	**529,782**	**585,626**	**217,543**	**2,011,935**

d) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk through its investment in offshore assets and actively manages its risk by hedging of its offshore assets using forward foreign exchange contracts. In the period ended 30 June 2006 the Fund hedged Global fixed interest securities 100%, and 72.5% of Global equities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

The unhedged foreign currency monetary assets and liabilities are listed below:

	2006 **NZ Currency $000**	2005 NZ Currency $000
Australian Dollars	72,565	37,582
Brazillian Real	37,644	3,787
Canadian Dollars	20,780	14,848
Swiss Francs	30,746	19,697
Chilean Pesos	3,900	795
Czech Republic Koruny	3,120	423
Danish Kroner	6,548	2,405
Eqyptian Pounds	1,096	336
European Union Euros	150,388	116,642
United Kingdom Pounds	101,520	80,505
Hong Kong Dollars	66,354	13,632
Hungarian Forints	3,467	849
Indonesian Rupiahs	6,004	616
Israeli New Shekels	9,952	2,218
Indian Rupees	5,709	-
Japanese Yen	83,205	58,147
South Korean Won	76,547	14,666
Mexican Pesos	23,446	2,691
Malaysian Ringgits	8,601	2,517
Norwegian Krone	16,822	3,737
Philippines Pesos	1,320	261
Polish Zlotych	3,376	753
Swedish Kronor	51,155	8,123
Singaporean Dollars	16,402	4,414
Thai Baht	12,866	2,097
Turkish New Lira	6,547	1,271
Taiwanese New Dollars	54,108	13,430
United States of America Dollars	913,909	687,887
South African Rand	29,388	5,380

(e) Liquidity risk

Liquidity management is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments. The Group has benchmark liquidity levels which are monitored and maintained given normal investment conditions.

(f) Forward foreign exchange contracts

The Group invests either directly or indirectly in a number of countries to derive income. This exposes the Group to the risks associated with investing in these countries.

At balance date the Group held forward foreign exchange contracts with a Notional value of $6,160,682,000 (2005: $4,793,097,262) and negative fair value of $149,111,000 (2005:. Negative $33,547,739).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

(g) Concentration of credit risk

Concentration of credit risk exists if a single counterparty, or group of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
By industry			
Basic Materials	655,596	216,594	
Communications	497,724	459,059	
Consumer – Cyclical	597,857	444,745	
Consumer – Non Cyclical	1,004,772	697,925	
Diversified	72,476	38,263	
Energy	503,761	403,085	
Financial	3,515,328	1,183,334	
Funds	266,793	156,101	
Government	1,366,757	1,828,372	
Industrial	785,194	505,832	
Mortgage Securities	38,389	29,234	
Technology	303,544	239,531	
Utilities	226,634	191,033	
Other	254,983	192,030	
Total cash and investments	**10,089,808**	**6,585,138**	**9,389,282**

(h) Individual counterparties

At balance date the Group has counterparty exposure in respect of its forward foreign exchange contracts, commodity swaps and equity swaps. The table below sets out the exposures by individual counterparty where an instrument has a positive fair value. This is compared with the corresponding notional value.

	Group			
	Notional Value	Fair Value	Notional Value	Fair Value
	2006	**2006**	2005	2005
	$000	**$000**	$000	$000
ABN Amro	225	5	-	-
AIG Financial International	210,304	5,011	-	-
BNP Paribas	315	-	146	-
Citibank	12,967	273	-	-
Commonwealth Bank Of Australia	199,672	2,875	384,693	8,670
Credit Suisse First	2,068	49	-	-
Deutsche Bank	105,938	2,180	-	-
Goldman Sachs International	37,496	893	-	-
HSBC Bank	1,197	38	36	-
JP Morgan	306	4	1,002	-
Morgan Stanley	76,529	963	-	-
Morgan Stanley Capital Group	241,279	13,055	-	-
New Zealand Debt Management Office	1,568,145	30,387	811,023	19,426
Royal Bank Of Scotland	9,820	78	-	-
State Street	168,830	2,539	850,633	18,141
Toronto Dominon Bank	-	-	99,101	2,779
UBS	7,872	303	-	-
Westpac	259,951	2,552	358,177	4,685
	2,902,914	**61,205**	**2,504,811**	**53,701**

There are no other significant concentrations of credit risk.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 15: RECONCILIATION OF NET OPERATING INCOME TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	GROUP ACTUAL		BUDGET
	2006	2005	**2006**
	$'000	$'000	**$'000**
Net surplus after income tax	961,187	491,932	445,525
Add/(less) non-cash items			
Unrealised changes in net fair value of investments	(1,020,893)	(106,781)	
Depletion of forestry assets	8,800	-	
Write off of goodwill	9,945	-	
Other non-cash items	18	-	
	(1,002,130)	**(106,781)**	
Changes in assets and liabilities during the financial year:			
Increase in interest, dividends, trust distributions and other income receivable	(34,281)	(30,076)	
Increase in current tax receivable	(65,243)	(9,346)	
Increase in deferred tax liability	250,865	38,763	
Increase / (decrease) in accounts payable	43,784	(153,988)	
Decrease in other receivables	-	(24)	
Effect of acquisition of subsidiary opening balances	(11,354)	-	
	183,771	**(154,671)**	
Items classified as investing activities			
Realised (gains)/losses on sale of investments	(138,768)	(450,248)	
Unsettled sales	38,202	12,040	
Unsettled purchases	(23,672)	157,771	
Net cash provided by operating activities	**18,590**	**(49,957)**	**(5,817)**

NOTE 16: RELATED PARTIES

The Group is managed and administered by the Guardians which in turn is a wholly owned entity of the Crown.

The Guardians has paid expenses relating to the Group, as it is required to do under the Act. It is not entitled to receive any reimbursement for these expenses, which are included in the financial statements of the Guardians.

The Group, through the Guardians, has entered into a number of transactions with the Crown, Government Departments, Crown Entities and State Owned Enterprises together with a number of other public sector entities on an arm's length basis. These transactions are not considered related party transactions.

The Group has invested a proportion of its assets in fixed income securities issued by the Government, State Owned Enterprises and Crown Entities. These are detailed in Note 7. The income earned from these investments is detailed in Note 2.

NOTE 17: NEW ZEALAND SUPERANNUATION ENTITLEMENTS

Under section 45 of the Act the Minister of Finance must ensure that sufficient money is transferred into the Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the Fund. As no capital withdrawals are permitted from the Fund in any financial year commencing before 1 July 2020, the Minister of Finance is obliged to provide funding to meet ongoing superannuation entitlements in addition to the capital contributions paid under section 42 of the Act.

Funding of superannuation entitlements under section 45 of the Act amounted to $6,413,619,000 during the year (2005: $6,083,189,000) as set out in the Crown financial statements. These capital contributions from the Crown are to meet the expected net cost of superannuation entitlements as determined by the Ministry of Social Development. Against these capital inflow transfers, capital outflow transfers were made to the Ministry of Social Development who are responsible for the administration of superannuation entitlements.

Treasury, through the New Zealand Debt Management Office, has facilitated the flow of funding for superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the Fund. The Guardians have had no control over these transfers, with Treasury acting as agent for the Fund.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 18: CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

There were no contingent liabilities and capital commitments as at 30 June 2006 (2005: $23.75 mil).

NOTE 19: SEGMENTAL INFORMATION

The Fund operates in New Zealand in one industry, investment management. As a consequence the Fund invests in a number of countries directly and indirectly in the form of fixed interest investments, unit trusts, shares and financial derivatives.

NOTE 20: ACTUAL VERSUS FORECAST

During the period ended 30 June 2006 market returns have generated a positive variance over the assumptions utilised in the budget.

NOTE 21: IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The New Zealand Accounting Standards Review Board announced in December 2002 that New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") will apply to New Zealand reporting entities for periods commencing from 1 January 2007. The Group will prepare its first set of financial statements under NZ IFRS for the year ending 30 June 2008, in line with the Crown.

The Group has set up a project team to evaluate the impact of adopting NZ IFRS and prepare the Group for transition. The project is being overseen by the Audit and Risk Committee on behalf of the Board.

The preliminary assessment of the impact of adopting NZ IFRS is detailed below.

Portfolio Pricing

Presently the Group records all assets at fair value. For listed securities the price is the last quoted sales price as of the close of business on the day the securities are being valued. Upon adoption of NZ IFRS, the Group intends to classify all financial assets and liabilities as at Fair Value Through Profit or Loss. NZ IAS 39 Financial Instruments: Recognition and Measurement, requires that all listed assets are valued at the end of day bid price as quoted on the relevant exchange. At 30 June 2006, if the Group had valued it's portfolio at the bid price, the total value of the portfolio would have been reduced by $14.8 million.

Transaction Costs

Under NZ IFRS transaction costs must be disclosed separately in the statement of financial performance. For the year ended 30 June 2006 the value of transaction costs, which are currently recorded in realised and unrealised gains and losses is $7.0 million.

Disclosure Requirements

NZ IFRS requires a large number of additional disclosures and will result in a number of changes to the way the financial statements are presented. The next step in the Group's NZ IFRS project is to prepare a set of NZ IFRS pro-forma financial statements to assist in the identification of all additional disclosure requirements and ensure processes and systems are put in place to capture the relevant information.

The information disclosed in this note represents our best estimate of the impact of conversion to NZ IFRS at the date of preparing the financial statements. The information disclosed could change due to:

- Further work being undertaken by our NZ IFRS project team; and
- Potential amendment to NZ IFRS and / or interpretations thereof being issued by the standard-setters and the International Financial Reporting Interpretation Committee which are effective prior to the date of the first full set of NZ IFRS financial statements.

ERNST & YOUNG

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of New Zealand Superannuation Fund (the "Fund") and Group. The Auditor-General has appointed me, Warren Allen, using the staff and resources of Ernst &Young, to carry out the audit of the financial statements of the Fund and Group, on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion:

- the financial statements of the Fund and Group on pages 35 to 53:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Fund and Group's financial position as at 30 June 2006; and
    - the results of operations and cash flows for the year ended on that date.
- based on our examination the Fund and Group kept proper accounting records.

The audit was completed on 11 September 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Guardians of New Zealand Superannuation (the "Guardians") and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Guardians;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Guardians and the Auditor

The Guardians are responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Fund and Group as at 30 June 2006. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Guardians responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the New Zealand Superannuation and Retirement Income Act 2001.

Independence

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

Other than the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Warren Allen
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Statement of Responsibility

FOR THE YEAR ENDED 30TH JUNE 2006

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for the preparation of the annual Financial Statements of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation the annual Financial Statements for the year ended 30 June 2006, fairly reflect the financial position, operations and cashflows of the Guardians of New Zealand Superannuation and Group.

D MAY
Chairperson
Date: 11 September 2006

P COSTELLO
Chief Executive
Date: 11 September 2006

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 $'000	PARENT AND GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
Crown revenue		4,318	3,689	4,711
Interest income		85	37	23
TOTAL OPERATING REVENUE		**4,403**	**3,726**	**4,734**
Expenditure		4,417	3,475	4,908
NET SURPLUS/ (DEFICIT) FOR THE PERIOD	2	**(14)**	**251**	**(174)**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Movements in Public Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 $'000	PARENT AND GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
Public equity as at 1 July		904	653	708
Net surplus / (deficit)		(14)	251	(174)
Total recognised revenues and expenses for the period		**(14)**	**251**	**(174)**
Equity received from the Crown		200	-	192
Provision for repayment of accumulated surpluses		(590)	-	-
Total equity received/(repaid) for the period		**(390)**	**-**	**192**
Public equity as at 30 June	3	**500**	**904**	**726**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 $'000	PARENT AND GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
PUBLIC EQUITY				
General funds	3	500	904	726
TOTAL PUBLIC EQUITY		**500**	**904**	**726**
Represented by:				
ASSETS				
Current assets				
Cash and bank		153	100	678
Receivables and prepayments	6	56	442	442
Short-term deposits	7	1,028	672	-
Total current assets		**1,237**	**1,214**	**1,120**
Non-current assets				
Investments in subsidiaries	4	-	-	-
Property, plant and equipment	8	454	225	250
Total non-current assets		**454**	**225**	**250**
TOTAL ASSETS		**1,691**	**1,439**	**1,370**
LIABILITIES				
Current liabilities				
Payables and accruals	9	423	446	582
Employee entitlements	10	157	75	50
Provisions	11	590	-	-
Total current liabilities		**1,170**	**521**	**632**
Non-current liabilities				
Provisions	11	21	14	12
Total non-current liabilities		**21**	**14**	**12**
TOTAL LIABILITIES		1,191	535	644
NET ASSETS		**500**	**904**	**726**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	PARENT AND GROUP ACTUAL 2006 $'000	PARENT AND GROUP ACTUAL 2005 $'000	BUDGET 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Revenue from the Crown		4,760	3,497	5,300
Net Goods and Services Tax		-	37	-
Interest received		84	37	23
Other		-	11	-
		4,844	**3,582**	**5,323**
Cash was applied to:				
Payments to employees		2,014	1,622	1,478
Payments to suppliers		2,172	1,729	3,466
Net Goods and Services Tax		66	-	306
		4,252	**3,351**	**5,250**
Net cash inflow from operating activities	12	**592**	**231**	**73**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was applied to:				
Purchase of property, plant and equipment		383	95	82
Net cash (outflow) from investing activities		**(383)**	**(95)**	**(82)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Capital Appropriation from Crown		200	-	192
Net cash inflow from financing activities		**200**	**-**	**192**
NET INCREASE IN CASH HELD		**409**	**136**	**183**
Plus opening cash		772	636	495
CLOSING CASH BALANCE		**1,181**	**772**	**678**
Comprising:				
Cash and bank		153	100	678
Short-term investments	7	1,028	672	-
CLOSING CASH BALANCE		**1,181**	**772**	**678**

The attached notes form part of and should be read in conjunction with these financial statements.

Statement of Commitments

AS AT 30 JUNE 2006

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
Non-cancellable operating lease commitments payable		
Payable no later than 1 year	127	134
1 - 2 years	169	250
2 - 5 years	9	137
Beyond 5 years	-	-
	305	**521**

Statement of Contingent Liabilities

AS AT 30 JUNE 2006

There were no contingent liabilities as at 30 June 2006 (nil 30 June 2005)

The attached notes form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

These are the financial statements of Guardians of New Zealand Superannuation ("the Guardians"), a Crown entity in terms of the Public Finance Act 1989.

These financial statements have been prepared in accordance with the Public Finance Act 1989.

The consolidated financial statements comprise the Guardians of New Zealand Superannuation and its subsidiaries ("the Group").

MEASUREMENT BASE

The financial statements have been prepared on an historical cost basis.

ACCOUNTING POLICIES

The following particular accounting policies which materially affect the measurement of financial performance and financial position have been applied:

a) Budget figures

The budget was approved by the Board for the year.

b) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Guardians.

The Group financial statements incorporate the financial statements of the Guardians and its subsidiaries, which have been consolidated using the purchase method. The results of any subsidiaries that become or cease to be part of the group during the year are consolidated from the date that control commenced or until the date that control ceased.

All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

c) Revenue

The Guardians derive revenue through the provision of outputs to the Crown and income from its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

d) Goods and Services Tax (GST)

All items in the financial statements are exclusive of GST, with the exception of accounts receivable and trade creditors which are stated with GST included. Where GST is irrecoverable as an input tax, then it is recognised as part of the related asset or expense.

e) Taxation

The Guardians is a public authority in terms of the Income Tax Act 1994 and consequently is exempt from income tax.

f) Accounts receivable

Accounts receivable are stated at their expected realisable value after providing for doubtful and uncollectible debts.

g) Investments

Investments are stated at the lower of cost and net realisable value. Any write-downs are recognised in the statement of financial performance.

h) Property, plant and equipment

Initial recording

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged, or fair value in the case of donated or subsidised assets, and those costs directly attributable to bringing the item to working condition for its intended use.

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is capitalised to the initial cost of the item when the expenditure increases the economic benefits over the life of the item or where that expenditure was necessarily incurred to enable the future economic benefits to be obtained and the expenditure would have been included in the initial cost of the item had the expenditure been incurred at the time of acquisition.

All other subsequent expenditure is expensed in the period in which it is incurred.

Impairment

All items of property, plant and equipment are assessed for impairment at each reporting date.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down. The write down is recognised in the statement of financial performance.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intended for sale

Items of property, plant and equipment withdrawn from use and intended for sale are recorded at the lower of carrying amount and net market value.

Disposal

On disposal or permanent withdrawal of an item of property, plant and equipment the difference between the disposal proceeds (if any) and the carrying amount is recognised in the statement of financial performance.

i) Depreciation

Depreciation is provided on a straight line basis on all property, plant and equipment at a rate which will write off the cost of the assets to their estimated residual value over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Office equipment	3 years
Computer equipment	1 - 3 years
Leasehold improvements	3 - 6 years

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is shorter.

j) Employee entitlements

Provision is made in respect of the Group's liability for annual leave. Annual leave is expected to be settled within 12 months of reporting date, and is measured at nominal values on an actual entitlement basis at current rates of pay.

k) Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

l) Foreign currency transactions

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date.

Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction.

Exchange difference on foreign exchange balances are recognised in the statement of financial performance.

m) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, receivables and payables. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Financial assets and financial liabilities are recognised on the statement of financial position when the group becomes a party to the contractual provisions of the instrument. The Group offsets financial assets and financial liabilities when the group has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Except for items covered by separate accounting policy, all financial instruments are shown at their estimated fair value.

n) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the 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.

o) Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Group invests as part of its day-to-day cash management.

Operating activities include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Statement of cash flows (continued)

Investing activities are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies since the date of the last audited financial statements.

All policies have been applied on a basis consistent with previous years.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 2: OPERATING SURPLUS/(DEFICIT)

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
The net surplus is after charging for:		
• Fees paid to principal auditors		
External audit	25	21
Other services	-	4
• Board members' fees	136	140
• Employment remuneration and related expenses	2,599	1,731
• Office accommodation	189	196
• Professional fees	773	772
• Rental expense in operating leases	115	119
• Depreciation:		
Office equipment	64	52
Computer equipment	60	32
Leasehold improvements	30	7
Total Depreciation for the year	154	91

NOTE 3: PUBLIC EQUITY

General funds		
Opening balance	904	653
Net surplus / (deficit)	(14)	251
Net equity received from / (repaid to) the Crown	(390)	-
Closing balance	**500**	**904**

NOTE 4: INVESTMENTS IN SUBSIDIARIES

	BALANCE DATE	% HELD 2006	% HELD 2005
Subsidiaries			
New Zealand Superannuation Fund Nominees Limited	30 June	100	100
NZSF Timber Investments (No 1) Limited	30 June	100	-
NZSF Timber Investments (No 2) Limited	30 June	100	-
NZSF Timber Investments (No 3) Limited	30 June	100	-

The principal activity of each subsidiary is to act as a nominee company holding assets and liabilities on behalf of the New Zealand Superannuation Fund. These assets and liabilities are recognised in the financial statements of the New Zealand Superannuation Fund, and accordingly are not presented in these financial statements.

New Zealand Superannuation Fund Nominees Limited was established on 12 January 2004. This company was not disclosed as a subsidiary of the Guardians in previous years, nor were the Guardians financial statements prepared on a consolidated basis. The effect on the assets and liabilities of the Guardians had this subsidiary been consolidated in the 30 June 2004 and 30 June 2005 financial statements is nil.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 5: ESTABLISHMENT OF SUBSIDIARIES

On 5 October 2005, the Guardians established three subsidiary companies, being NZSF Timber Investments (No 1) Limited, NZSF Timber Investments (No 2) Limited and NZSF Timber Investments (No 3) Limited. The Guardians owns 100% of the equity in these companies. The assets and liabilities of the consolidated entity did not change as a result of the establishment of these subsidiaries.

NOTE 6: RECEIVABLES AND PREPAYMENTS

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
Receivable from the Crown	-	442
Prepayments	55	-
Other amounts receivable	1	-
	56	**442**

NOTE 7: INVESTMENTS

Current		
Short-term deposits	1,028	672
Weighted average effective interest rates		
Short-term deposits	7.03%	6.49%

NOTE 8: PROPERTY, PLANT AND EQUIPMENT (PARENT AND GROUP)

	COST $'000	ACCUMULATED DEPRECIATION $'000	NET BOOK VALUE $'000
2006			
Office equipment	246	149	97
Computer equipment	307	96	211
Leasehold improvements	189	43	146
Total	**742**	**288**	**454**
2005			
Office equipment	168	88	80
Computer equipment	172	64	108
Leasehold improvements	50	13	37
Total	**390**	**165**	**225**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 9: PAYABLES AND ACCRUALS

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
Trade creditors	106	221
Accrued expenses	318	160
GST payable/(refundable)	(1)	65
Total payables and accruals	**423**	**446**

NOTE 10: EMPLOYEE ENTITLEMENTS

Annual leave	104	82
Accrued salary	53	(7)
Total	**157**	**75**
Current	157	75
Non-current	-	-
Total	**157**	**75**

NOTE 11: PROVISIONS

PROVISION FOR REFURBISHMENT:		
Opening balance	14	7
Additional provisions made during the year	7	7
Charged against provision for the year	-	-
Unused amounts reversed during the year	-	-
Closing balance	**21**	**14**
PROVISION FOR REPAYMENT OF ACCUMULATED SURPLUS:		
Opening balance	-	-
Additional provisions made during the year	590	-
Charged against provision for the year	-	-
Unused amounts reversed during the year	-	-
Closing balance	**590**	**-**
Total	**611**	**14**
Current	590	-
Non-current	21	14
Total	**611**	**14**

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 12: RECONCILIATION OF THE NET SURPLUS FROM OPERATIONS WITH THE NET CASHFLOWS FROM OPERATING ACTIVITIES

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
Net surplus / (deficit)	**(14)**	**251**
Add (less) non-cash items:		
Depreciation	154	91
Increase in other provisions	7	7
Total non-cash items	**161**	**98**
Add (less) movements in working capital items:		
(Increase)/Decrease in receivables	386	(189)
Increase/(Decrease) in payables	(23)	47
(Increase)/Decrease in capital creditors	-	(19)
Increase/(Decrease) in employee entitlements	82	43
Working capital movements - net	**445**	**(118)**
Net cash flow from operating activities	**592**	**231**

NOTE 13: RELATED PARTY INFORMATION

The Guardians is a wholly owned entity of the Crown. Government appropriation is the main source of revenue.

The Group received the following from the Government for the year to 30 June 2006:

Appropriations from the Crown $4,318,406

In the current year, the Group has made a provision to distribute $590,116 back to the Crown which is a repayment of accumulated surpluses.

The Board has entered into a number of transactions between government departments on an arms length basis. Where those parties are acting in the course of their normal dealings with Guardians of New Zealand Superannuation, related party disclosures have not been made for transactions of this nature.

NOTE 14: FINANCIAL INSTRUMENTS

The Group is risk averse and seek to minimise their exposure from their treasury activities. Its policies do not allow any transactions which are speculative in nature to be entered into.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. Financial instruments which potentially subject the Board to risk consist principally of cash and short term investments.

The Group has a minimal credit risk in their holdings of various financial instruments. These instruments include cash and bank, interest receivable, short-term deposits, trade creditors and other payables.

The Group places its investments with institutions that have a high credit rating. The Group believes that this policy reduces the risk of any loss which could arise from its investment activities. The Group does not require any collateral or security to support financial instruments.

There is no significant concentration of credit risk.

The maximum amount of credit risk for each class is the carrying amount in the statement of financial position.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 14: FINANCIAL INSTRUMENTS (CONTINUED)

Fair value

The fair value of financial instruments is equivalent to the carrying amount disclosed in the statement of financial position.

	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
Cash and bank	153	100
Interest receivable	-	-
Accounts receivable	56	442
Short-term deposits	1,028	672
Trade creditors	(106)	(221)
Other payables	(960)	(314)
Total	**171**	**679**

Currency risk

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

The Group had no trade creditors denominated in a foreign currency at 30 June 2006 (AUD5,240.10 at 30 June 2005).

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2006. The interest rates on the Group's investments are shown in Note 7.

The Board does not consider that there is any significant interest exposure on the Group's investments.

NOTE 15: EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM

TOTAL REMUNERATION AND BENEFITS $000'S	NUMBER OF EMPLOYEES 2006	2005
100 - 110	1	-
110 - 120	-	1
120 - 130	1	-
140 - 150	1	1
150 - 160	1	-
160 - 170	1	-
170 - 180	-	1
200 - 210	1	-
210 - 220	2	-
230 - 240	-	1
240 - 250	-	1
250 - 260	1	-
270 - 280	1	1
320 - 330	1	-
340 - 350	-	1
390 - 400	1	-

Total remuneration consists of base remuneration plus an additional payment of between 10% and 15% of base. This was to acknowledge the contribution of employees to the overall performance of the New Zealand Superannuation Fund from inception to 30 June 2006.

From 1 July 2006 a new program will be implemented to reward long term performance of the New Zealand Superannuation Fund above agreed hurdles. This will be phased in over the four year period to 2010.

The total remuneration bands and benefits listed above are annual amounts. As some employees commenced part way through the year, the actual remuneration they received during the year ended 30 June 2006 was less than the amount shown.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 16: BOARD FEES

Board members earned the following fees during the year:

MEMBER	PARENT AND GROUP 2006 $'000	PARENT AND GROUP 2005 $'000
DJ May (Chairperson)	37	37
Sir D Graham (Deputy Chairperson)	21	21
M Anderson	19	19
I Bing*	-	17
B M Liddell	19	19
D Newman	19	14
G Saunders	17	13
M Tume**	4	-
Total	**136**	**140**

* Mr Bing's term expired 31 May 2005.

** Mr Tume was appointed to the Board in April 2006.

Board fees are paid inclusive of GST. Where a Board member is registered for GST their fees detailed above are recorded exclusive of GST.

Board members travel expenses to attend meetings are also paid by the Guardians.

NOTE 17: TERMINATION PAYMENTS

During the year, the Guardians made one payment of $5,885 to a former employee whose position was made redundant.

NOTE 18: BOARD MEMBERS' INDEMNITY AND INSURANCE

The Guardians have indemnified Board Members in respect of a liability incurred where that Board Member has breached one of the individual duties set out in sections 53 to 57 of the Crown Entities Act 2004 (subject to certain limitations). Liability in respect of a breach of these duties is excluded from the scope of the statutory immunity provided in section 121 of the Crown Entities Act 2004. Each Board Member is also indemnified in respect of costs incurred by that Board Member in defending or settling any claim or proceeding.

NOTE 19: EVENTS SUBSEQUENT TO BALANCE DATE

On 17 July 2006, the Guardians of New Zealand Superannuation incorporated a subsidiary company. NZSF Timber Investments (No 4) Limited was established to act as a nominee company holding assets and liabilities on behalf of the New Zealand Superannuation Fund. The assets and liabilities of the consolidated entity did not change as a result of the establishment of this subsidiary. There were no other events subsequent to balance date at 30 June 2006 requiring disclosure (2005: nil).

NOTE 20: BUDGET VARIATIONS

The Guardians' actual expenditure for the year was less than budgeted primarily due to an underspend in professional fees and salaries. The lower salaries expense is due to a delay in timing of recruitment activity and the reduced spending on professional fees occurred as a result of a change to the policy of meeting New Zealand Superannuation Fund operating costs which meant most of these fees were met directly from the Fund.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

NOTE 21: CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The New Zealand Accounting Standards Review Board announced in December 2002 that New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") will apply to New Zealand reporting entities for periods commencing from 1 January 2007. The Group will prepare its first set of financial statements under NZ IFRS for the year ending 30 June 2008, in line with the Crown.

The Group has set up a project team to evaluate the impact of adopting NZ IFRS and prepare the Group for transition. The project is being overseen by the Audit and Risk Committee on behalf of the Board.

To date no key areas have been identified where accounting policies will need to be changed in order to comply with NZ IFRS.

NZ IFRS requires a large number of additional disclosures and will result in a number of changes to the way the financial information is presented. The next phase of the project will be to identify all of the additional disclosure requirements and ensure processes and systems are put in place to capture the relevant information.

The information disclosed is the best estimate of the impact of the adoption of NZ IFRS as at the date of preparing the financial statements. This could change due to:

- Further work being undertaken by the NZ IFRS project team; and
- Potential amendment to NZ IFRS and /or interpretations thereof being issued by standard-setters and / or the International Financial Reporting Interpretations Committee prior to the date of the first full set of NZ IFRS financial statements.

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation ("the Guardians") and group. The Auditor General has appointed me, Rudie Tomlinson, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Guardians and group on his behalf, for the year ended 30 June 2006.

Unqualified Opinion

In our opinion the financial statements of the Guardians and group on pages 26 to 27 and 57 to 71:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Guardians and group's financial position as at 30 June 2006;
  - the results of operations and cash flows for the year ended on that date; and
  - the service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 11 September 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

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

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

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Guardians and group as at 30 June 2006. They must also fairly reflect the results of operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989 and the New Zealand Superannuation and Retirement Income Act 2001.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

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

In addition to the audit we carried out an assignment involving the review of monthly financial processes, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Guardians and group.

R L Tomlinson
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand

Glossary

This glossary of terms relates to the investment strategies, activities and performance of the New Zealand Superannuation Fund specifically, and to investing generally.

Absolute Return

The actual return, in dollar or percentage terms, generated by a portfolio during a specific period.

Active Management

An investing strategy that seeks returns in excess of a specified benchmark.

Active Return

Return relative to a benchmark. If a portfolio's return is 5%, and the benchmark's return is 3%, then the portfolio's active return is 2%.

Active Risk

The risk (annualised standard deviation) of the active return. Also called the tracking error.

Alpha

That part of a portfolio's return not explained by market factors. Alpha is the result of manager skill applied through active management.

Annualised Rate of Return

A rate of return expressed over one year, although the actual rates of return being annualised are for periods longer or shorter than one year.

Assets

Anything owned that has value and is measurable in terms of money.

Asset Classes

Categories of assets, such as shares, bonds, real estate.

Asset Mix

The proportion of assets held in the portfolio in percentage terms.

Basis Point

One-hundredth of 1%. The difference between 5.25% and 5.50% is 25 basis points.

Benchmark

A standard against which the performance of a security, index or investor can be measured.

Beta

A measure of a security's or portfolio's volatility, or systematic risk, in comparison to the market as a whole.

Bond

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Commodities

Tangible products, such as metals, crude oil or grain.

Custodian

An independent organisation entrusted with holding investments and settling transactions on behalf of the owner. The custodian maintains the financial records for the investments and may perform other services (such as performance measurement, mandate compliance etc) for the owner as well.

Derivatives

Financial contracts that derive their value from an underlying asset or index, such as an interest rate or foreign currency exchange rate. They can be used to manage risk, reduce cost and enhance returns. Some common derivatives are forwards, futures, swaps and options.

Diversification

Investing in a variety of assets or through a number of managers in order to spread risk.

Equities

Securities that signify ownership in a corporation and represent a claim on part of the corporation's assets and earnings.

Fixed Interest Securities

Fixed interest securities generate a predictable stream of interest, and include bonds, bank bills, floating rate notes and negotiable certificates of deposit. Interest rates on these securities may be floating but are usually fixed. The holder is paid a fixed value on a fixed future date.

Fund Manager (a.k.a Asset Manager)

Invests and manages the assets of others.

Hedge or Hedging

A strategy designed to reduce the risk of loss caused by fluctuations in, for example, security prices, interest rates and foreign currency exchange rates.

Hedge Fund

An investment fund that attempts to generate active returns by employing long-short strategies and/or leverage.

Hurdle Rate

A rate of return above which an investment makes sense and below which it does not. Also called required rate of return.

Index

A measure of performance of a collection of assets typically across a sector, country, region or style (e.g. Dow Jones, MSCI).

Index Fund

A portfolio of investments that are weighted the same as a stock-exchange index in order to mirror its performance. This process is also referred to as indexing.

Investment

An asset or item that is purchased with the hope it will generate income or appreciate in the future.

Investment Horizon

The period of time over which money is to be invested (e.g. 1 year, 20 years).

Long (or Long Position)

The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value.

Long Short

A portfolio construction model that can hold a negative (short) position in a stock as well as a long position.

Management Fee

A fee that the manager of a fund charges for managing the portfolio and operating the fund.

Market Neutral

An investing strategy relying purely on alpha and that is not influenced by the direction of the market as a whole.

Out-performance

Excess performance above the benchmark or above the targeted return.

Passive Management

An investing strategy that mirrors a market index and does not attempt to beat the market. Also known as "passive strategy" or "passive investing".

Portfolio

A group of investments, such as shares and bonds held by an investor.

Proxy

A formal document signed by a shareholder to authorise another shareholder, or commonly the company's management, to vote the holder's shares at the annual meeting.

Private Equity

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet.

Return

The gain or loss on an investment in a particular period, consisting of income (such as interest, dividends or rent), plus capital gains or capital losses. The return is usually expressed as a percentage.

Risk

The chance of something happening that will have an impact upon objectives. Risk can have both positive (upside risk) and negative (downside risk) consequences. For investments it is the chance that an investment's actual return will be different than expected – both higher or lower than expected.

Risk Adjusted Return

A measure of investment return adjusted to reflect the risk assumed.

Risk Management

The culture, processes and structures that are directed towards realising potential opportunities, whilst managing adverse effects.

Risk Tolerance

The amount of loss an organisation is willing or able to tolerate should a downside risk materialise.

Strategic Asset Allocation (SAA)

The division of assets within an investment portfolio with regards to the long-term view of the risk and return profile of those asset classes, and how to best achieve the portfolio's long-term objectives.

Shareholder

Any person, company or other institution that owns at least one share in a company. A shareholder may also be referred to as a stockholder.

Short (or Short Position)

Selling a borrowed security, commodity or currency, with the expectation that the asset will fall in value.

Socially Responsible Investing

An investment process that uses screens to select or avoid investing in certain companies or industries to reflect religious, economic, political, social or personal priorities.

Stocks

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares, or equity.

Voting Right

The right of a stockholder to vote on matters of corporate policy as well as on who is to comprise the Board of Directors.

Yield

The annual rate of return on an investment expressed as a percentage.

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The National Bank of New Zealand

BANKERS

New Zealand Superannuation Fund

Westpac Banking Corporation

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