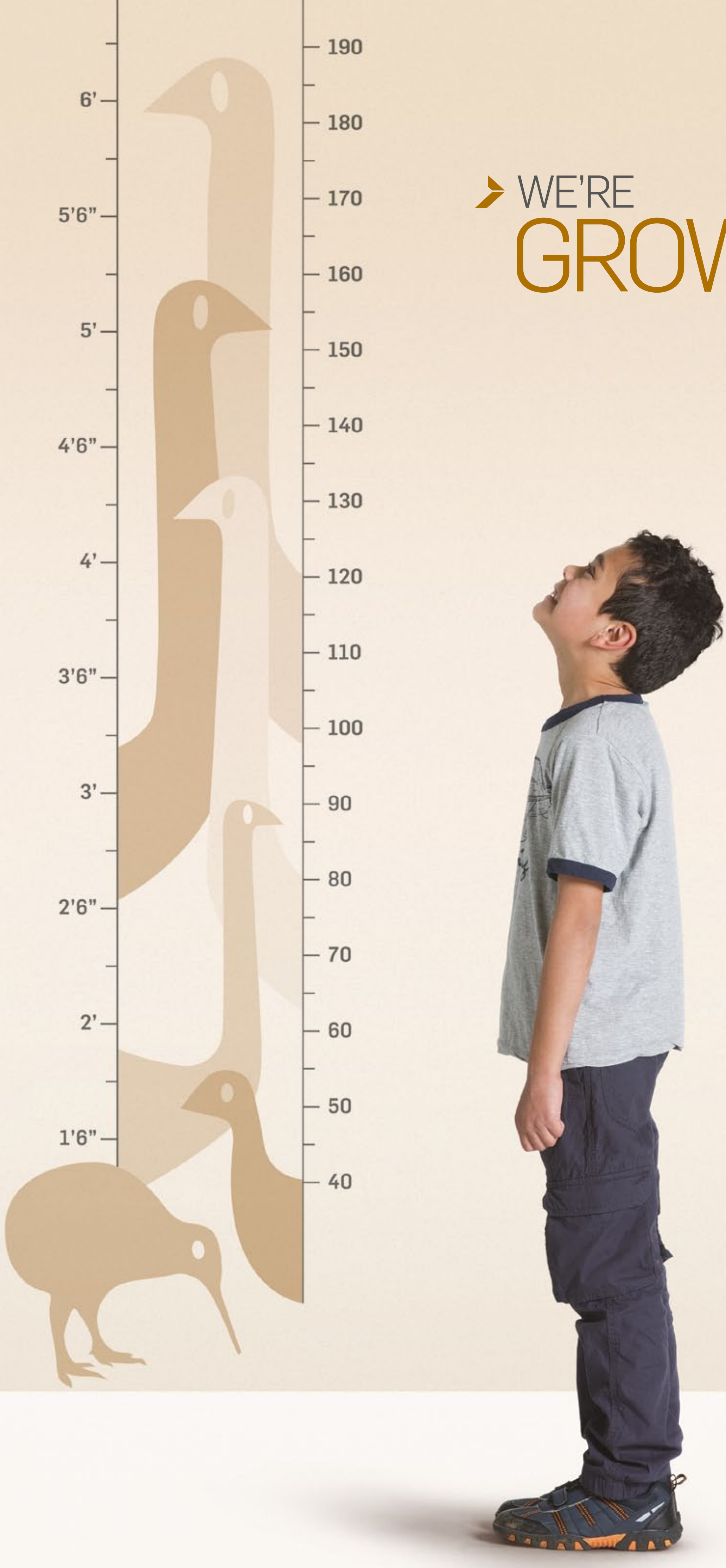
WE'RE GROWING...



ANNUAL REPORT 2013

NEW ZEALAND SUPERANNUATION FUND

Moa Grower height chart reproduced with permission from Cris de Groot.


6'
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2'
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190
180
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120
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100
90
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70
60
50
40

PERFORMANCE SUMMARY

How we did

2012/13

25.8%
RETURN FOR THE YEAR

$4B
INCREASE IN FUND VALUE

WINNER
aiCIO AWARD FOR MOST INNOVATIVE SOVEREIGN WEALTH FUND GLOBALLY

Since the Fund began

$23B
FUND SIZE

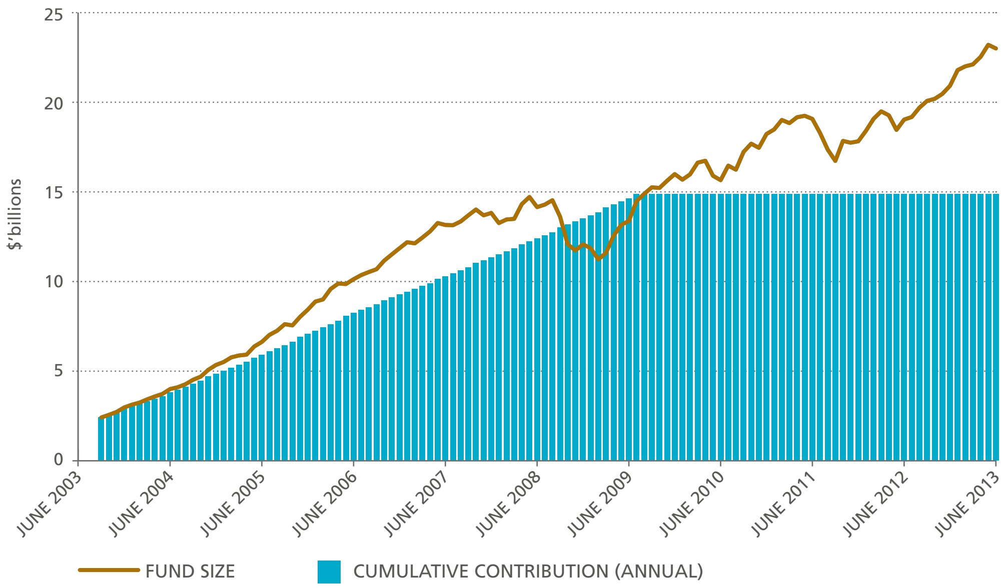
$3B
NZ INCOME TAX PAID

8.8% P.A.
FUND RETURN

Fund Returns

As at 30 June 2013	Fund size: NZD22.97 billion before tax			
Returns	One year	Three years	Five years	Since inception
Actual Fund Return (before tax, after costs)	25.83%	16.76% p.a.	7.43% p.a.	8.84% p.a.
Value added by Guardians (compared to Reference Portfolio)	7.36% (NZD1.34b)	4.58% p.a. (NZD2.63b)	1.67% p.a. (NZD1.77b)	1.14% p.a. (NZD2.22b)
Net Return (returns over and above the Treasury Bill return – the Government's cost of debt)	23.42% (NZD4.33b)	14.18% p.a. (NZD7.56b)	4.27% p.a. (NZD4.93b)	3.90% p.a. (NZD5.91b)

Growth in Fund size since inception



This graph shows the growth in the size of the Fund since investing began in 2003. It illustrates the impact of the Global Financial Crisis in 2008/09, and the subsequent recovery in the value of the Fund. The Government ceased contributing to the Fund in June 2009. At that point, contributions totalled NZD14.88 billion. Contributions are scheduled to start again in 2020/21.

Contents

Saving today to ensure a sustainable future

The New Zealand Superannuation Fund is a Government savings vehicle to help reduce the tax burden on future generations.

WHAT IS THE PROBLEM THE FUND IS HELPING TO SOLVE?

All New Zealanders aged 65 and over receive New Zealand Superannuation payments (also known as the pension, National Super or Super). These payments are paid for by today's tax payers.

Over the next few decades, however, the New Zealand population will age significantly. Proportionally, there will be fewer tax payers of working age to support those people receiving the pension.

These demographic changes mean that future generations face a much higher tax burden than that carried by their predecessors, in order to keep funding universal superannuation payments.

HOW DO WE FIT IN?

To help reduce the burden on future generations, the Government passed the NZ Superannuation and Retirement Income Act 2001 (the Act), which established:

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

Between 2003 and 2009, the Government contributed NZD14.88 billion to the Fund. Contributions are scheduled to re-start from 2020/21. From around 2029/30, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund will continue to grow until it peaks in size in the 2080s.

WHAT DO WE DO?

The Guardians, which has operational independence regarding its investment decisions, invests the money the Government has contributed to the Fund. In this way, the Fund adds to Crown wealth, improves the ability of future Governments to pay for superannuation and, ultimately, reduces the tax burden of the cost of superannuation on future New Zealanders.

Our Mandate

By using the Fund to save now in order to pay for future retirement benefits, the Government aims to smooth the cost of New Zealand Superannuation between today's taxpayers and future generations.

MANDATE

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

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

VALUES

Inclusiveness: We combine diverse skills, and seek relevant views and rigorous analysis, in a supportive environment.

Innovation: We encourage initiative and continuous learning, and drive timely decisions.

Integrity: We behave in a transparent and commercial manner for the long-term benefit of the Fund.

MISSION

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

VISION

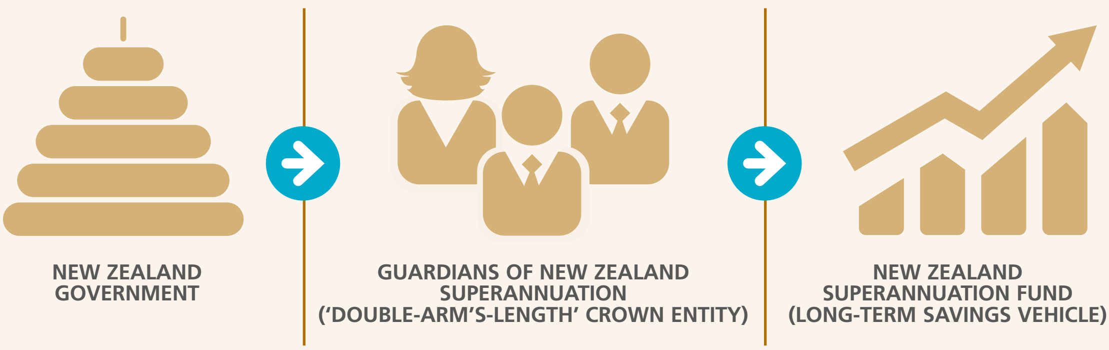
A great team building the best portfolio.

PERFORMANCE EXPECTATIONS

We compare the performance of the Fund to a passive Reference Portfolio, in order to benchmark the value we have added through active investment.

We also compare the performance of the Fund to 90-day Treasury Bills as a measure of the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt.

It is our expectation, given our Mandate and hence portfolio construction, that we will return at least the Treasury Bill return plus 2.5% p.a. over any 20-year moving average period.



Chair's Statement

I am pleased to present my first Annual Report as Chair of the Guardians of New Zealand Superannuation.

GAVIN WALKER
CHAIR

In assuming the Chairmanship of what is a very important institution to New Zealand both now and in the future, I have been conscious of the importance of continuity and of the need to take a long-term view of the Guardians and the Fund.

This focus on the long term is driven by the Guardians' purpose – to maximise the Fund's return over the long term, without undue risk, so as to reduce New Zealanders' future tax burden.

By long term, we mean a very long time: the Fund will not peak in size until the 2080s, and will continue for decades after that.

So while the Fund will have been invested for 10 years in September 2013, this upcoming milestone needs to be kept in perspective. The Fund's performance to date must be judged in the context of its long-term purpose and growth strategy; the decisions we make today must be made with future generations in mind.

We are nearing the end of the 'build' phase of the Guardians' evolution. Over the course of its first decade, the Guardians has grown into a world-class investment organisation that is respected globally for its governance, transparency and innovation. It has also succeeded in attracting a talented pool of staff – many of these are New Zealanders returning from overseas. With robust policies, processes and infrastructure in place, and a strong performance record, we are now shifting our focus firmly to 'operate'.

Gavin Walker was appointed Chair of the Guardians of New Zealand Superannuation on 1 September 2012.

A RECORD YEAR

The Fund performed very strongly over 2012/13, recording (in volatile markets) its best-ever year in both absolute terms and in relation to its two key benchmarks.

As at 30 June 2013, the Fund was at NZD23 billion, compared to NZD19 billion at the end of the previous year. The total return for the year (after costs, before tax) was 25.83% compared to 1.21% in 2011/12, and was higher than the previous record annual return of 25.05% in 2010/11.

Even more pleasing was the Fund's performance in respect of its two key benchmarks. It beat the Treasury Bill return by 23.42% and the Reference Portfolio (passive benchmark) by 7.36%. These are the best-ever annual results the Fund has achieved relative to its benchmarks.

For further information on the performance of the Fund's investment portfolio, see the Investment Performance report on pages 31-41.

An overview of the Guardians' and Fund's performance in the 2012/13 year, compared to the strategic objectives we set in the 2012-17 Strategic Plan, can be found on page 12.

EXCEEDING KEY BENCHMARKS SINCE INCEPTION

While the Fund's performance over 2012/13 was very strong, the Guardians' focus remains, as noted above, on the long term. So it is particularly pleasing to be able to report that the Fund is ahead of both its key benchmarks since inception 9¾ years ago.

Over this time frame, the Fund has exceeded the Treasury Bill return by 3.90% (NZD6 billion) and the Reference Portfolio return by 1.14% (NZD2 billion). The results compare favourably to our expectation that the Fund will exceed the Treasury Bill return by at least 2.5% p.a. over rolling 20 year periods, and our estimate that we will beat the Reference Portfolio by 1.1% p.a.

It is, however, important to note that while returns to date have been strong, exceptionally so in 2012/13, the Fund's investment strategy is strongly weighted towards growth assets. In addition, where investment opportunities align with our investment beliefs and themes, we are also a contrarian investor. This means that we may look to exploit our long-term investing horizon by selling assets that have risen in value and buying assets that have fallen in value.

These factors mean that the Fund's investment performance can and will be volatile in the short and medium terms. While this year has been a very good one, no doubt there will be future years where investment performance is negative. It is, therefore, important that stakeholders understand, in the event that the Fund does sustain losses, that the Guardians remains committed to its long-term strategies.

BOARD CHANGES

Founding Chair David May retired in August 2012. I would like to thank David for the significant contribution he has made to the Guardians over the organisation's first decade. The many successes of the Guardians and Fund over this period can be attributed in no small part to David's steadfast focus on the long term, including in the midst of the Global Financial Crisis, and his insistence that the Guardians achieves global best practice in all aspects of its operations.

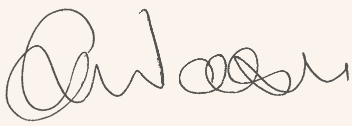
During the year, we were pleased to welcome a new Board member, Lindsay Wright, to the Guardians. She brings to the Board complementary skills in investment and asset management, and experience in Asia.

CHALLENGES AHEAD

2012/13 has been an excellent year for the Guardians and Fund, and I would like to say thanks to our team for a stellar effort. In particular, the Fund's achievement in winning aiCIO's global award for Most Innovative Sovereign Wealth Fund is noteworthy.

Looking forward to 2013/14, the Guardians and Fund will continue to face challenges. These include the hurdles involved in running a comparatively small global investment fund a long way from the world's main financial centres, and continuing to achieve superior returns in what is a highly competitive investment market and a fragile global economic recovery.

A particular priority is to ensure we have a sufficiently scalable and flexible organisation given the growth that is anticipated in the Fund over future decades. We will also continue to focus on maintaining and building our global connections, including doing what we can to build and enhance New Zealand's reputation on the world stage. As part of this work, we will continue to deepen our relationships and knowledge sharing at key investment forums, with peer funds and investment manager partners.



GAVIN WALKER, CHAIR

Chief Executive's Statement

This Report details what has been a busy and successful year for the Guardians and Fund, in part capped off by winning the Sovereign Wealth Fund category in *aiCIO's* Global Industry Innovation Awards in December 2012.

ADRIAN ORR
CHIEF EXECUTIVE

Winning this award was a huge endorsement of the team's efforts and has lifted the profile of the Guardians and Fund internationally. Our profile allows us to connect credibly with other funds and investors on the world stage, easing the challenges inherent in running a global fund from far-flung New Zealand.

MAJOR PROJECTS

During the year, we continued to embed the Target Operating Model we developed during 2011/12, and which we discussed in detail in last year's Annual Report. Under this model, we select our investments based on broad themes and opportunity sets that we have identified as the best fit for the particular characteristics of our Fund.

Central to putting this approach into practice has been the launching of a Risk Allocation Process (see page 41) to help guide our investment decisions. We use this process to rank and map all our existing and potential investments by attractiveness and consistency with the Fund's investment mandate, competitive advantages and investment beliefs.

Another major achievement during the year was the development of a portfolio design tool (see page 43) to further enhance our Strategic Tilting programme. Strategic Tilting is an area in which we aspire to be a global leader.

Our desired target operating model requires strong in-house capability and expertise. We have continued to build our team during the year, with total staff numbers increasing to 89. We expect to recruit more staff in 2013/14, although the large growth period is behind us.

Of particular note are the appointments of Mika Austin, Michael Gleissner and Sarah Owen to the Guardians' Leadership Team, and of Tim Mitchell as the manager of our new internal New Zealand active equities mandate.

GLOBAL BENCHMARKING

The Fund continues to be one of the strongest performers of its type internationally. In 2012, we again participated in global benchmarking of 314 sovereign and wealth funds by industry leader CEM Benchmarking. The Fund's net value-add for the five years to end 2012 was well above the median of our peers, while our costs were in line with benchmark norms.

NEW ZEALAND INVESTMENTS

In 2009, we received a Directive from the Minister of Finance requiring us to identify and consider opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund. This Directive is subject to our requirement to invest the Fund on a commercial and prudent basis.

Since 2009, we have reviewed more than 100 New Zealand investment opportunities and have made a number of significant investments, including the purchase of Z Energy and our new minority stake in technology services company Datacom. A number of other opportunities remain under consideration at the present time.

In dollar terms, the value of the Fund's New Zealand investments has grown significantly since we received the Directive: from NZD2.4 billion to NZD3.4 billion. However, the proportion of the Fund that is invested in New Zealand decreased during the year to 20.8% of the Fund.[1]

1 Figures exclude cash and foreign exchange hedging contracts. See page 45 for further detail.

The reasons for the proportional drop include the strong performance of global equities during the year, the reduction of a long-held overweight stake in Auckland International Airport, and the sale of some of our New Zealand timber assets. These sales were achieved at attractive prices and are consistent with our purpose.

We actively seek further investments in New Zealand, with a focus on four strategies:

- direct investment in medium to large-scale companies;
- the provision of expansion capital to small-medium-sized enterprises;
- small-medium sized social infrastructure; and
- rural land.

We believe opportunities in these four areas in particular have the potential to offer returns which are sufficient to compensate the Fund for the risk of concentrating its investments in New Zealand.

In addition to our investment in Datacom, other new domestic investments during the year included the purchase of an additional 1.25% of Kaingaroa Forest and a NZD40 million commitment to an expansion capital fund managed by Pioneer Capital.

We continue to invest 5% of the Fund in New Zealand listed equities – a figure that represented more than NZD1 billion as at 30 June 2013.

See pages 44-51 for further information on the Fund's New Zealand investment portfolio.

CHALLENGES AND PRIORITIES

Our 2013-2018 Statement of Intent, available on www.nzsuperfund.co.nz, outlines our objectives and priorities for the next five years.

While the successes of 2012/13, and indeed since the inception of the Fund, are very pleasing, we still face a number of challenges and have much work to do if the Fund is to remain a top performer. Significant uncertainties remain in the global economy; opportunities within the global investment landscape continue to wax and wane rapidly, and competition for staff is intense. In addition, our investment competitors are not standing still; we need to move with them.

We remain very focused on the timely execution of high-priority investment opportunities and on ensuring we have the right culture at the Guardians to achieve our goals and to attract and retain the talent we need. Other key priorities for the forthcoming year include:

- launching our internal NZ active equities mandate;
- ensuring we are prepared in relation to a number of global regulatory changes, such as central clearing;
- launching a new performance reporting system; and
- undertaking and implementing an information technology review.

A summary of progress against our five-year Strategic Plan is set out on page 12.

I would like to thank the members of the Guardians' team for their efforts during what has been a very big year. Your drive, determination to excel and commitment to New Zealand are very evident and deeply appreciated.

ADRIAN ORR, CHIEF EXECUTIVE OFFICER

Progress against our Strategic Plan

This table provides an overview of progress made during 2012/13 against the five medium-term strategies in our 2012-2017 Strategic Plan

STRATEGY	WHAT DOES SUCCESS LOOK LIKE IN 2017?	ACHIEVEMENTS DURING 2012/13	PRIORITIES FOR 2013/14
Leadership in investment search, evaluation and selection	• Single view across a wide range of investment opportunities • Higher reliance on internal capability to identify investment opportunities • Opportunistic investing in a structured and consistent way • Broad assessment of access points to investments • Systematic monitoring of strategies and managers	• aiCIO named the Fund the world's most innovative sovereign wealth fund • Launched Risk Allocation Process (page 41) • Introduced Target Operating Model • Continued integration of responsible investment strategy	• Introduction of Fund-wide risk budgets • Integrating responsible investment into investment decisions • Strengthening internal direct governance capabilities • Embedding new liquidity mandates, hurdle and replenishment system • Launching internal NZ active equities mandate
Significantly progress implementing value-add strategies	• Fully implemented investment strategies • Adding value net of costs to the Reference Portfolio • Improving the Sharpe Ratio of the Fund • Maximising cost efficiency and effectiveness	• Strategic Tilting capability enhanced through portfolio design tool • Introduction of manager segmentation, a more structured approach to relationship management • Revision of manager conviction process • Beat Reference Portfolio return for the year by 7.36% (1.14% since inception) • Embedded cost allocation tool • Strong CEM Cost Effectiveness Survey results (page 84)	• Focusing on timely execution of high priority investment opportunities • Responding to regulatory change (e.g. central clearing)
Collaborating with peers	• Co-investments alongside peers • Regular bilateral exchange of best practice alongside wider effectiveness and efficiency benchmarking • Active membership of global forums that exercise influence	• Co-investment undertaken with PSP (Kaingaroa) • Formation of Innovation Alliance with AIMCo and ADIA; Bloom Energy investment • Implemented new relationship management tool	• Executing further co-investment opportunities • Standardising manager reporting with peer groups
Building and maintaining a great team	• Best practice across governance, enterprise risk management and IT • Strong leadership, strong culture and values, focus on talent development and retention	• Culture survey undertaken • Key talent management and succession planning • 10/10 Rating in Sovereign Wealth Fund Institute Transparency Index	• Continuing focus on culture development • Launching new staff intranet, including education modules • Developing IT road map
Raising and embedding risk awareness	• Risk-taking is well aligned with risk appetite • High organisational awareness of risk consequences of decisions and potential mitigants • Each staff member is able to articulate relevant risks in a consistent manner appropriate to their level of responsibility	• CEM Global Leaders Risk Benchmarking Survey found Guardians to be developing at global best-practice levels • Implementation of performance and risk reporting system (ORTEC's PEARL) on track (page 68) • 51% of staff believe their team has increased its risk focus over the last 12 months	• Enhancing risk reporting via ORTEC's PEARL • Incorporation of further risk topics into Board and staff education programme

For further information see our Statement of Service Performance at pages 82-86.

Governance

Overview

The Guardians has been given the powers and responsibilities to allow it to perform its investment mandate. Sound governance and quality public reporting with a high degree of transparency are critical to maintaining stakeholder and public confidence in the Guardians and Fund.

The Guardians has a governance framework that:

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

GOVERNANCE FRAMEWORK

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

New Zealand Government
Appoints members of independent Nominating Committee

Independent Nominating Committee
Identifies candidates for the Guardians' Board

First 'arm' of independence – Government does not decide pool of Board candidates

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

Board and Management of Guardians
Decide investment policy and make investment decisions

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

HOW DO WE IMPLEMENT GOVERNANCE?

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

Great Team – Our Policies

Communication

Human Resources

Procurement & Outsourcing

Risk Management

Travel & Sensitive Expenditure

Best Portfolio – Our Policies

Direct Investments

Externally Managed Investments

Investment Risk Allocation

Portfolio Completion &

Internally Managed Securities Policy

Strategic Tilting

Delegations

Statement of Investment Policies, Standards and Procedures (SIPSP)

Consistent with our commitment to transparency, the Board Charter, SIPSP and copies of the Guardians' Policies are available on www.nzsuperfund.co.nz.

ACHIEVEMENTS IN 2012/13

In 2012/13, we improved the implementation of our governance framework through:

- enhancing the investment strategy and opportunity review process;
- enhancing our process for making operational risk assessments of investment transactions;
- the provision of ongoing Board and staff education programmes;
- consolidation of Guardians' risk registers, helping staff to have a whole-of-organisation view of risk;
- introducing a new whistleblowing process;
- surveying all staff members on risk awareness; and
- reviewing and strengthening all our policies.

THE YEAR AHEAD – 2013/14

In 2013/14, the Guardians will:

- work to enhance the performance of key management committees;
- improve our governance of the models underlying investment decision-making, by scheduling regular reviews of key models and increasing the amount of automation where appropriate; and
- continue education programmes to promote staff and Board understanding of risk-management processes.

Board Members

1. GAVIN WALKER, CHAIR *BCA*

Gavin Walker was appointed to the Board of the Guardians in July 2010, to the position of Deputy Chair in May 2012 and appointed Chair in September 2012. His term of office expires in 2018.

Gavin is currently the Chairman of ASB Bank, Sovereign Insurance, CommSec, the Kirin International Advisory Board and the Ultra-Fast Broadband Steering Committee. He has been a Director of Lion since 2000. Gavin has extensive experience in the funds management industry, including as CEO of Bankers Trust in both New Zealand and Australia. He is a past chairman of the Foreign Direct Investment Advisory Board and a past director of BT Investment Management Limited, Southern Cross Building Society and Goodman Fielder Limited.

Committee membership:
Chair, Employee Policy and Remuneration
Audit

2. CATHERINE SAVAGE, DEPUTY CHAIR *BCA, CA*

Catherine Savage was appointed to the Board of the Guardians in November 2009 and as Deputy Chair in September 2012. Her term of office expires on 30 September 2014.

Catherine is Chairman of the National Provident Fund, an independent Director of KiwiBank and a Director of Pathfinder Asset Management. She is also the Managing Director of CMS Capital Limited.

Catherine was Treasurer of the National Gas Corporation from 1991-1993 prior to moving to AMP Capital Investors (NZ) Ltd where she worked in various senior management roles until 2000 when she became the Managing Director – AMP's youngest and only female country manager.

Committee membership:
Employee Policy and Remuneration

3. MARK TUME *BBS, Dip. Banking Studies*

Mark Tume was appointed to the Board of the Guardians in April 2006. His term of office expires on 30 April 2016.

Over a 20+ year career, Mark has held a variety of senior roles within the finance sector, in areas such as investment management, capital markets, asset and liability management, and risk control. Mark holds a number of directorships, including New Zealand Oil and Gas, the New Zealand Refining Company Limited and Infratil Limited.

Mark is a past recipient of the Victoria University of Wellington Hunter Fellowship.

Committee membership:
Chair, Audit

4. STEPHEN MOIR

Stephen Moir was appointed to the Board of the Guardians in November 2009. His term of office expires on 30 September 2014.

Stephen is a non-executive director of the Bank of New Zealand and of BNZ Life Insurance.

Stephen has more than 25 years of experience in financial services, including being the General Manager of the Westpac Institutional Bank from 1998-2001, preceded by senior positions with Credit Suisse in Singapore; and Citibank in Singapore, Bangkok and Sydney.

Committee membership:
Employee Policy and Remuneration

5. CRAIG ANSLEY *BSc (Hons), PhD*

Craig Ansley was appointed to the Board of the Guardians in September 2011. His term of office expires on 30 September 2016.

Craig is an adjunct Professor in Finance at The University of Auckland.

Prior to his retirement in October 2010, Craig spent many years in senior roles with Russell Investment Group. A founder of Russell's New Zealand office, Craig has been the Director of its Australasian consulting practice, the Director of Capital Markets Research in Australia and New Zealand Chair.

Craig was a member of the Savings Working Group and has been a director of the Mortgage Corporation of New Zealand Limited, Mortgage Services Limited, Group Rentals New Zealand Limited and the National Provident Fund.

Craig is a Fellow of the New Zealand Society of Actuaries.

Committee membership:
Audit

6. PIP DUNPHY *BHortScience, CFA*

Pip Dunphy was appointed to the Board of the Guardians in May 2012. Her term of office expires on 30 April 2017.

A former member of the selection committee for the Guardians, Pip's work experience and knowledge is in capital markets, banking, finance and investment management. Her previous governance experience includes being a board member of the Earthquake Commission, ACC and Crown Health Financing. Current appointments include Auckland Transport, Mint Asset Management, NZ Post, NZ Clearing and Depository, Solid Energy and Motu.

Committee membership:
Audit

7. LINDSAY WRIGHT *BCom*

Lindsay Wright was appointed to the Board of the Guardians on 1 December 2012. Her term of office expires on 31 October 2017.

Lindsay is the CEO of Harvest Alternatives Investment Group, the alternatives arm of Harvest Fund Management, the second largest asset management company in China. She is also Head of Strategy and Business Development for the Harvest Fund Management Group and Vice Chairman of Harvest Global Investments.

Prior to joining Harvest in September 2010, Lindsay was Managing Director and Global Head of Strategy and Business Development for Deutsche Asset Management/DWS based in New York.

During a 24-year career with Deutsche Asset Management and Deutsche Bank, Lindsay held roles including: Head of Strategy and Business Development for Deutsche Asset Management, Asia-Pacific and Middle East region, based in Singapore; Chief Operating Officer, Deutsche Asset Management, Asia-Pacific, based in Tokyo; Managing Director and Partner, DB Capital Partners Asia-Pacific, the direct private equity business of Deutsche Bank, based in Sydney; and Managing Director, Chief Financial and Operating Officer, Deutsche Bank New Zealand (formerly Bankers Trust New Zealand), based in Auckland.

Committee membership:
Audit

Senior Management

The Guardians' senior executives have broad international and domestic expertise in investment, financial services, law, economics, risk management and human resources, and a mix of public and private-sector experience.

1. ADRIAN ORR, CHIEF EXECUTIVE OFFICER

BSocSci, MA(Dist)

Adrian joined the Guardians in February 2007 from the Reserve Bank of New Zealand where he was Deputy Governor. Adrian has also held the positions of Chief Economist at Westpac Banking Corporation, Chief Manager of the Economics Department of the Reserve Bank of New Zealand, and Chief Economist at The National Bank of New Zealand. He has also worked at the NZ Treasury and the OECD based in Paris. Adrian attends the International Forum of Sovereign Wealth Funds, is a Board member of the Pacific Pensions Institute, a member of the Long-Term Investment Council for the World Economic Forum, and of the Expert Advisory Group for the World Bank's Treasury. He is also a Board Member of the Emory Center for Alternative Investments at Emory University, Atlanta, Georgia.

Areas of responsibility:
General management of the Guardians under delegation from the Board

2. MIKA AUSTIN, GENERAL MANAGER HUMAN RESOURCES

BA/LLB

Prior to joining the Fund in 2012 as Head of Human Resources, Mika was a Senior Associate with Russell McVeagh, specialising in commercial litigation. She has also worked for the Financial Services Authority in London.

Areas of responsibility:
People and performance
Culture

3. STEWART BROOKS, GENERAL MANAGER FINANCE

BCom, CA

Stewart joined the Guardians in 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.

Areas of responsibility:
External audit
Financial reporting
Financial control
Tax

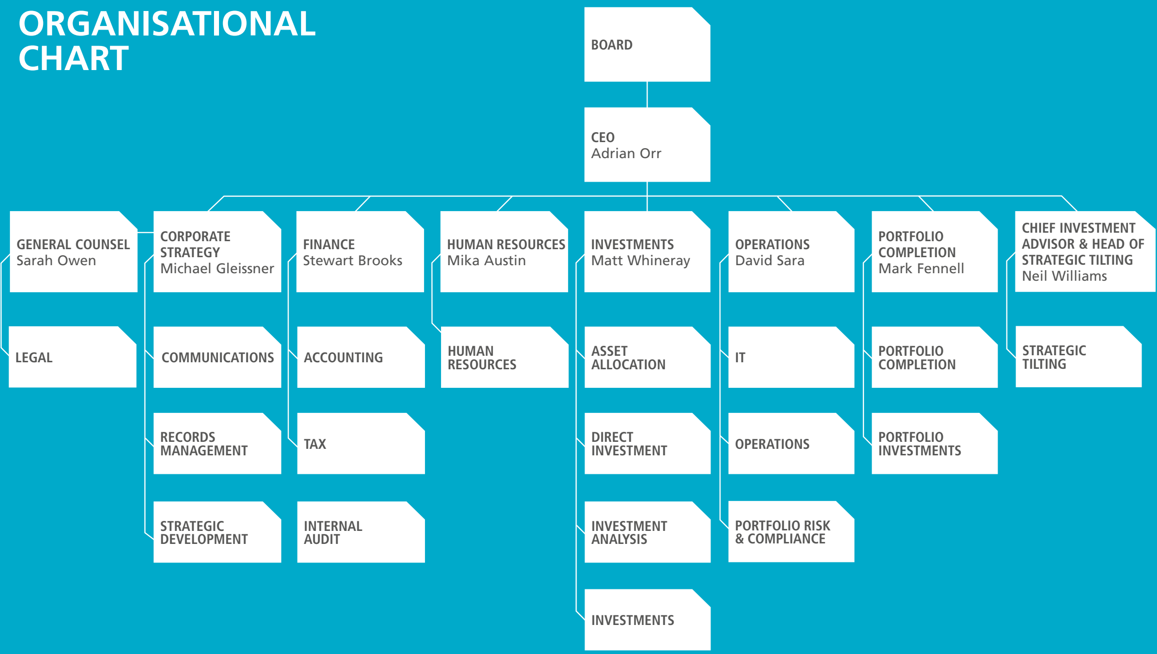
4. MARK FENNELL, GENERAL MANAGER PORTFOLIO COMPLETION

MSocSci (Hons), DipAcc, ACA, CTP

Mark joined the Guardians in 2007 from The Warehouse Group, where he was the Company Secretary and Treasurer. Mark also has significant public sector experience, working in a senior finance position for the Ministry of External Relations and Trade, and for State Owned Enterprises (Forestry Corporation and NZ Railways Corporation).

Areas of responsibility:
Chair, Investment Committee
Treasury operations including cash management and portfolio rebalancing
Portfolio investments

ORGANISATIONAL CHART



5. MICHAEL GLEISSNER, GENERAL MANAGER CORPORATE STRATEGY

LLB(Hons), PGDip Legal Studies, MBA

Prior to joining the Guardians in April 2013, Michael held Chief Financial Officer roles at Pacific Fibre and at Sealord. Michael previously spent four years with Fonterra, latterly as General Manager Strategy and Business Development.

Areas of responsibility:
Chair, Risk Committee
Legal
Communications
Records management
Coordinating peer relationships
Strategic planning

6. SARAH OWEN, GENERAL COUNSEL

BA, LLB, DipACC

Sarah joined the Guardians in 2007 from Westpac/BT Funds Management where she was senior legal counsel/company secretary for the Westpac wealth management companies. Prior to this, Sarah was a Senior Associate at Minter Ellison Rudd Watts, and, before that, DLA Phillips Fox, specialising in funds management/superannuation and commercial law.

Areas of responsibility:
Legal
Board Secretariat

7. DAVID SARA, GENERAL MANAGER OPERATIONS

BMS(Hons), MBS(Dist)

David joined the Guardians in 2009. He has substantial experience in financial services, including as Head of Strategy with UK-based Platform Home Loans, Head of Venture Development for Lloyds Banking Group, and Manager of Strategic Planning for the National Bank of New Zealand.

Areas of responsibility:
Information technology
Investment operations
Portfolio risk and compliance

8. MATT WHINERAY, GENERAL MANAGER INVESTMENTS

BCom, LLB(Hons)

Matt joined the Guardians in 2008 from Credit Suisse (Hong Kong) where he was Head of Financial Sponsor Coverage for non-Japan Asia. Prior to this, Matt was a Managing Director of First NZ Capital and a Vice President at Credit Suisse First Boston (New York). Matt began his career as a Barrister and Solicitor with Russell McVeagh.

Areas of responsibility:
Appointment of investment managers
Asset allocation
Investment analysis including macroeconomic strategy and responsible investment
NZ direct investments
Public and private markets investments

9. NEIL WILLIAMS, CHIEF INVESTMENT ADVISOR AND HEAD OF STRATEGIC TILTING

BMS(Hons), MMS(Hons)

Neil joined the Guardians in 2008 from UBS Global Asset Management in London where he was Global Head of Asset Allocation and a Managing Director in Global Investment Solutions. Neil was previously Chief Global Strategist, Executive Director for Goldman Sachs International (London).

Areas of responsibility:
Investment advice to Board and management
Strategic Tilting

Principles

This section reports on the Guardians' observation of each of the Financial Market Authority's corporate governance principles in the year to 30 June 2013.

PRINCIPLE 1.

DIRECTORS SHOULD OBSERVE AND FOSTER HIGH ETHICAL STANDARDS

Both the Board and employees have codes of conduct setting out clear expectations of the ethical standards expected at the Guardians. The codes, both of which are available on www.nzsuperfund.co.nz, address:

- professional conduct and duties of Board members and employees;
- conflicts of interests;
- confidentiality;
- securities markets legal obligations;
- use of Guardians' information and assets;
- receipt of gifts and entertainment;
- political participation; and
- whistleblowing.

For Board members, actual or potential conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation. Codes are reviewed regularly as part of the Guardians' Legislative Compliance Framework.

PRINCIPLE 2.

THERE SHOULD BE A BALANCE OF INDEPENDENCE, SKILLS, KNOWLEDGE, EXPERIENCE AND PERSPECTIVES AMONG DIRECTORS SO THAT THE BOARD WORKS EFFECTIVELY

The skills and attributes required to be a Board member are set out in the Act. Board members are chosen for their experience, training and expertise in the management of financial investments, as well as their mix of complementary skills.

Board members are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from a committee, independent of the Guardians, which is established by the Minister. On receiving those nominations, the Minister consults with representatives of other political parties in Parliament before recommending the Governor-General appoint a person to the Board.

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

The first Board members were appointed in August 2002. The Board composition at 30 June 2013 with details of individual Board members' backgrounds is set out on pages 16-17.

The Guardians' governing legislation and the Board Charter define Board responsibilities, responsibilities of individual Board members, as well as matters reserved for the Board and matters delegated to management. While the day-to-day responsibility for the operation of the business is delegated to the Chief Executive, there are a number of matters which, either because it is required by law or because the Board has decided it is in the interests of the Guardians to do so, are decided only by the Board as a whole.

The Board regularly reviews its delegations and governance priorities. The Board also hears directly from a range of external experts on investment markets, and regularly visits international peer funds for the purpose of assessing developments in best practice.

PRINCIPLE

3.

THE BOARD SHOULD USE COMMITTEES WHERE THIS WOULD ENHANCE ITS EFFECTIVENESS IN KEY AREAS WHILE RETAINING BOARD RESPONSIBILITY

The Board had two standing committees during the 2012/13 financial year:

- **Audit Committee:** Oversees financial reporting, internal and external audit, compliance (including tax compliance), accuracy of financial statements, and other governance systems.
- **Employee Policy and Remuneration Committee (EPRC):** Oversees the development and operations of employment and remuneration policies.

The roles and responsibilities of each Board committee are set out in the respective committee's Terms of Reference. Copies of the Terms of Reference are available on www.nzsuperfund.co.nz. Minutes of the committees' meetings are provided to the Board. In addition, all Board members are able to attend any committee meeting. From time to time, the Board may establish a specific subcommittee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest.

The Board committees either meet quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and senior executives are invited to attend committee meetings as necessary.

The Board met seven times during 2012/13, including for a Strategy Day. The Audit Committee met four times and the Employee Policy and Remuneration Committee met three times. The following table sets out the number of meetings attended by each Board member relative to the total number of meetings they could have attended.

MEETING TYPE	BOARD	AUDIT COMMITTEE	EPRC
Number of Meetings	7	4	3
David May*	2	n/a	n/a
Gavin Walker	7	4	3
Catherine Savage	6	n/a	3
Mark Tume	7	4	n/a
Stephen Moir	7	n/a	3
Dr Craig Ansley	7	4	n/a
Pip Dunphy	6	3	n/a
Lindsay Wright**	4	3	n/a

* David May retired on 31 August 2012.
** Lindsay Wright was appointed to the Board on 1 December 2012.

Principles (continued)

PRINCIPLE 4.

THE BOARD SHOULD DEMAND INTEGRITY BOTH IN FINANCIAL REPORTING AND IN THE TIMELINESS AND BALANCE OF DISCLOSURES ON ENTITY AFFAIRS

As a Crown entity the Guardians must meet all its obligations in respect of the Guardians and the Fund under the Act, the Crown Entities Act 2004 and the Public Finance Act 1989. The diagram below summarises the Guardians' reporting requirements.

The Guardians is required by the Crown Entities Act 2004 to prepare a Statement of Intent (SOI). The Statement of Intent for the five years from 2013-2018 was published in June 2013. This document sets out broad parameters of work for the next five years, and a detailed plan of work for 2013/14.

The Guardians' objectives for the 2012/13 financial year were set out in the 2012–2017 Strategic Plan and Statement of Intent and are reported against in the Statement of Service Performance at pages 82–86 of this report. Copies of the Statements of Intent are available on www.nzsuperfund.co.nz.

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and on www.nzsuperfund.co.nz. The report contains both financial statements for the Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and financial statements for the Guardians, which are signed by the Chair and one other Board member.

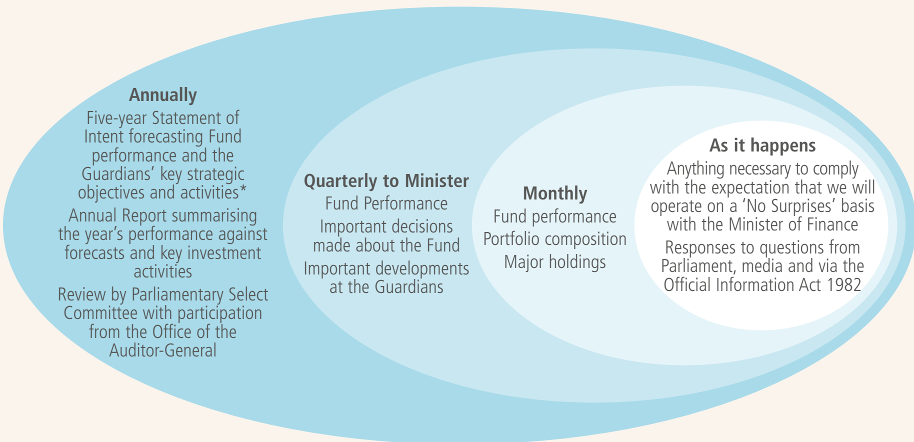
The Guardians also report quarterly to the Minister of Finance with a written report on the progress of the Fund and the Guardians.

The Guardians reports to a Select Committee annually, or upon request. The Guardians' Chair, Chief Executive Officer and General Manager Finance last appeared before the Commerce Select Committee in February 2013. A full set of papers relating to the Committee appearance, including the Guardians' presentation and responses to the Committee's pre- and post-meeting questions, along with the Committee's report, is available on www.nzsuperfund.co.nz.

The Guardians received seven Official Information Act 1982 requests during 2012/13. This compares to seven in 2011/12. The requests related to:

- the Guardians' submission to the Law Commission's review of the Official Information Act;
- the list of companies in which the Fund invests;
- public opinion research commissioned by the Guardians;
- the impact of the suspension of Government contributions on the Fund;
- the exclusion of three Israeli companies from the Fund;
- the exclusion of nuclear base operators from the Fund; and
- South Canterbury Finance.

As at 30 June 2013, three requests were outstanding.



* Note: will move to three-yearly reporting from 2014/15 SOI. An annual forecast statement of performance expectations will still be required.

PRINCIPLE 5.

THE REMUNERATION OF DIRECTORS AND EXECUTIVES SHOULD BE TRANSPARENT, FAIR AND REASONABLE

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown. Board members' remuneration is disclosed in Note 11 to the Guardians' financial statements.

Comprehensive information regarding executive remuneration including details of the Guardians' discretionary incentive scheme is disclosed at pages 28-29 and at Note 12 of the Guardians' financial statements.

PRINCIPLE 6.

THE BOARD SHOULD REGULARLY VERIFY THAT THE ENTITY HAS APPROPRIATE PROCESSES THAT IDENTIFY AND MANAGE POTENTIAL AND RELEVANT RISKS

The Board has a number of strategies in place to safeguard the Fund's and Guardians' assets and interests, and to ensure the integrity of reporting.

For further information, see our discussion of Risk Management on pages 25-27 and details of the project to introduce a new performance reporting system on page 68.

PRINCIPLE 7.

THE BOARD SHOULD ENSURE THE QUALITY AND INDEPENDENCE OF THE EXTERNAL AUDIT PROCESS

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Fund.

Accordingly, it monitors developments in the areas of audit, and threats to audit independence, to ensure its policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments.

The Auditor-General has appointed, to carry out the external audit of the Guardians and the Fund on her behalf, Brent Penrose of Ernst & Young.

PRINCIPLE 8.

THE BOARD SHOULD FOSTER CONSTRUCTIVE RELATIONSHIPS WITH SHAREHOLDERS THAT ENCOURAGE THEM TO ENGAGE WITH THE ENTITY

The Guardians is a Crown entity and its assets, and the assets of the Fund, form part of the Crown's assets. The Guardians is accountable to Parliament, through the Minister of Finance, for those assets.

A summary of the Guardians' reporting requirements is outlined on page 22.

As noted on page 14, the Guardians is an autonomous Crown entity that operates at 'double-arm's-length' from political stakeholders. This helps ensure that investment decision-making is on a purely commercial basis.

Nevertheless, it is desirable that a degree of alignment is attained with key external stakeholders (e.g. the Minister of Finance, Cabinet, Treasury and Parliamentarians generally) around the strategic objectives for the Guardians, to ensure stakeholders do not oppose those objectives and, ideally, support them.

The Minister of Finance may give directions regarding the Crown'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.

No directions were received in the 2012/13 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on pages 44-51 of this Annual Report.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectation from the Minister of Finance on 25 March 2013. This letter and the Guardians' response are available on www.nzsuperfund.co.nz.

Principles (continued)

PRINCIPLE 9. THE BOARD SHOULD RESPECT THE INTERESTS OF STAKEHOLDERS WITHIN THE CONTEXT OF THE ENTITY'S OWNERSHIP TYPE AND ITS FUNDAMENTAL PURPOSE

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

- asset and investment managers (for a full list of Managers and Custodians see pages 87-89);
- co-investors;
- crown financial institutions;
- employees;
- investee companies;
- investor groups (e.g. UNPRI);
- Iwi;
- media;
- non-government organisations (NGOs);
- peer funds;
- public of New Zealand;
- regulatory bodies in New Zealand and globally;
- relevant New Zealand public sector agencies (e.g. Treasury, Reserve Bank, State Services Commission, Financial Markets Authority, Serious Fraud Office, Inland Revenue, Office of the Auditor General, Christchurch Earthquake Recovery Agency); and
- suppliers.

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

This information includes: monthly performance and portfolio reports; detailed historical performance figures for the Fund since inception; and copies of our media statements along with speeches and presentations given by Guardians staff.

The Guardians is an active participant in a wide range of industry networks and investor groups, and has close working relationships with a number of government agencies, most particularly the Crown Monitoring Unit within the New Zealand Treasury. We also put significant effort into managing our relationships with peer funds, investment managers and potential co-investors. This work includes taking a lead role in facilitating collaboration between the New Zealand Crown Financial Institutions, which include ACC, Annuitas, the Reserve Bank and the Debt Management Office within The Treasury. For further information about our peer collaboration strategy, see the case study on pages 54-55.

Achievements during 2012/13 included (based on feedback from a stakeholder survey) improvements to the Guardians' public monthly reports on Fund performance. Changes included the provision of information on the Fund's largest unlisted investments and monthly performance returns relative to the Reference Portfolio.

We also provided a discussion paper on the role and purpose of the Fund to the Commission for Financial Literacy and Retirement Income, to help inform the Commission's public consultation activities as part of its 2013 Review of Retirement Income Policy. This paper is available on www.nzsuperfund.co.nz.

The Guardians continued to actively participate in a wide range of global investment and responsible investment initiatives during the year. Groups on which we are represented at Board/Governance level include:

- International Forum of Sovereign Wealth Funds;
- Pacific Pension Institute;
- Emory University Centre for Alternative Investments;
- World Economic Forum Long-term Investment Council;
- World Bank Expert Advisory Council; and
- Responsible Investment Association of Australasia.

We also participate at all levels in the Rotman International Centre for Pension Management, International Pensions Conference, United Nations Principles for Responsible Investment, and the Carbon Disclosure Project.

New stakeholder engagement initiatives planned for 2013/14 include:

- the facilitation of a collaborative roundtable for the New Zealand Crown Financial Institutions; and
- communications to support the anniversary of 10 years of investment of the Fund.

Risk Management

Understanding and managing the risks that the Fund faces – investment, operational, legal, reputational and strategic – is central to the work of the Guardians.

While risk is a necessary part of doing business for any investment fund, it must be understood to ensure that the risks taken are appropriate for the returns anticipated.

The Board is responsible for reviewing and approving the Guardians' risk-management strategy, including its risk-management framework and risk records. It does this on a regular schedule that is set out in the Board calendar. The Board also considers special reviews undertaken by the Guardians' Risk Committee on a case-by-case basis.

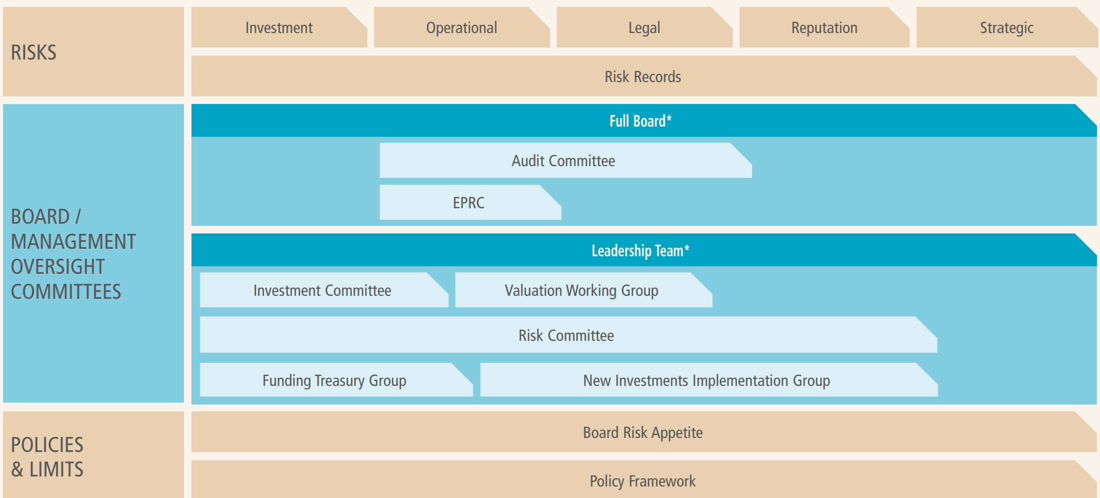
The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on. This statement can be found at Schedule 2 of the Guardians' Risk Management Policy. The Guardians' performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

The Audit Committee reviews the reports of management, and of the external and internal auditors, on the effectiveness of systems for internal control and financial reporting.

The Board delegates day-to-day management of risk to the Chief Executive Officer. Inherent in this delegation is a desire to ensure that day-to-day responsibility for risk management is at the business unit level, where risk is seen as part of the overall business process, and a robust framework of identification, evaluation, monitoring and control exists.

The following diagram provides a view of how risk is managed at the Fund.

Governance Framework



* The full Board and Leadership Team are accountable for all risks; however, risk review and oversight are shared between various Board and management subcommittees.

RISK MANAGEMENT FRAMEWORK

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

Risk Management (continued)

RISK RECORDS AND RISK REGISTERS

As part of our efforts to proactively identify, manage and monitor risk, we have identified eleven risks that span across all of the Guardians' various business units. They are:

Alignment	Governance	Mindset
Building Services & IT Infrastructure	Investments – Value Add Strategies	Models & Data
Execution & Process Management	Legal & Regulatory	Skills & Capability
Fraud & Ethics	Major Supplier	

For each of these risks, the Guardians maintains a 'Risk Record' setting out an assessment of inherent and residual risk, causes, impacts, key controls, mitigants and open action items. The Risk Records provide a top-down view for managing risk across the entire organisation.

They are complemented by bottom-up tools – individual Risk Registers maintained by each business unit.

MONITORING

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

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

	TARGET	2012/13	2011/12
Investment Risk Measures			
REBALANCING			
• Breaches of absolute risk limit (overall acceptable level of risk in the Fund) post-portfolio rebalancing	0	0	0
• Breaches of relative risk limit (rebalancing limits) post-portfolio rebalancing	0	0	0
BREACHES OF ACTIVE MANAGER LIMIT	0	0	0
TILTING			
• Breaches of strategic tilting active risk limit post-portfolio rebalancing	0	0	0
• Breaches of strategic tilting absolute risk limit post-portfolio rebalancing	0	0	0
BREACHES OF TARGET LIQUIDITY LEVEL	0	0	0
BUSINESS RISK MEASURES			
• Active breaches of compliance with investment mandates*	0	5	4
• Loss of data/IT services of more than 30 minutes	0	0	0
• Regulatory non-compliance	0	0	0
• Instances of fraud	0	0	0
• Restatements of Fund reporting	0	0	0
• Operational incidents or errors rated as potentially high risk**	N/A	0	6

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

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

RISK COMMITTEE

The Guardians' Risk Committee provides management oversight of Risk Records and business unit Risk Registers. It also reviews operational risk assessments for investment transactions and provides oversight and review of the Guardians' key Fund-related service providers.

One of the functions of the Risk Committee is to undertake post-implementation reviews of investment strategies, opportunities, access points and other Fund activities on an ongoing basis. The reviews are designed to assess actual investment performance against original expectations, capture lessons learned and provide recommendations for improvement. Reviews are shared and discussed with the Guardians' Board.

The following strategies were reviewed during 2012/13:

- New Zealand Direct Investment;
- Strategic Tilting;
- Active Return Managers;
- Timber; and
- Direct Arbitrage.

In 2013/14, the Risk Committee will review the passive replication of the Reference Portfolio; governance roles of those appointed by the Guardians to the boards of investee companies; and one of the Fund's investment mandates.

GLOBAL BENCHMARKING

Since the Global Financial Crisis, there has been an increased focus on risk management among sovereign wealth funds globally. We are constantly seeking to ensure that our risk management is best practice.

In 2012, we participated in a risk-management survey by CEM Benchmarking, a well-known Canadian pension and sovereign wealth fund benchmarking organisation. CEM surveyed its Global Leaders Group of 27 leading pension and sovereign wealth funds on risk-management practices including staffing, governance, organisational design and enterprise risk management. The survey results confirmed that risk management at the Guardians and of the Fund is developing in line with best-practice standards at other funds overseas.

STAFF PROFILE

FIONA MACKENZIE HEAD OF INVESTMENTS:

MBA, Finance, Columbia University
BCom, LLB (Accounting and Law), University of Otago

Originally from Auckland, Fiona returned to New Zealand with her young family in 2009 after more than a decade overseas in investment banking with Morgan Stanley and Credit Suisse First Boston.

She joined the Guardians as Head of Investments in 2011 after two years with the New Zealand Stock Exchange as Head of Markets and Strategy.

Fiona sits on the Guardians' Risk and Investment committees, and heads a team with responsibility for the Fund's investments via external investment managers – a multi-billion-dollar portfolio that includes mandates in listed equities, distressed credit, private equity (including expansion capital), private equity real estate, commodities and insurance-related investments.

"The global nature of the Fund's investment portfolio, working with a diverse team and the opportunity to give back to New Zealand are what attracted me to the Fund," Fiona says.

"New Zealand is fairly removed from the major financial markets, but the Fund's long-term investment horizon and approach to partnering with external managers and peers means future New Zealanders will benefit from a truly international, diversified investment portfolio."

Remuneration and Discretionary Incentive Scheme

REMUNERATION

Being able to attract, retain and develop high-calibre people is vital to our success and our ability to maximise the Fund's returns without undue risk. The global investment market is highly competitive and we can find and enter into the best investment strategies only if we have capable and experienced staff.

Staff salaries, including incentive payments, are funded out of investment returns and not by Parliamentary appropriation. As a Crown entity, we are mindful of the Government's focus on fiscal prudence. We aim for an employment offering which is reasonable in the New Zealand context but also sufficient to recruit and retain the talented people who can deliver value in terms of Fund performance, relative to cost incurred. Our total remuneration is benchmarked against the New Zealand finance sector.

The Guardians' remuneration framework includes base remuneration and a discretionary incentive scheme. Discretionary bonus payments are linked to individual objectives and, where appropriate, to long-term, whole-of-Fund financial performance. All bonus payments are at the discretion of the Board.

There are two components to the bonus payments, both of which are variable:

- achievement of individual objectives; and
- whole-of-Fund financial performance over rolling four-year periods, comprising:
  - performance compared to the 90-day Treasury Bill return; and
  - performance compared to the Fund's Reference Portfolio (passive benchmark).

All permanent staff are eligible to receive a payment for the achievement of individual objectives.

The Chief Executive Officer, Leadership Team and staff in the Investments, Portfolio Completion and Strategic Tilting teams (43 out of a total of 89 staff as at 30 June 2013) are eligible for the financial performance incentive payments.

The financial performance components are measured over four-year moving averages, and hence take four years to reach their full potential. Payments made in any one year will reflect a four-year moving history.

Other Benefits

A range of other benefits are also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection insurance, life insurance and health insurance.

BONUS SCHEME STRUCTURE	MAXIMUM POTENTIAL BONUS AS A % OF BASE REMUNERATION		
	CORPORATE STAFF	INVESTMENTS, PORTFOLIO COMPLETION AND STRATEGIC TILTING STAFF	CEO AND REMAINING MEMBERS OF THE LEADERSHIP TEAM
Individual objectives	20%	30%	20%
Financial performance vs. Treasury Bills	N/A	9.38%	6.88%
Financial performance vs. Reference Portfolio	N/A	18.75%	13.75%

INCENTIVE ACHIEVEMENT IN 2012/13

- Total incentives to be paid: NZD4.6 million (NZD3.9 million in 2011/12).
- 74% of individual stretch targets were achieved (69% in 2011/12).
- Fund exceeded Treasury Bill return by 23.4% in 2012/13 (14.4% over last four years). Actual bonus payments to be capped at 4% above Treasury Bill return.
- Fund exceeded Reference Portfolio return by 7.4% in 2012/13 (3.9% over last four years). Actual bonus payments to be capped at 0.75% above Reference Portfolio return.

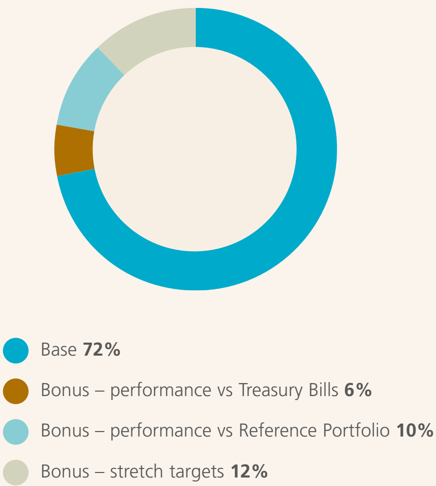
2012/13 INCENTIVE PAYMENTS	TOTAL PAYMENTS $000	AVERAGE PAYMENT $000
Corporate Staff	$992	$22
Investments, Portfolio Completion and Strategic Tilting Staff	$3,095	$84
CEO and remaining members of the Leadership Team	$477	$79
Total	**$4,564**	**$51**

Note 12 of the Guardians' Financial Statements sets out total remuneration, including incentive entitlements, for all staff earning over NZD100,000.

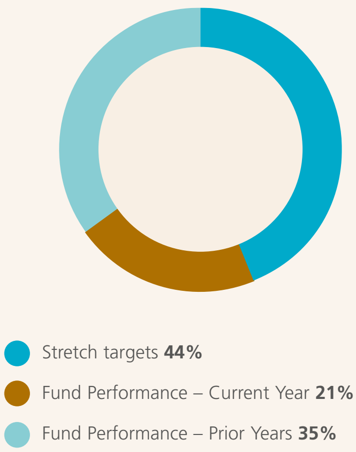
Chief Executive Officer remuneration

The Chief Executive Officer's remuneration for the 2012/13 year, including base remuneration and accrued incentive entitlements, was NZD667,102, compared to NZD646,885 in 2011/12. These pie charts illustrate the components of the CEO's remuneration.

CEO Remuneration 2012/13



CEO Bonus Payment ($189,418) Breakdown 2012/13



Investment Report

Performance Report

ABSOLUTE RETURN 2012/13
25.83%

OUTPERFORMED THE REFERENCE PORTFOLIO BY
$1.3b
(7.36%)

OUTPERFORMED TREASURY BILLS BY
$4.3b
(23.42%)

THE YEAR IN SUMMARY

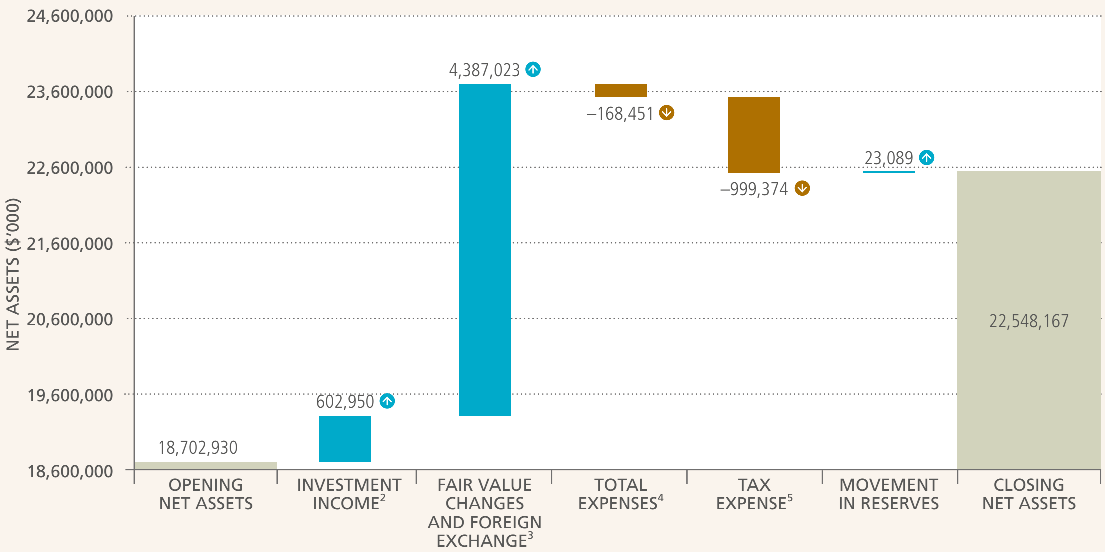
The Fund achieved its strongest-ever annual performance in 2012/13, not just in absolute terms but also in relation to its key Reference Portfolio and Treasury Bill benchmarks. It finished the year at NZD22.97 billion before tax.

The Fund's total return for 2012/13 of 25.83% (before tax, after expenses) was 7.36% ahead of the Reference Portfolio return and 23.42% ahead of the Treasury Bill return. See pages 36-39 for further information about these benchmarks.

On an after-tax basis, overall Fund size grew to NZD22.55 billion (NZD18.70 billion in 2011/12). The Fund incurred New Zealand tax of NZD999 million during the year.

Rising global equity markets were the main driver of the strong performance overall. Strategic Tilting, which is discussed in more detail on pages 42-43, was a key contributor to the Fund's outperformance of its benchmarks. A valuation uplift in our large direct investment in Z Energy also had a positive impact. For more information on how our value-adding investment strategies performed, see page 40.

Movement in Net Assets (post-tax) for the Year Ended 30 June 2013



This graph illustrates the various components of the Fund's performance for the year, as measured by Fund size (post-tax). From a starting point on 1 July 2012 of NZD18.70 billion after tax, the Fund ended the year at NZD22.55 billion after tax. Income from Fund investments[2] added NZD0.60 billion over the year; fair value changes[3] and foreign exchange movements contributed a further NZD4.4 billion. Expenses[4] and tax[5] detracted NZD1.2 billion.

2 Investment income primarily comprises dividends and interest received, along with income from timber, milk and livestock sales.

3 Fair value changes in our investments represent the revaluation of our investment holdings to their market values.

4 Total expenses primarily comprises fees paid to investment managers, the operating expenses of our timber and farm holdings, trade expenses associated with the sale, purchase and custody of investments and the administrative expenses of the Fund including payroll. The administrative expenses of the Fund amounted to NZD25.6 million.

5 Tax expense represents New Zealand income tax.

Performance Report (continued)

PERFORMANCE SINCE INCEPTION

Relative to its long-term purpose and investing horizon, the Fund is still young. It has now been invested for 9¾ years, a period which includes the Fund's establishment phase along with the massive financial shock of the 2008-2009 Global Financial Crisis.

Given these factors, it is pleasing that the Fund is well ahead of its performance benchmarks since inception. Since we began investing, the Fund has returned 8.84% p.a. (after costs and before tax), beating the Treasury Bill or 'risk-free' return by 3.90% (NZD5.9 billion). It has also beaten the passive Reference Portfolio benchmark by 1.14% (NZD2.2 billion).

For more information on how we measure our performance, including explanations of the Treasury Bill and Reference Portfolio benchmarks, see pages 36-39.

Annual Fund performance

FINANCIAL YEAR	FUND RETURN	RISK FREE RETURN (TREASURY BILLS)	EXCESS RETURN RELATIVE TO TREASURY BILLS	REFERENCE PORTFOLIO RETURN	VALUE ADDED RELATIVE TO REFERENCE PORTFOLIO
2003/04	7.69%	3.93%	3.76%	8.07%	–0.38%
2004/05	14.13%	6.33%	7.80%	13.88%	0.25%
2005/06	19.21%	6.77%	12.43%	17.56%	1.65%
2006/07	14.58%	7.21%	7.37%	13.07%	1.51%
2007/08	–4.92%	7.97%	–12.89%	–4.73%	–0.18%
2008/09	–22.14%	5.49%	–27.63%	–18.25%	–3.89%
2009/10	15.45%	2.60%	12.85%	14.62%	0.83%
2010/11	25.05%	2.89%	22.16%	19.48%	5.58%
2011/12	1.21%	2.45%	–1.24%	–0.23%	1.44%
2012/13	25.83%	2.41%	23.42%	18.47%	7.36%
Since inception	**8.84% p.a.**	**4.94% p.a.**	**3.90% p.a.**	**7.70% p.a.**	**1.14% p.a.**

FUND RETURN SINCE INCEPTION
8.8% p.a.
(after costs, before tax)

VALUE ADD SINCE INCEPTION
$2.2b

NET RETURN SINCE INCEPTION
$5.9b
(above risk free rate)

Performance summary

FUND PERFORMANCE AS AT 30 JUNE 2013 FUND SIZE: NZD22,971 MILLION BEFORE TAX

	ONE YEAR	THREE YEARS	FIVE YEARS	SINCE INCEPTION (30 SEPTEMBER 2003)
Actual Fund Returns (before tax, after costs)	25.83%	16.76% p.a.	7.43% p.a.	8.84% p.a.
Reference Portfolio Return	18.47%	12.18% p.a.	5.76% p.a.	7.70% p.a.
Value-Added (Actual Return – Reference Portfolio Return)	7.36%	4.58% p.a.	1.67% p.a.	1.14% p.a.
Estimated $ earned relative to Reference Portfolio	$1,343 million	$2,633 million	$1,768 million	$2,222 million
NZ income tax paid	$861 million	$1,616 million	$1,502 million	$3,044 million
NZ Treasury Bill (T-Bill) Return	2.41%	2.58% p.a.	3.16% p.a.	4.94% p.a.
Net Return (Actual Return – T-Bill Return)	23.42%	14.18% p.a.	4.27% p.a.	3.90% p.a.
Estimated $ earned relative to T-Bills	$4,332 million	$7,560 million	$4,926 million	$5,908 million
$ change in net asset position*	$3,975 million	$7,345 million	$8,842 million	$22,971 million

* Excludes provisions for New Zealand tax.

Performance Report (continued)

Consolidated 10-year Financial Summary
This table provides a high level overview of how the finances of the Fund have changed over the last decade.

	2013 NZD'000	2012 NZD'000	2011 NZD'000	2010 NZD'000
Income Statement				
Investment Income	602,950	549,825	533,157	432,952
Investment Gains and Losses	4,387,023	(212,590)	3,504,044	1,752,528
Expenses	(168,451)	(110,676)	(134,904)	(99,499)
Profit before tax	4,821,522	226,559	3,902,297	2,085,981
Tax (expense) / credit	(999,374)	(183,342)	(906,837)	(378,202)
Profit after tax	**3,822,148**	**43,217**	**2,995,460**	**1,707,779**
Balance Sheet				
Cash and cash equivalents	6,231,859	3,056,111	2,903,094	1,942,798
Investments	17,242,962	15,829,305	16,050,241	13,543,234
Other assets	249,010	293,945	256,896	633,046
Other liabilities	(753,019)	(183,151)	(178,009)	(495,923)
NAV excluding tax	**22,970,812**	**18,996,210**	**19,032,222**	**15,623,155**
Current tax	(248,742)	(133,326)	(250,831)	69,277
Deferred tax	(173,903)	(159,954)	(129,877)	(36,721)
NAV including tax	**22,548,167**	**18,702,930**	**18,651,514**	**15,655,711**
Contributed capital	14,882,079	14,882,079	14,882,079	14,882,079
Other reserves	7,666,088	3,820,851	3,769,435	773,632
	22,548,167	**18,702,930**	**18,651,514**	**15,655,711**

Investment Income: Interest and dividend income, both of which vary in line with the amount invested and market returns.

Investment Gains and Losses: Changes in the value of our investments – fluctuates in line with market movements.

Expenses: Our single biggest expense lines are external manager and performance fees. These costs vary from year to year in line with investment returns.

Tax (expense) / credit: The Fund makes returns to the Crown is in the form of tax payments. The introduction of the Fair Dividend Rate (FDR) resulted in unusual tax outcomes in 2009 and 2012.

Cash and cash equivalents: Cash and cash equivalents have increased primarily to support our increasing level of derivative exposure.

Investments: This line reflects the value of our investments, which fluctuates in line with market movements.

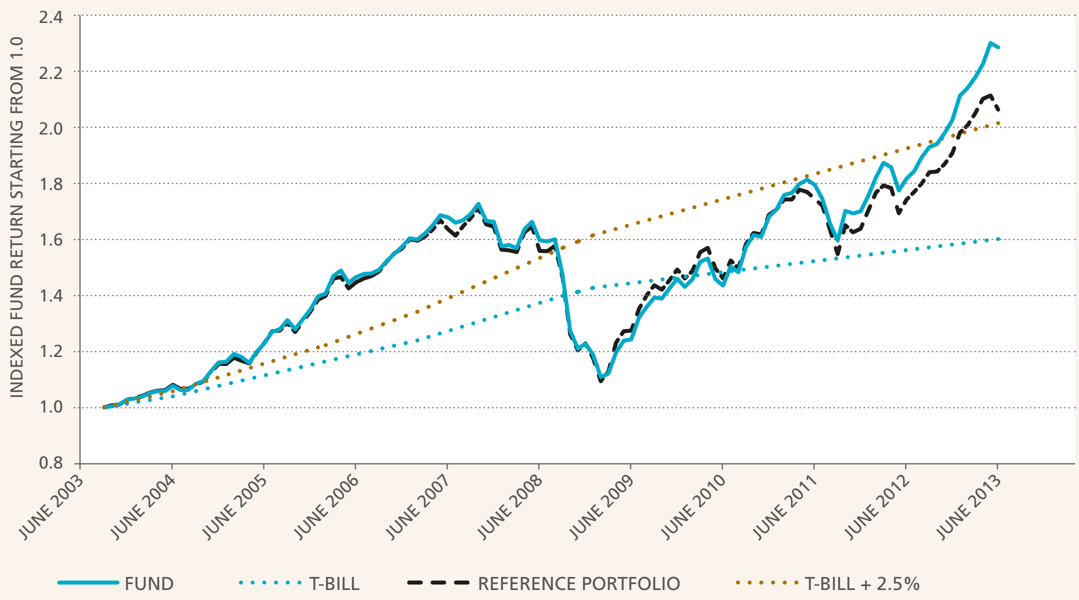
Contributed capital: Crown contributions to the Fund – these were suspended in 2009.

Other reserves: Predominantly cumulative net profit after tax. The impact of the GFC is evident in 2008 and 2009.

	2009	2008	2007	2006	2005	2004
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
	384,378	384,692	470,057	351,217	190,806	99,622
	(3,481,658)	(989,482)	1,283,546	1,159,661	557,029	145,701
	(103,946)	(111,670)	(134,900)	(80,915)	(21,711)	(6,116)
	(3,201,226)	(716,460)	1,618,703	1,429,963	726,124	239,207
	408,140	(164,287)	(525,048)	(468,776)	(234,192)	(77,388)
	(2,793,086)	**(880,747)**	**1,093,655**	**961,187**	**491,932**	**161,819**
	1,060,920	324,103	363,030	357,317	177,347	327,091
	12,114,501	13,754,328	12,697,274	9,732,491	6,407,791	3,813,762
	587,411	317,489	160,782	105,531	71,210	41,134
	(412,979)	(267,476)	(92,961)	(86,629)	(42,845)	(196,833)
	13,349,853	**14,128,444**	**13,128,125**	**10,108,710**	**6,613,503**	**3,985,154**
	(33,434)	125,307	(41,740)	84,580	19,337	9,991
	371,490	(41,828)	(113,575)	(328,875)	(78,010)	(39,247)
	13,687,909	**14,211,923**	**12,972,810**	**9,864,415**	**6,554,830**	**3,955,898**
	14,632,079	12,390,079	10,287,079	8,238,079	5,901,079	3,794,079
	(944,170)	1,821,844	2,685,731	1,626,336	653,751	161,819
	13,687,909	**14,211,923**	**12,972,810**	**9,864,415**	**6,554,830**	**3,955,898**

Performance Report (continued)

MEASURING OUR PERFORMANCE

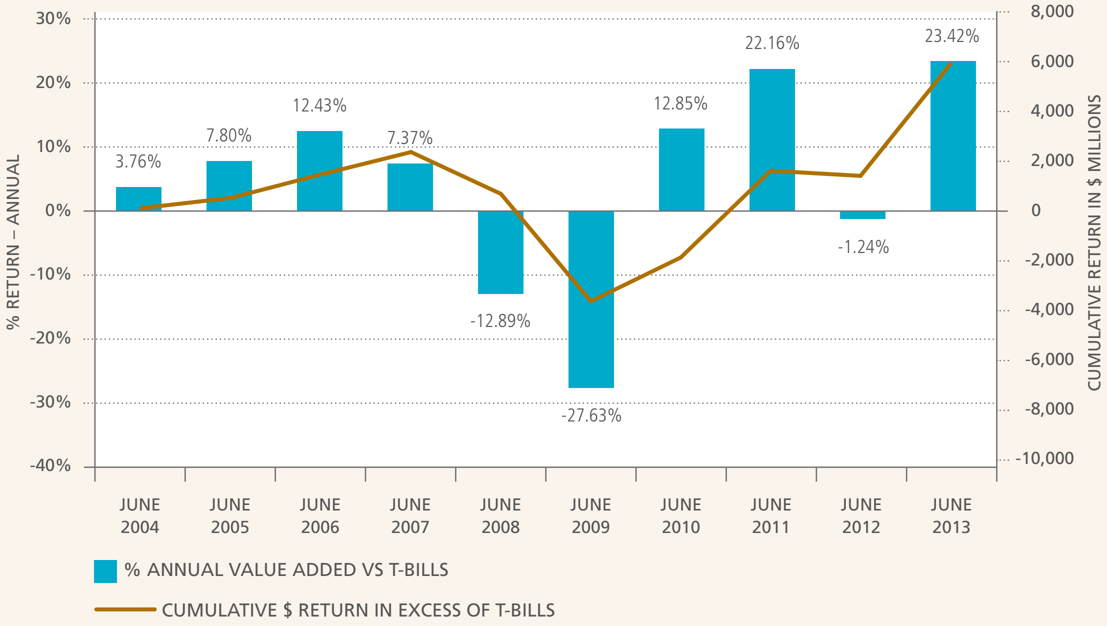


This graph shows the cumulative Fund return since inception, relative to its key benchmarks. The impact of the Global Financial Crisis, and the subsequent recovery in Fund returns, can be seen in the 2009-2013 period.

The gap between the Reference Portfolio return and the actual Fund return, as at 30 June 2013, illustrates the value the Fund's active investment strategies have added since inception (NZD2.2 billion or 1.14% p.a.). The gap between the Treasury Bill return and the Fund return shows the return earned in excess of the cost of debt (NZD5.9 billion or 3.90% p.a.)

In recent years, the composition of the Fund has become increasingly different from the Reference Portfolio, and the Fund has moved visibly ahead of the Reference Portfolio's returns. For more information, see our explanation of the Reference Portfolio on page 38 and our breakdown of value-add on page 40.

Performance relative to Treasury Bills – Excess Return



Comparing the Fund's performance to the cost of debt

It is the Guardians' expectation, given our Mandate and hence portfolio construction, that the Fund will return at least the Treasury Bill rate + 2.5% p.a. over any 20-year moving average period.

We compare the performance of the Fund to 90-day Treasury Bills because they are a measure of the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt.

It is important to understand that the Treasury Bill rate + 2.5% is not a target that we aim to hit precisely – rather, it is a long-term performance expectation that we aim to beat by as much as possible.

Working to an expectation rather than a target avoids any short-term incentive to increase risk when returns are least rewarding – and vice versa.

Performance Report (continued)

The Reference Portfolio

We use a Reference Portfolio, which is set by the Guardians' Board, to benchmark the performance of our actual investment portfolio and the value we are adding through our active investment strategies.

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

The Reference Portfolio is therefore a very clear and 'pure' way for the Guardians to:

- estimate the Fund's expected returns;
- benchmark active (value-add) investment returns net of all costs; and
- be clear on the 'hurdles' for active investments.

Since the Fund's inception, the Reference Portfolio has returned an average 7.70% p.a., 2.76% p.a. ahead of the Treasury Bill rate. Our aim, as an active investor, is to add more value after all costs to the Fund than the reference approach would do, using strategies based on the Fund's natural advantages as a long-term, sovereign investor with low liquidity requirements.

For example, we:

- invest in a range of illiquid assets – including infrastructure, private equity and timber;
- undertake extensive due diligence and manager monitoring to ensure we choose the most effective and skilled investment managers;
- aim to implement our trades and investments as efficiently as possible; and
- periodically adjust our exposure to various asset classes within our actual portfolio, using our long-term horizon to take advantage of market volatility. This is called 'Strategic Tilting'.

These activities bring a higher expected return and/or offer diversification benefits for the Fund, albeit with more complexity and cost.

The facing chart illustrates the allocation of assets within our actual investment portfolio as at 30 June 2013 (excluding the impact of any Strategic Tilting positions). It shows the diversification of the actual portfolio away from the Reference Portfolio into private markets, timber and infrastructure.

The Reference Portfolio approach encourages thinking on the underlying economic drivers of risk, returns and correlations (e.g. growth, inflation, liquidity and agency risks) rather than asset classes per se. Allocating capital through these lenses can therefore improve the true level of diversification of the Fund, relative to a more traditional Strategic Asset Allocation approach.

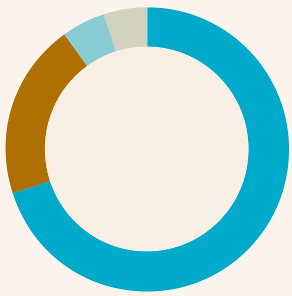
The Reference Portfolio also encourages greater separation and delegation of value-adding activities from the Board to internal management. This allows the Board to focus on Governance around the risk allocation and investment process, and allows management to focus on adding value to the portfolio.

The Reference Portfolio is not 'set and forget', and its asset class and risk-return composition can change over time, for example, if:

- assumptions about the long-term risk-return attributes of asset classes change; or
- aspects of the Fund's purpose or endowments (e.g. our long-term horizon) change; or
- market developments mean that a narrower or wider set of representative market exposures can be accessed passively and at a low cost.

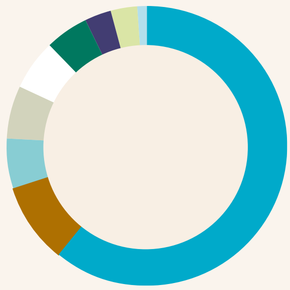
We aim to exceed the Reference Portfolio return by 0.50% p.a. Since inception, the Fund has outperformed the Reference Portfolio by 1.14% p.a. or NZD2,222 million net of all costs.

Reference Portfolio



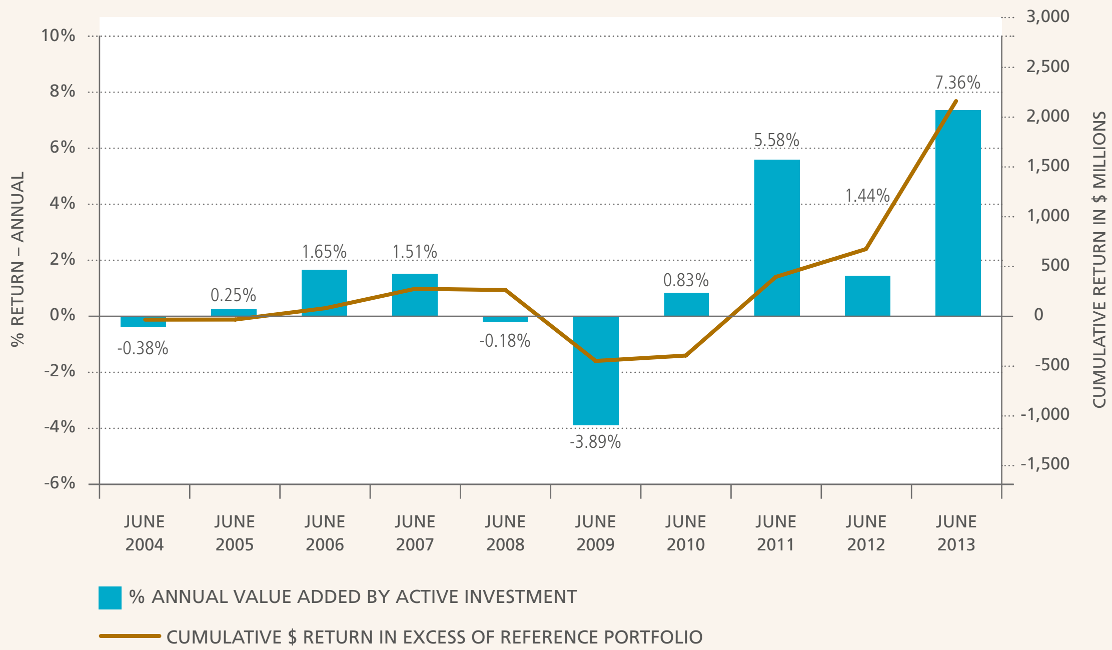
- Global equities **70%**
- Fixed income **20%**
- Global listed property **5%**
- NZ equities **5%**

Actual Portfolio (pre-tilt) as at 30 June 2013



- Global equities **61%**
- Fixed income **9%**
- Infrastructure **6%**
- Timber **6%**
- Property **6%**
- New Zealand equities **5%**
- Other private markets **3%**
- Private equity **3%**
- Rural farmland **1%**

Performance relative to Reference Portfolio – Value Add



Performance Report (continued)

VALUE-ADD IN 2012/13

In this section, we break down the contributions made by the Guardians' various value-adding activities during the year. By value-add, we mean the difference in performance between our actual portfolio and the Reference Portfolio.

In total, relative to the Reference Portfolio, our active investment activities added 7.36% or NZD1.3 billion to the Fund over 2012/13, before tax – our strongest-ever result.

The following table outlines the primary contributors to the value we added to the Fund, compared to the Reference Portfolio, over the year. (For clarity, we have estimated the before-tax dollar value of these activities.)

While it is clear that our active investment strategies have in total added significant value to the Fund since inception, it is important to appreciate that many of the activities described are long-term strategies that are designed to pay off over a number of years. Negative returns as well as positive, and movements up and down between years, are expected.

KEY ACTIVITIES	2012/2013	2011/2012	2010/2011	COMMENTARY
Capturing active returns – total				
Active investment managers	–0.12%	–0.36%	1.56%	While they did well in absolute return terms and there were some standout individual performers, in total, our external active managers underperformed their passive equivalents during a year in which listed global equity markets rose strongly.
Private markets relative to public markets	0.96%	0.13%	3.94%	Our investments in private markets out-performed their risk-adjusted listed market equivalents during the year. A value uplift in Z Energy was a major contributor to performance.
Internally executed arbitrage	0.20%	0.21%	0.11%	This value-add strategy takes advantage of pricing differentials between two securities or indices that are economically the same. For example, a stock may be dual-listed; we can generate returns by buying it on one exchange and selling it on the other for a higher price, with no economic risk.
Strategic Tilting				
Strategic Tilting	4.79%	1.79%	–1.55%	Strategic Tilting is our strategy of making occasional shifts towards or away from asset classes when we think that the market has substantially overreacted (up or down) compared with our long-term assessment of relative value. See the case study on page 42 for more information.
Portfolio completion				
Portfolio completion (Treasury)	1.22%	0.24%	0.75%	We aim to buy and sell our investments as efficiently as possible. We also make decisions about whether to invest by buying individual physical securities or using derivatives to gain market exposure. When we enter into a derivative contract, we are often not required to make any deposit on this exposure. Where we are required to set aside a deposit, it is often a relatively small percentage of the underlying exposure. This means we can hold and earn returns on a pool of collateral within the Fund, while at the same time maintaining our desired market exposure through the derivative.
Currency hedging	0.06%	–0.62%	0.83%	This primarily reflects differences between our actual currency hedging and the theoretical hedging in the Reference Portfolio. Generally most of the performance difference relates to how we choose to hedge emerging market currencies via proxies rather than by hedging direct.

HOW WE INVEST

Around two-thirds of the Fund is invested passively, in line with global sharemarket indices. (Globally, by far the majority of sharemarket investing is undertaken this way.) We only undertake active investment when we have a high level of confidence that it will, over the long term, be better than investing passively – by either improving the Fund's returns, reducing risk (e.g. through diversification) or both.

For each investment, we ask the basic questions:

- what's the opportunity?
- what's driving it?
- what risks are we taking on?
- are we properly compensated for these risks?
- how different is it to the Reference Portfolio?
- what's the best, most cost effective way to access it?
- is there a liquid, public market alternative?
- how hard will it be to manage on an on-going basis? and
- how confident are we in our answers to all these questions?

For any new investment, we must be confident that it is better than the simple, low-cost, passive alternative – that it will 'add value'.

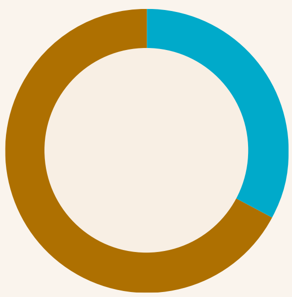
Risk Allocation Process

There are thousands of potential investment opportunities for the Fund. How do the Guardians choose the best ones?

In 2012/13, we developed a new framework to help with our investment decision-making. The Risk Allocation Process (RAP) is a portfolio construction process we use to rank and map all our existing and potential investments by:

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

Active vs Passive Fund Investments as at 30 June 2013



The purpose of the allocation process is to break down each investment into its risk and return component parts, and allow us to:

- clearly understand what additional risks each investment brings, above the Reference Portfolio, and the return we expect to achieve to compensate for those risks; and
- allocate capital to and from investments on a timely, consistent and commercial basis.

Each investment is assessed in three ways:

- we look at the drivers of expected return (essentially our beliefs about what gives rise to an investment opportunity);
- our confidence in the expected return (derived from our view of how well we understand the drivers and their transparency and credibility); and
- our view of how good a fit it is with our way of investing. This is derived from how consistent it is with our preferred investment style, our investment beliefs, endowments and themes, and our focus on Responsible Investment.

The better a prospective opportunity or existing investment satisfies each test, the higher its RAP ranking. For a prospective investment, a higher ranking means it is more likely that we will seek an access point – passively, directly or via a manager. Ranking is also key to sizing our investment.

For an existing investment, a higher ranking means that at the very least we are likely to maintain that investment. It may also mean that we allocate further capital to it. The reverse is true of a lower ranking: a likely outcome is a reduction in the size of the investment or a total, orderly, exit from it.

What is 'passive' investment?
Passive management or 'index tracking' is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision.

What is 'active' investment?

Active investment management is where a fund's manager attempts to out-perform a market index through various investing strategies and buying/selling decisions. Active managers rely on analytic research, forecasts, and their own judgement and experience in making investment decisions. Active investment strategies are more complex and expensive to implement than passive management.

Case Study

Strategic Tilting

Strategic Tilting has been a major driver of positive Fund returns in recent years. Since our tilting strategy commenced in April 2009, it has contributed 1.46% p.a. or approximately NZD1.1 billion in added value to the Fund. In this Case Study, Chief Investment Advisor and Head of Strategic Tilting, Neil Williams, answers some frequently asked questions about the strategy.

What is Strategic Tilting?
Strategic Tilting involves periodically increasing or decreasing the ownership of asset classes within the Fund's investment portfolio, based on how far current prices deviate from our estimate of 'fair value'. The strategy uses our long-term investment horizon to take advantage of market volatility in actual asset prices.

Tilts are intended to work as an integrated programme over the long term. At any point in time, we evaluate the relative attractiveness (i.e. price/value gap) of a wide range of markets and currencies and establish a set of tilting positions to exploit our views. The attractiveness of the various markets and currencies is continuously evaluated as prices evolve through time and the tilting positions are adjusted accordingly. Since prices will be both above and below fair value over time, we expect that, over a long period of time, tilting will not systematically bias the Fund's overall exposure to any asset class, market or currency.

Why is tilting a suitable strategy for the Fund?
Strategic Tilting takes advantage of the Fund's ability, as a long-term investor with certain cash flows, to maintain a long investment horizon and withstand market volatility. We are not as concerned about short-term mark-to-market pricing; our risk tolerance is more stable than the typical investor.

What are you trying to achieve?
The objective of all our value-adding strategies, including Strategic Tilting, is to improve the returns to the Fund for the level of risk (i.e. improve the Fund's Sharpe Ratio – how well investment returns compensate for the risk taken).

While 'improving the Sharpe Ratio' is consistent with 'adding value' and 'enhancing performance', not every tilting position will register a positive return at all points in time. Indeed, as we build positions (e.g. increase or decrease our tilt), our mark-to-market positions may be negative. We make money by holding these positions over extended periods. It is important to think about the tilting strategy as an enduring investment programme that will, over time, improve the Fund's risk to reward trade-off.

When do you tilt?
Our approach is to 'tilt' when prices have deviated from our assessment of fair value, and to apply tilts in proportion to the size of the discrepancy between current prices and our estimate of fair value (i.e. the further a price deviates from 'fair value', the larger the tilt position).

We don't attempt to incorporate market timing and momentum factors; generally the Fund will be selling assets that are rising in value and buying assets that are falling in value. The contrarian nature of the programme means that positions may be held for a long period (months or years).

How do you estimate the fair value of each asset class?
Estimates of the fair values of asset classes and currencies are based on discounted cash-flow models. These models have been built, and are maintained, internally.

Who is responsible for the tilting decisions?
The Guardians' Board has approved an overall risk budget for tilting, the range of asset classes the Fund can tilt across and maximum position sizes on individual asset classes. The tilting strategy is

Staff from a number of teams within the Guardians contribute to the Strategic Tilting programme. From left: Aaron Drew, Manager Macro-Economic Strategy; David Iverson, Head of Asset Allocation; Sue Brake, Senior Investment Strategist; Arno Jansen, Portfolio Manager; Sam Porath, Portfolio Manager; Alex Bacchus, Portfolio Manager; Joe Cheung, Senior Investment Strategist; Neil Williams, Chief Investment Advisor and Head of Strategic Tilting.

internally managed, including the trading of all positions. Within this context, tilting decisions are driven by management's view on how current market prices compare with our internal estimates of the 'fair value' of those assets, based on long-term fundamentals. The Investment Committee is responsible for the internal oversight of the day-to-day management of the strategy. In addition, the Investment Committee can overlay its judgement on the tilting positions at any time, as appropriate.

What are the risks?
The risks connected with Strategic Tilting centre around the effect on the Fund of short-term market volatility (movements up and down). In particular, because tilting is a long-term, contrarian strategy, it is important to ensure that the relevant stakeholders understand the potential to sustain losses, and that they are committed to staying the course. The worst possible scenario would be a loss of confidence from stakeholders (as a result, say, of a significant fall in global equity prices) resulting in a premature stopping out of the strategy.

Talk me through how Strategic Tilting performed in 2012/13.
In 2012/13, tilting activities delivered value-add of 4.79% or NZD891 million. The key factors were rising global equity markets (positive for our overweight equities position), the drop in the New Zealand dollar towards the end of the year (positive for our underweight NZ dollar position), narrowing credit spreads (positive for our overweight credit position) and rising government bond yields (positive for our underweight sovereign bond position).

Has Strategic Tilting been a success then?
While the results to date are very pleasing, the period since mid-2009, when the strategy began, is a short time frame. We will continue to outline our performance over a full market cycle.

What next for Strategic Tilting?
During 2012/13 we successfully implemented a new portfolio design (PD) tool. The PD tool provides a more systematic, transparent and granular decision framework for managing and sizing tilt positions.

We have already increased the granularity of our equity and bond tilts by increasing the number of markets we tilt, and by moving away from the 'global basket' approach we used previously. In the future, we intend to apply the more granular PD approach to our credit and currency tilts. We will also consider adding more asset classes to the tilting programme.

Investment Activity Report

New Zealand Investments

In 2009, we received a Directive from the Minister of Finance requiring us to, while always investing in a prudent and commercial manner, identify and consider opportunities to increase the allocation to New Zealand assets in the Fund.

OUR APPROACH

We are always looking to obtain the best return we can for the Fund's investment portfolio, and to ensure that we have the right mix of investments in the Fund.

With this in mind, we take a rigorous approach to identifying and transacting suitable domestic investment opportunities.

An important consideration is the advantages that the Fund's endowments may provide us in adding value locally. These endowments include our liquidity, horizon, location, governance and Crown ownership.

Any investment we make needs to generate sufficient returns for the risk we have to take on, relative to other investment opportunities both domestically and internationally. For example, New Zealand investments need to generate an additional return (compared to more diversified global investments) to compensate for the risks associated with geographic concentration and the relative illiquidity of New Zealand assets.

When we assess a New Zealand investment opportunity, we compare it to other ways of accessing the sector or asset class involved, including listed markets. Furthermore, as part of our extensive due diligence and valuation process, we take a reasonably conservative approach to forecasting the cash flows of the transactions we review.

As a long-term investor, we have the ability to pick our investing horizon, and may choose to hold assets for long periods. However, in the interest of maximising the Fund's returns, and ensuring the Fund is sufficiently diversified, from time to time we will sell New Zealand assets as well as buy them.

In total, 26 New Zealand investment opportunities were reviewed in detail during the year, with a number still under active consideration as at 30 June 2013. We continue to place a high priority on developing co-investment relationships with Iwi, private investors and larger private companies.

VALUE OF NZ INVESTMENTS

The following graph illustrates the growth and changes in composition in our New Zealand investments since 2009.[6]

In the four years since 30 June 2009, the value of the Fund's New Zealand investments rose from NZD2.4 billion to NZD3.4 billion as at 30 June 2013.

PROPORTION OF NEW ZEALAND INVESTMENTS

In the four years since 30 June 2009, the proportion of the overall Fund that is invested in New Zealand reduced from 21.3% to 20.8%.

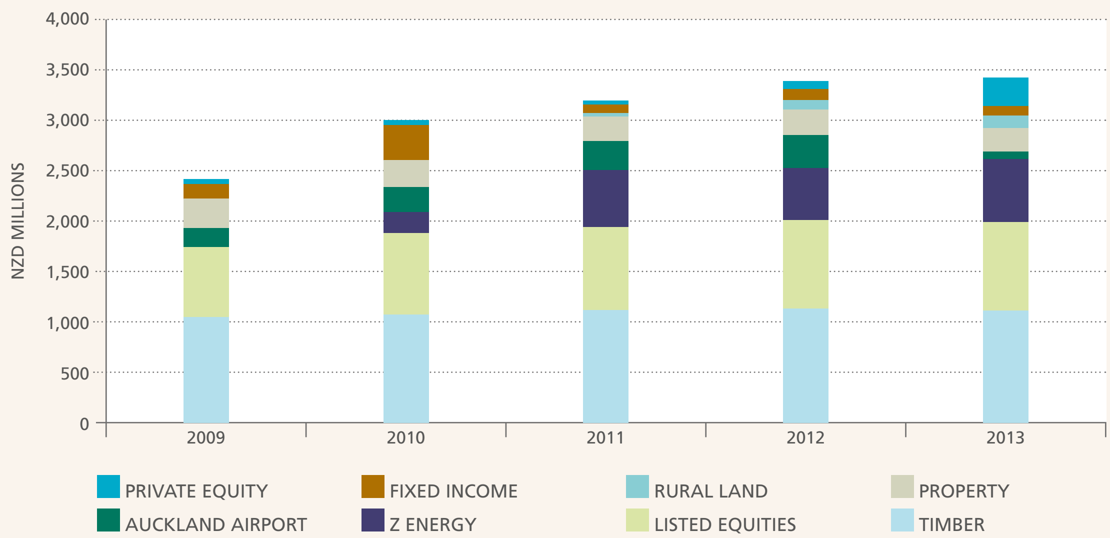
See our Chief Executive's Statement at pages 10-11 for further commentary.

Minister of Finance's Directive
14 May 2009

"… I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians.

This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58 of the Act, and the above paragraph is subject to that duty."

Value of New Zealand Investments



6 The graph provides a breakdown of investments (as defined in our financial statements) which have been made in New Zealand, as well as in New Zealand rural land, timber land and buildings. It excludes derivative financial instruments, funds committed but not drawn, debtors' and creditors' balances and other items. As above, derivative financial instruments have been excluded on the basis that they fluctuate significantly from month to month.

Investment Activity Report (continued)

PORTFOLIO HIGHLIGHTS OVER 2012/13

The value of the Fund's New Zealand investments remained stable at NZD3.4 billion over 2012/13.

Notable investment activities during the year included:

- purchasing a 37% stake in technology services company Datacom for NZD149 million. See the case study on page 48 for more information;
- increasing our stake in Kaingaroa Forest from 40% to 41.25%, and bringing on board a new co-investment partner, Canadian fund PSP Investments (Public Sector Pension Investment Board). See the case study on page 54 for more information;
- the purchase of a further two dairy farms, bringing our total portfolio to 12;
- the sale of 11 North Island forestry blocks to China National Forest Products Trading Corporation;
- the sale of over 100 million shares in listed company Auckland International Airport, reducing our position in the stock from 10% to 2%; and
- a NZD40 million commitment to a Pioneer Capital expansion capital fund. See the case study on page 50-51 for more information.

Partial listing of Z Energy

In March 2013, the Fund announced, alongside co-investor Infratil, that it had asked transport energy company Z Energy to work towards a possible sharemarket listing in the September 2013 quarter.

The Fund and Infratil purchased Z Energy – which supplies around 30% of New Zealand's fuel, in 2010. Since then, the company has responded well to increased capital investment, successfully completing a major rebranding and placing a strong focus on customer service.

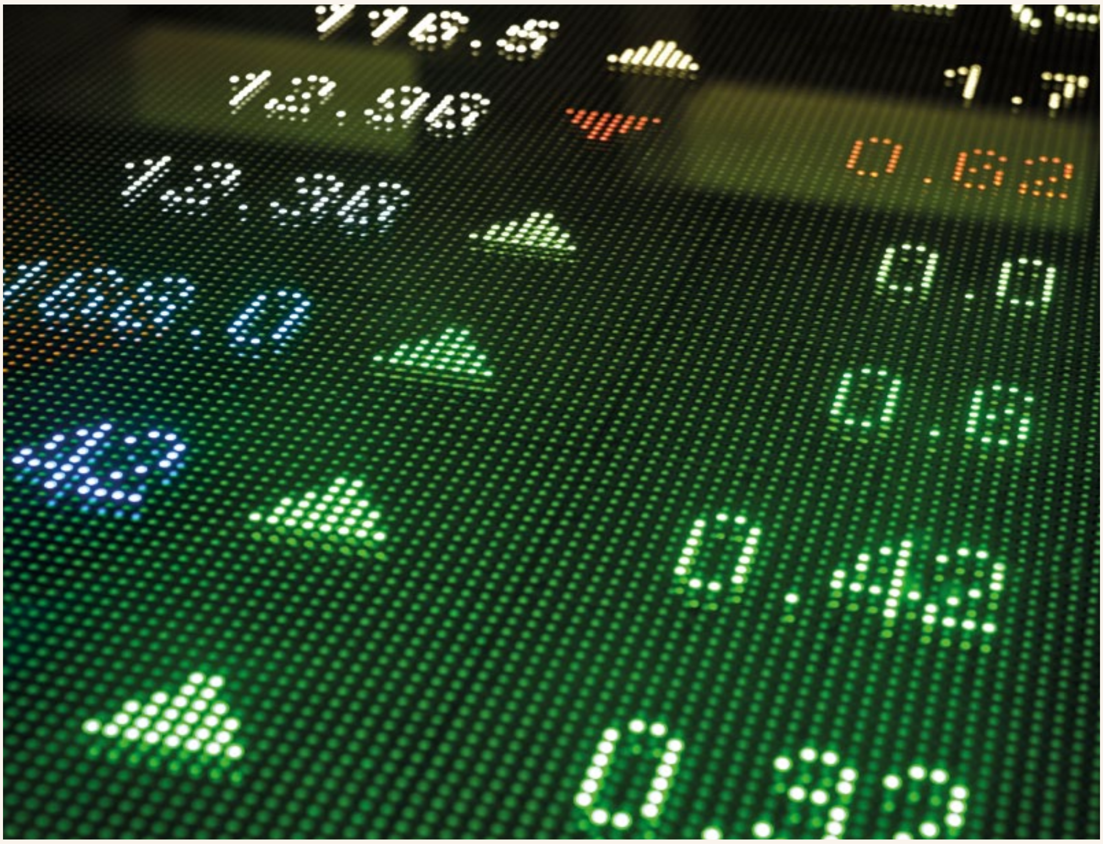
As a result, Z has increased in value. As at 30 June 2013, it represented 2.8% of the total Fund and, as such, was our second-largest investment. Reducing this stake via a partial listing appealed to us as a way of diversifying the Fund's investment portfolio.

The IPO was keenly sought after, and 60% of Z was listed on the New Zealand and Australian stock exchanges on 19 August 2013. While the Fund sold 30% of the company, realising NZD420 million, it will continue to be a significant shareholder in Z, retaining a 20% holding.

Establishment of active New Zealand listed equities team

As at 30 June 2013, the Fund had NZD1.1 billion invested in the New Zealand sharemarket. This money, which represents around 5% of the total Fund, is managed by three local external investment managers: AMP Capital, Devon Funds Management, and Milford Asset Management, along with an internal mandate run by an in-house Guardians' team.

Work commenced during the year to transition the internal mandate from passive to active management (see definition on page 41). This decision was based on a belief that the New Zealand market, which is small in global terms, has some characteristics that make it conducive to generating returns from active management. We also have a high degree of confidence that the Fund is well positioned to achieve premium returns compared to other market participants with shorter timeframes, greater cash flow requirements and less tolerance for volatility. The transition to active management is expected to be complete by 2014/15.



Case Study

Datacom

In February 2013, the Fund purchased 35% of technology services company Datacom (www.datacom.co.nz) for NZD140 million. The Guardians later extended this offer to Datacom minority shareholders, resulting in a further outlay of NZD9 million in April 2013 and an increase in the Fund's stake in Datacom to a total of 37.3%.

ABOUT DATACOM

Founded in Christchurch in 1965, Datacom has grown into New Zealand's leading information technology organisation. Having crossed the Tasman in 1994, it continues to grow rapidly across Australia and the Asia Pacific, with 3,660 staff operating from 23 offices in 16 cities.

New Zealand's Holdsworth family company Evander Management Limited has been a long-time shareholder in Datacom, with a current holding of 52%, while the remaining shares are held by staff and Directors.

The company operates a business model which is founded on trusted, long-term customer relationships with large corporates and Government organisations, a stable workforce with a sense of local ownership, and a focus on delivering value for money.

Datacom delivered a NZD50.9 million profit for the 2013 year on operating revenue of NZD870 million. The company has enjoyed compounding annual revenue growth of 14% p.a. over the last 10 years.

What does Datacom do?
IT management, covering all aspects of procuring, operating, supporting and managing information technology. Datacom is a leader in software engineering and application management, with over 750 software developers building and enhancing all types of systems for private and public-sector clients. Further strengths lie in cloud services, a highly flexible offering of infrastructure, platform or software as a service, and world-leading Business Process Outsource and Payroll services across Australasia servicing SME, enterprise and public-sector clients.

OUR INVOLVEMENT

Datacom is a good fit for the Fund's NZ Direct Strategy, with sought-after attributes such as a strong competitive advantage, favourable industry dynamics, a highly capable Board and management team, and compatible long-term shareholders. Its conservative balance sheet and long-term investment focus are well suited to the Fund's approach as a long-term, growth-oriented investor.

The Guardians worked on the transaction for over a year; the extensive due diligence process included discussions with existing shareholders, site visits in New Zealand and overseas, meetings with key Board members and executives, and the commissioning of due diligence reports from specialists.

The Guardians has appointed Michael Coomer and Brett Sutton as its representatives on the Datacom Board.

Mr Coomer is the Chairman of Volare Investment in Singapore and a Board Member of ASB Bank. Over a 30+ year career in business and information technology he has held senior roles with organisations including EDS, National Australia Bank; Westpac Banking Corporation; IBM and Ansett.

Until 2012, Mr Sutton was the Guardians' Head of Direct Investment, a role which he held for three and a half years. Prior to joining the Fund, Mr Sutton spent 17 years with Todd Capital as an investment manager.

"A wide range of investment options are open to the Fund. It is pleasing to be able to secure a sizeable New Zealand investment that stacks up against the best in the world. We look forward to working with Datacom's major shareholder, the Holdsworth family, to continue Datacom's success" – Guardians GM Investments, Matt Whineray

"We strive to push the constantly shifting technology boundaries and embrace new technologies, ensuring that our clients are the first to benefit. This approach is central to our outcome-based offer, because we know that cleverly-applied technology makes a demonstrable difference to businesses in a world of high expectations and limited resources" – Datacom Group CEO, Jonathan Ladd

Case Study

Helping NZ companies grow

Since 2005, the Fund has committed NZD345.4 million to private equity, private equity real estate and expansion capital investments in New Zealand. Most recently this included a NZD40 million commitment to Pioneer Capital (www.pioneercapital.co.nz). Of these total commitments, NZD136.2 million had been drawn as at 30 June 2013.

Some 80% of NZ's top 200 companies by value are unlisted and there are 3,500 companies with annual revenues of NZD10-150 million. In total the sector is around twice the size of the New Zealand listed market.[7]

Our view is that there is a significant pool of smaller high-growth companies in New Zealand that are constrained by a shortage of long-term equity and a lack of access to skilled investment management. Similarly, as stakes in private companies can be illiquid (difficult to sell quickly), they are not suitable for all investors, but are expected to deliver a premium return over time. These dynamics create opportunities for investors like the Fund.

Previous Fund commitments to expansion capital in New Zealand include NZD30 million with Pencarrow Private Equity in 2011 and NZD30 million with Waterman Capital in 2010.

We also invest with New Zealand private equity managers Direct Capital and AMP Pencarrow, and in private equity real estate via Willis Bond & Co.

Investing via external managers offers the Fund a range of benefits. These include: being able to access specialist expertise; the ability to diversify our risk and return across multiple, smaller investments; and the ability to partner with and learn from other investors.

PIONEER CAPITAL

Pioneer Capital's NZD150 million PCP II fund will focus on New Zealand businesses, typically exporters, which are earning meaningful revenue and delivering high-value products and services to their customers.

Each investment, which is likely to be in the range of NZD10-30 million, will primarily be designed to fund expansion, which may include acquisitions. It may also provide a bridge to public markets or a change of ownership.

MAJOR EXPANSION PLANNED FOR NZ PHARMACEUTICALS

One of the companies the Fund is invested in via private equity manager Direct Capital is New Zealand Pharmaceuticals (NZP), a global leader in bile acids manufacturing that has recently embarked on a NZD15 million expansion programme at its facilities just out of Palmerston North.

Since being established in the Manawatu 42 years ago, NZP now exports products to over 35 countries worldwide.

The company's core business is the supply of pharmaceutical products and active ingredients to the global pharmaceutical industry. These products are used in the formulation of medicines used in the treatment of a range of conditions, including liver and kidney disorders.

As part of the NZD15 million programme, NZP is doubling the capacity of its storage and distribution facilities and building an additional facility to meet increased demand in bile acids, and fulfil stringent international regulatory requirements.

In 2009, NZP purchased Dextra Laboratories in Reading, England, a company that specialises in carbohydrate chemistry. The research and development carried out by Dextra is focused on supporting the development of new chemical entities for the pharmaceutical industry and further strengthening the research and development capabilities of NZP. NZP employs around 140 staff across its two sites, and exports hundreds of tonnes of product a year at a value of many millions of dollars.

7 Data from sources including ANZ Business Barometer series; the Ministry of Economic Development; Statistics New Zealand; the New Zealand Venture Capital Association and the New Zealand Venture Investment Fund.

COMPANIES THE FUND IS INVESTED IN

As at 30 June 2013, the Fund was invested (via external managers) in the following New Zealand companies. The size of the Fund's investment varies, but is typically between 2%-20% of each company. We expect that further investments will be made during 2013/14.

NAME	WEBSITE	BUSINESS
Academic Colleges Group	www.acgedu.com	Private school operator
Bayleys	www.bayleys.co.nz	Property services company and real estate agency
BJ Ball	www.bjball.co.nz	Provider of paper to the commercial print industry
Cavalier Wool	www.cavalierwoolscourers.co.nz	Wool scourer
Fishpond	www.fishpond.co.nz	Online retailer
Hiway Group	www.hiwaystabilizers.co.nz	Stabilisation technology and roading contractor
Manuka Health	www.manukahealth.co.nz	Natural healthcare business with a strong focus on research and development
MercyAscot	www.mercyascot.co.nz	Private hospital operator
NZ Crane Group	www.cranegroup.co.nz	Provider of cranes and specialised transport
NZ King Salmon	www.kingsalmon.co.nz	Producer and exporter of King Salmon
NZ Pharmaceuticals	www.nzp.co.nz	Biopharmaceutical manufacturing
PF Olsen	www.pfolsen.com	Independent provider of professional forestry services
Rodd & Gunn	www.roddandgunn.co.nz	Menswear retailer
Scales Corporation	www.scalescorporation.co.nz	Horticulture and primary sector processing, exporter and logistics
Stratex Group	www.stratexgroup.co.nz	Manufacturer of specialty packaging materials
Transaction Services	www.debitsuccess.co.nz	Third-party recurring-payment processing company

What is private equity?

A private equity investment involves investing directly into private (non-listed) companies, e.g. buying out the original owner.

What is private equity real estate?

An asset class consisting of equity and debt investments in property e.g. a property development. Investments are typically actively managed.

What is expansion capital?

Also called growth capital, expansion capital is a type of private equity investment, most often a minority investment, in companies that are looking for capital to expand without a change of control of the business.

Photo courtesy NZ Pharmaceuticals.

Investment Activity Report (continued)

Global Investments

The Fund invests in equity markets and other types of investment globally. Major new investments during 2012/13, and other portfolio activities over the year, are outlined below.

SANKATY ADVISORS

In February, the Fund appointed Sankaty Advisors (www.sankaty.com) to manage a EUR155 million European distressed credit mandate. The global financial and European sovereign debt crises weakened the financial sector in Europe, and the ability of banks and other special-purpose lenders to finance companies in Europe has reduced. This has created numerous investment opportunities that we believe are suited to long-term investors such as the Fund.

Sankaty is a 15-year veteran of the credit markets, investing across liquid performing, private and distressed assets. The mandate has established Sankaty as a strategic partner which will enable the Fund to gain significant strategic and knowledge-sharing benefits in addition to investment returns.

LEADENHALL CAPITAL PARTNERS

In May, the Fund appointed London-based Leadenhall Capital Partners (www.leadenhallcp.com) to a USD275 million mandate focused on natural catastrophe reinsurance-linked investments, including direct reinsurance-linked assets and catastrophe bonds. This new mandate added to the Fund's existing exposure to insurance investments. For further information, see the case study on page 56.

BLOOM ENERGY

In May 2013, the Fund made a USD50 million investment in Bloom Energy. For further information see the case study on pages 54-55.

BLACKROCK

In June 2013, the Guardians appointed the world's largest asset manager, BlackRock Investment Management (www.blackrock.com), to manage four new passive global equity mandates.

BlackRock, which has managed a fixed income mandate for the Fund since 2010, is now also managing passive global large cap equity, small cap equity, emerging markets equity and REIT (Real Estate Investment Trust) mandates on our behalf.

The four new mandates, which passively track market indices, will provide the Fund with cost-effective, diversified exposure to equity markets around the world. Each of the mandates is flexible in size.

TRANSURBAN

During the year, we also sold the majority of our holding in Transurban Group Limited, an investor and manager of global toll roads. Transurban was our single largest-listed equity exposure and we took advantage of the strength of global markets to reduce our overweight holding.

GLOBAL EQUITIES

The investment mandates of four active global equity managers were terminated during the year, following a review of our Public Market Active Return Strategy portfolio. This review considered, among other things, the extent to which the investment opportunity each mandate was accessing remained attractive. In general terms, the terminations reflected the Guardians' view that, looking forward, active stock selection strategies in global large-cap and US small-cap equity markets are less attractive than they have been in the past.

A full list of the Guardians' asset and investment managers in 2012/13, including details of new appointments and manager terminations, can be found at pages 87-89.

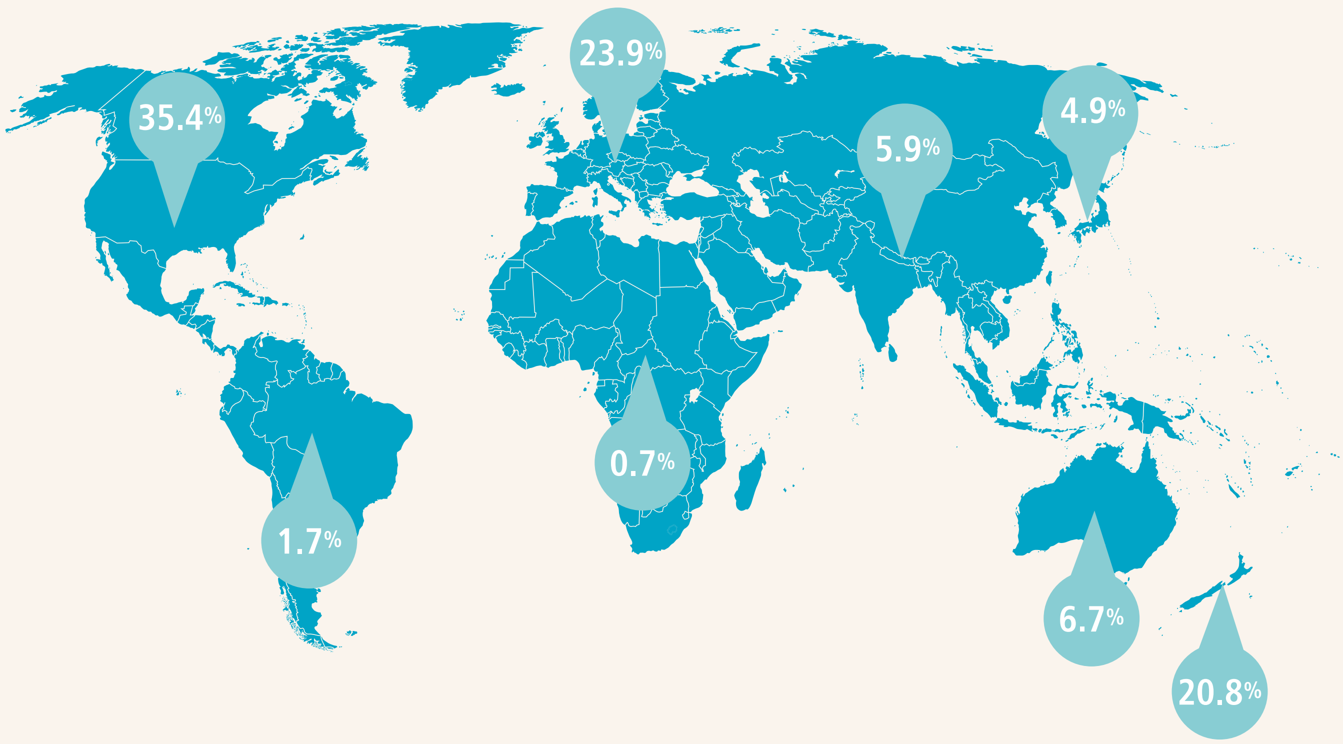
WHERE WE INVEST*

The following table outlines the proportion of the value of our investments by geographic area. For further information on our New Zealand investments, see the Chief Executive's Statement on pages 10-11 and the New Zealand Investment Activity Report on pages 44-51.

	30 JUNE 2013	30 JUNE 2012	30 JUNE 2009
New Zealand	20.8%	22.9%	21.3%
Australia	6.7%	8.4%	5.2%
Africa	0.7%	0.6%	0.3%
Europe	23.9%	22.7%	16.2%
Asia (excl. Japan)	5.9%	5.4%	3.2%
Japan	4.9%	3.0%	4.3%
North America	35.4%	35.5%	48.4%
South America	1.7%	1.5%	1.1%

* Figures exclude cash and foreign exchange hedging instruments such as forward foreign exchange contracts and cross currency swaps.

Where we invest – as at 30 June 2013



Case Study

Peer Collaboration

For a small, geographically isolated fund like ours, collaboration with peers across the world offers a range of strategic benefits. Building relationships with leading global peers has, therefore, been a key strategy for the Guardians since it started investing, and continues to be important.

The benefits of collaboration include: leveraging these relationships to secure global and local opportunities for co-investment; exchange of best practice and knowledge; and cooperation in areas of joint interest, such as responsible investment.

The 2012/13 year was notable for our success in partnering with the Public Sector Pension Investment Board (PSP) and for the formation of the Innovation Alliance with the Alberta Investment Management Corporation and Abu Dhabi Investment Authority.

During the year we completed an update of our peer collaboration strategy, identifying the peer funds with which we have the greatest similarities, and assigning relationship managers to each. We also successfully implemented a new relationship management tool.

Our current focus is on building relationships with peer funds identified as being most likely co-investment partners. We aim to agree areas of common interest, so that co-investment search is focused, and demonstrate that we have the capability to assess opportunities. Co-investments require an alignment of strong relationships and equally valued opportunities.

NEW PARTNER IN OUR KAINGAROA INVESTMENT

In December 2012 we announced that the Fund had purchased a further 1.25% of Kaingaroa Forest Holdings from Harvard Management Company. The additional stake, which settled in May 2013, increased our holding in Kaingaroa to 41.25%.

This made the Fund the largest single shareholder in the forest. Harvard has retained a 28.75% share and we have welcomed a new 30% shareholder, PSP Investments.

PSP, which as at 31 March 2013 had CAD76.1 billion of assets under management, invests funds for the pension plans of the Canadian Public Service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. PSP also owns a stake, in partnership with the British Columbia Investment Management Corporation, in a forest located on Vancouver Island.

The Guardians has a very close relationship with PSP, working together on a range of collaboration, comparison, and co-investment opportunities.

Kaingaroa continues to perform well as an investment. As at 30 June 2013 our stake in it was valued at NZD1.0 billion. It has delivered a return of 18.05% p.a. since it was purchased in 2006.

INNOVATION ALLIANCE

In late 2012 the Guardians signed a Memorandum of Understanding with the Alberta Investment Management Corporation (AIMCo) and the Abu Dhabi Investment Authority (ADIA) to invest in growth capital opportunities globally.

The main benefit of the Alliance to the Fund is the introductions it will facilitate to suitable investment opportunities, via our partners' existing relationships and due diligence capabilities. In particular, the intention is to find opportunities where our long investment horizon can be valuable to allow companies to grow before going to the public markets to raise capital. The three investors are working with Kleiner Perkins to identify these opportunities.

As investors, AIMCo and ADIA have similar characteristics to the Fund (both enjoy long investment horizons and certain liquidity) making them suitable co-investment partners. AIMCo is one of Canada's largest and most diversified institutional investment fund managers, with an investment portfolio of approximately CAD70 billion. ADIA is a globally diversified investment institution that is wholly owned by the Government of the Emirate of Abu Dhabi.

Each potential investment is subject to specific analysis and extensive due diligence; i.e. each decision is made independently by us on a case-by-case basis.

BLOOM ENERGY

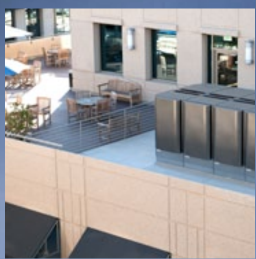
During the June quarter, the Fund made its first direct investment as part of the Alliance, purchasing a stake in California-based Bloom Energy (www.bloomenergy.com) for USD50 million. Bloom Energy is a maker of on-site power generation systems utilising fuel cell technology. Its mission is to make clean, reliable energy affordable for everyone in the world. The company, which was founded in 2001, was named a Tech Pioneer by the World Economic Forum in 2010. Bloom Energy Servers are currently producing power for companies including Google, Walmart, AT&T, eBay, Staples and Coca-Cola.

One of the reasons we were attracted to Bloom Energy was the exposure it gives the Fund to alternative energy. In 2013, the Guardians decided to prioritise investment opportunities in alternative energy and energy forms with lower carbon intensity, with the intention of further diversifying the Fund's portfolio.

Further Innovation Alliance investments are under consideration by the Guardians, with each one subject to specific analysis and extensive due diligence.

SECONDMENTS

We were also delighted to be able to implement one staff secondment during the year, a six-month secondment to institutional investor Queensland Investment Corporation (QIC). QIC, a UNPRI signatory and multi-asset investment organisation, is based in Brisbane. The purpose of the secondment was to help QIC develop and implement a Responsible Investment strategy. This strategy was agreed by the QIC Board for implementation in February 2013.



THE FUND MADE ITS FIRST DIRECT INVESTMENT AS PART OF THE ALLIANCE, PURCHASING A USD50M STAKE IN BLOOM ENERGY.

Photo courtesy Bloom Energy.

Case Study

Insurance Investments

Over the last four years, the Fund has made a number of insurance-related investments. These investments are a useful way of diversifying the Fund away from equity and credit markets.

Insurance-linked investments are not suitable for all investors. They can be complex to understand and price, and investors need to be able to tolerate short-term risk and illiquidity. For these reasons the investments can provide attractive returns to investors who have the luxury of a long-investing horizon, no potential need to sell down quickly, and the skill to understand and manage them.

NATURAL CATASTROPHE REINSURANCE

In May 2013, the Guardians appointed Leadenhall Capital Partners (www.leadenhallcp.com) to a USD275 million mandate focused on natural catastrophe reinsurance-linked investments, including direct reinsurance-linked assets and catastrophe bonds.

This new mandate further diversifies the Fund's existing insurance investment portfolio across countries and risks, following an initial investment with Elementum Advisors (www.elementumadvisors.com) in 2010.

Catastrophe bonds and reinsurance-linked assets spread the risk and cost of major catastrophic events (such as major hurricanes, earthquakes and bushfires) that are unlikely to occur but are very expensive when they do. The insurance industry values this backup insurance, and pays attractive premiums to investors to provide it. The risk to investors such as the Fund is managed through a long time horizon, diversity in the risks and locations covered, and capping maximum payment sizes.

Both mandates exclude exposure to New Zealand catastrophes.

LIFE SETTLEMENTS

To date, the Fund has made two investments in life settlements: a swap contract with Credit Suisse in 2009; and an investment in a life settlements fund managed by Apollo Global Management in 2012.

Life settlements are where an insured person transfers the pay-out benefit of their life insurance policy to a third party, in order to realise a larger surrender value than that which the original insurer would offer. The third party pays the premiums and receives the pay-out when the insured person dies.

Regulation of life settlements has tightened in the United States as a result of ethical concerns relating to privacy, transparency of documentation and manipulation of the insured people. The Guardians is very conscious of these concerns and requires its investments in this sector to have a number of safeguards in place. The Fund does not own individual policies.

INSURANCE INVESTMENTS

INVESTMENT	MANAGER/COUNTERPARTY	DATE	INVESTMENT SIZE
Life Settlements Longevity Swap	Credit Suisse	June 2009	USD70 million
Natural Catastrophe Reinsurance	Elementum Advisors	February 2010	Maximum USD200 million
US Life Settlements	Apollo Global Management	March 2012	Maximum USD55 million
Natural Catastrophe Reinsurance	Leadenhall Capital Partners	May 2013	Maximum USD275 million

With the appointment of Leadenhall Capital Partners and the nature of the contracts that have been entered into under that mandate, the Fund is required to report additional information in its Financial Statements. See Note 21 in the Financial Statements for the Fund for more information.

THE FUND'S INSURANCE-RELATED INVESTMENTS HAVE GENERATED AN AVERAGE RETURN OF

14.39% p.a.

SINCE JUNE 2009

Lloyds of London, London, UK.

Responsible Investment Report

CHAIR'S STATEMENT ON ESG

Environmental, social and governance (ESG) risks and opportunities are increasingly important considerations for institutional investors and the companies they invest in.

The Guardians is a founding signatory of the United Nations Principles for Responsible Investment (UNPRI) and, as Chair, I am committed to maintaining our reputation as a global leader in responsible investment.

ESG issues create both risks and opportunities for long-term investment portfolios such as the Fund. It is important that the portfolio is future-proofed against wider economic, social and environmental trends, such as climate change and resource sustainability. We also have the ability to capitalise on investment opportunities related to these long-term trends that are not suitable for investors with shorter time frames.

We aim to integrate ESG risks and benefits into all our investment processes, and have made a strong commitment to engagement: using our influence as a shareholder to encourage companies to manage and report on their environmental, social and governance risks. This position is based on our belief that companies that do a good job of managing ESG risk and issues, perform better financially over the long term.

For example, we are working to encourage investment managers, analysts and companies to analyse climate change issues.

When we do make a decision to divest our holdings in a company on responsible investment grounds, our decision is based on a clear process and principles that are set out in our Responsible Investment (RI) Framework, available on www.nzsuperfund.co.nz. We place a strong weighting on illegal behaviour, on policy positions of the NZ Government and on engagement rather than divestment as the best means of effecting change. Exclusion for breach of standards is a last resort.

As well as applying ESG principles when making decisions about how to invest the Fund, we aim to run the Guardians as an organisation in a way that demonstrates good ESG practice and reporting.

As a financial sector organisation, the Guardians' biggest ESG risks, other than issues relating to actual investments, relate to skills and ethics. We continue to place a high priority on ensuring our performance in these areas – as a good employer and well-governed organisation – is world class.

GAVIN WALKER, CHAIR

OVERVIEW

The Guardians has a long-standing commitment to RI. We believe that improving ESG factors can improve the long-term financial performance of a company. Our mandate also requires us to avoid prejudice to New Zealand's reputation in the world community.

As part of good governance of the Fund, we therefore aim to actively manage the long-term risks and opportunities ESG concerns present now and into the future.

ESG considerations are integrated into all of the Fund's investment activities. For example, ESG factors are considered when we identify investment opportunities, assess investment risk, undertake due diligence and make decisions as an asset owner and shareholder. We work closely with our investment managers to ensure the votes they make on our behalf are appropriate, and we aim to use our voting rights to promote best-practice corporate governance both in New Zealand and overseas.

International standards and initiatives against which we are measured include: the International Forum of Sovereign Wealth Funds' Santiago Principles; Sovereign Wealth Fund Institute Transparency Index; and the UNPRI. The UNPRI is the internationally accepted benchmark for how institutional investors should manage environmental, social and governance issues, and our RI work programme is closely aligned to its principles and priorities.

Signatory of:

We also participate in relevant international investor groups where we believe working collaboratively will help deliver better ESG outcomes. These groups include: the Carbon Disclosure Project; the Investor Group on Climate Change Australia/New Zealand; the International Corporate Governance Network; and the Responsible Investment Association Australia. We have also recently become members of the Australian Council of Superannuation Investors.

Achievements during 2012/13
Priorities during the year included the completion of a substantial piece of work on energy investment. This opportunity is a direct output of the broader macro-thematic work on climate change the Fund completed in 2011. As a result, we are working to further incorporate investments in alternative energy, and energy forms with lower carbon intensity, into our portfolio. Our investment in Bloom Energy, which is described on page 55, is an example of the energy strategy in action.

Other major pieces of work included a review of our external investment managers on ESG practices (see later this page) and changes to our engagement process (see page 60).

Providing a high level of transparency over our activities is a particular priority for the Guardians. It is pleasing to see that we are now internationally recognised among other similar funds, as a leader in transparency and for the robustness of our governance practices.

We continue to look for ways to improve our transparency and reporting and, in 2012, developed our first report using the Global Reporting Initiative (GRI) framework.

14 (30%) of the Fund's asset and investment managers are members of the UNPRI, including more than half of our NZ managers.

Priorities for 2013/14
Priorities for the upcoming year include:

- incorporating ESG into company analysis and stock selection as part of the Fund's new internal New Zealand active equities mandate;
- education, (including RI Academy training) for investment personnel, and development of an intranet-based staff education module on responsible investment;
- analysing methods to enhance the equity portfolio by building in ESG factors;
- implementing our "road-map" for RI integration effort across the investment teams and into opportunity search and selection; and
- working towards more focused direct engagements (with global and NZ companies) and evaluating outcomes.

RI IN PRACTICE – HIGHLIGHTS

Road-map for RI integration
During the year we developed a road-map to integrate ESG more fully into the Fund's investment framework. The RI team moved into the investment team, we initiated RI Academy training for our investment professionals, rated the RI strategies of our external managers, and embedded ESG considerations into our Risk Allocation Process.

RI Review of External Managers
One of our priorities during the 2012/13 year was to undertake a review of our external managers' ESG practices. The objectives of the review were to:

- establish a new baseline (of our managers) for ESG integration going forward;
- understand and assess the quality of RI activities undertaken by our managers;
- identify best practice; and
- identify any laggards.

In particular, our focus was to assess each manager's ability to identify, manage and report on ESG risks and opportunities. 44 managers were assessed against a set of criteria and then scored.

The results of the review were pleasing, with 15 managers improving their ESG practices since they were last reviewed in 2011; a notable improvement in policies and practices among our New Zealand managers; and in general a much greater willingness to recognise and manage ESG risks and opportunities.

Responsible Investment Report (continued)

Assessing and managing ESG risks – Red Fort case study

In July 2011, the Fund committed USD40 million to Red Fort India Real Estate Fund II, managed by Red Fort Capital (www.redfortcapital.com).

Red Fort Capital has a focus on affordable housing in top-tier Indian cities where demand is driven by India's long-term demographic fundamentals (middle-class income growth and increasing urbanisation).

While Red Fort's developments have the potential to create significant social benefits, as it is operating in an emerging market it is also exposed to a number of health, safety and environmental risks through the actions of the property developers it works with. Key issues include the proper use of personal protective equipment by workers and conditions at contractors' camps. We undertook extensive responsible investment due diligence before investing, including on-site visits by Guardians' staff.

Since investing, we have continued to work with Red Fort on ESG matters, with Guardians' staff making in-person visits to development sites. The Guardians and Red Fort have agreed on a comprehensive reporting framework and Red Fort has made continual improvements in a range of processes to manage developers' on-site health, safety and environmental risks. In 2012 we also commissioned an independent report by Det Norske Veritas (DNV), third party experts in health and safety risk management. The feedback from DNV's report has been used by Red Fort to improve its policies and practices.

Red Fort demonstrates leadership amongst its peers in the Indian real estate market on health and safety and is committed to working towards international best practice.

Updated Engagement Process

We believe that by improving ESG performance a company can improve its long-term financial performance – creating value for long-term investors such as the Fund.

If a company has materially breached good corporate practice standards, this creates risks for the company and investors. Through our engagement programme we seek improvements from companies and play a role in influencing change.

Engagement is when, either on our own behalf or in partnership with other investors, we encourage companies to address poor ESG performance, or to adopt good corporate practice standards.

Exclusion is when we instruct our managers not to invest in a company's securities, and sell any holdings in our portfolio. There are two types of exclusions:

- 'product' exclusions, where companies are excluded based on the products they make (e.g. manufacturing tobacco); and
- 'poor ESG practices' exclusions, where companies are excluded for breaches of responsible investment standards.

A list of companies that have been excluded from the Fund is available on www.nzsuperfund.co.nz.

Planned Red Fort developments in India

As a result of engagement programmes by the Guardians and other investors around the world, companies are increasingly aware that investors are analysing their ESG performance and expecting them to address ESG issues head on.

We monitor company behaviour against the internationally-recognised UN Global Compact, which covers four key areas: human rights, labour, environment and anti-corruption.

Because the Guardians is a relatively small investor in global terms, we focus our limited resources on companies where we can make a difference. During the year, we updated our engagement process to guide our decision-making on which companies we choose to engage with and when to draw an engagement to a close.

Since the new process was introduced in September 2012, we have excluded a small number of companies from the Fund for breaches of standards. Prior to then, exclusions from the Fund had all been on a product or 'category' basis.

The following companies were excluded for breaches of responsible investment standards: Freeport McMoRan Copper & Gold; KBR Inc; Tokyo Electric Power Company; Zijin Mining Group; Africa-Israel Investments; Danya Cebus; Shikun & Binui; Elbit Systems Ltd; African Barrick Gold; and Barrick Gold Corp. For more information on the reasons for these exclusions, see www.nzsuperfund.co.nz.

Emerging Market Disclosure Project: Focus, South Korea

The Fund is a participant in the Emerging Markets Disclosure Project, an initiative of the United Nations Principle for Responsible Investment. The objectives of the project are to improve disclosure of ESG data by companies in emerging markets.

Our involvement has included a collaborative engagement initiative to increase ESG disclosure in South Korean companies. Overall, all of the 12 targeted companies made good progress. Most were already making good progress towards including materiality assessments, third-party verification and Global Reporting Index indicator mappings in their public reports. Opportunities remain to further improve the quality of their reports, especially in regard to supply chain and labour standards.

One interesting finding was that the companies placed a lot of weight upon inclusion in sustainable market indices such as FTSE4Good and Dow Jones Sustainability Index. All the companies were keen to meet the reporting requirements.

Disclosure of ESG data is an important element in assessing emerging market investment risk. By disclosing this information, companies can often find that they can better identify and manage issues that influence their business success. This is an important valuation tool for investors.

PERFORMANCE REPORT

Each year, we report on our performance against the six UNPRI Principles: Integration, Ownership, Disclosure (Company Reporting), Best Practice, Collaboration and Communication.

Integration

UNPRI Principles:	What we do – overview:
Principle 1 – We will incorporate ESG issues into investment analysis and decision-making processes	• Integrate ESG considerations and guidelines across different types of investments, asset classes and also in the search and selection of external managers • Engage on ESG issues with external investment managers, and the companies in which we invest • Consider investments which provide positive social returns in addition to the required financial return • Carry out investment manager due diligence, monitoring and conviction

Highlights / key achievements for 2012/13:

- Completion of a RI review of our investment and asset managers, rating each manager's policy and practice
- Integration of RI ratings for investment opportunities into the Risk Allocation Process
- ESG factors part of research prioritisation (explicitly taken into account when we allocate capital)
- ESG due diligence on 11 prospective investments
- 4 staff completed training with the RI Academy (www.riacademy.org) and the whole of the investments team is scheduled to complete it by 2013/2014
- Began a project exploring ways to enhance the portfolio by integrating ESG factors

Responsible Investment Report (continued)

Ownership

UNPRI Principles:
Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices

What we do – overview:
- Undertake direct and collaborative engagements with companies
- Apply exclusions
- Monitor our portfolio to ensure compliance with our exclusion list
- Monitor companies where we have completed our analysis and/or engagement
- Maintain a robust analytical and decision making process in responding to investee companies breaching our RI standards
- Exercising our voting rights on securities which we invest
- Actively promoting and engaging on good practice corporate governance issues (especially in NZ)

Highlights / key achievements for 2012/13:
- Participation in eight UNPRI collaborations involving engagement with 431 companies during the year
- Direct engagements with 19 companies, primarily on human rights (safety), and environmental issues
- Finalisation and enactment of a new engagement and exclusion process, resulting in the exclusion of ten companies from the Fund for breaches of responsible investment standards
- Decision to exclude a group of nuclear base operators from the Fund
- Decision to clear for re-inclusion a group of companies no longer involved in the manufacture of cluster munitions
- Commencement of a review of our internal governance capability, to support our representation on the Boards of investee companies and on the Advisory Boards of external funds
- Engagement outcomes demonstrated improvements, particularly on supply chain and anti-corruption issues

BREAKDOWN OF THE FUND'S ENGAGEMENT ACTIVITIES DURING 2012/13

ESG issues engaged on	Objective	Number of companies engaged with	
		Direct	Collaborative
HUMAN RIGHTS & SAFETY			
Conflict zones	Pilot phase for implementing and refining the United Nations "*Guidance on responsible business in conflict affected and high risk areas: A Resource for companies and investors*". Engaging on companies' management of security risks and reports of abuses in conflict-prone areas.	6	10
Health and safety & labour practices	Improving working conditions and health and safety at mining and electronics manufacturing companies.	2	1
Supply chain risks	Ensuring supply chain management procedures and policies exist, and are transparent and sufficiently robust to address risks of poor labour practices, human rights infractions or environmental damage.	-	16
SEVERE ENVIRONMENTAL DAMAGE			
Oil & Gas	Improving the management and reporting of environmental risks (including emergency response systems).	11	5
Palm oil	Multi-stakeholder initiative to improve and promote sustainable certification of palm oil.	-	Multi-stakeholder
Bribery and Corruption	Seeking significant improvements in anti-bribery policies and practices, following significant incidents at the company.	-	21
BEST PRACTICE REPORTING			
Climate change	Increasing the number of companies reporting on climate change emissions and risk management. Collaboration through the CDP and IGCC initiatives.	-	250
ESG risks	Encouraging public reporting on ESG risks amongst emerging market companies (South Korea).	-	12
UN Global Compact Standards	Comply with reporting requirements under the UN Global Compact.	-	116
	Total: 450 companies in 2013	**19**	**431**

Disclosure

UNPRI Principles:	What we do – overview:
Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest	• Work to raise investee companies' awareness of good-practice public reporting standards and encourage their own efforts in this regard • Establish and monitor internal ESG reporting standards for our investment managers and direct investments • Participate in Carbon Disclosure Project • Encourage good-practice reporting by NZ companies

Highlights / key achievements for 2012/13:

- Guardians reported against Global Reporting Initiative (GRI) criteria for the first time in 2012
- Participation in UNPRI collaborations on ESG disclosure in emerging markets
- Established specific ESG reporting standards for our Indian real estate manager (Red Fort) and rural manager (FarmRight)

Best Practice and Collaboration

UNPRI Principles:	What we do – overview:
Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry Principle 5 – We will work together to enhance our effectiveness in implementing the Principles	• Benchmark our performance against the RI standards to which we aspire • Contribute to the development of best practice e.g. by participating in forums and working groups (e.g. UNPRI) • Engage with regulators and advisors • Collaborate with Crown Financial Institutions and global peers • Develop asset and co-investment guidelines

Highlights / key achievements for 2012/13:

- Continued to provide RI advice and services to the Accident Compensation Corporation and Government Superannuation Fund
- Staff member seconded to QIC in Brisbane for six months, to assist with the development of their RI strategy
- Presented at the RI Asia Investor Forum in Singapore and at the Investor Group on Climate Change Forum in Hong Kong
- Participated in a UN Business & Peacebuilding Event focused on conflict zones
- Participation in the annual New Zealand RI Conference
- Guardians' staff member on Board of the Responsible Investment Association of Australasia

Communication

UNPRI Principles:	What we do – overview:
Principle 6 – We will each report on our activities and progress towards implementing the Principles	• Reporting on our RI policy and activities including the benchmarking of those activities • Internal reporting • Stakeholder engagement

Highlights / key achievements for 2012/13:

- Winner – 2012 NZICA award for Best Public Sector Annual Report
- Winner – Best First-Time Entrant, 2013 Australasian Reporting Awards
- Finalist – 2013 Global RI Reporting Awards
- Participated in a professional development exercise for Fairfax NZ journalists
- Surveyed stakeholders over the format and content of our monthly report and website
- Reported on progress of Fund to the Commerce Select Committee
- Produced a discussion paper on the role and performance of the Fund at the request of the NZ Commission of Financial Literacy and Retirement Income, to inform stakeholder discussion and public consultation

For further detail on our approach to responsible investment, see our website at www.nzsuperfund.co.nz.

Case Study

Rural Land

In 2010, the Fund began to build a portfolio of rural land investments, with the potential to invest up to 3% of the Fund.

We see rural land as a relatively under-developed asset class delivering a range of investment exposures and being a good diversifier for the Fund. Because the sector cannot be easily accessed through listed markets, there is strong scope for adding value through active management.

WHAT PROGRESS HAVE WE MADE TO DATE?

To date, we have only made investments in New Zealand dairy farms, although we are continuing to consider opportunities offshore and in other rural sectors locally.

The Fund's portfolio of 12 dairy farms is managed by FarmRight Limited (www.farmright.co.nz). As at 30 June 2013 the portfolio was valued at NZD153.8 million.

We are continuing to build the portfolio and will look to purchase more farms during 2013/14 if suitable opportunities arise. Other priorities for the coming year include:

- further enhancing the development of technology on farm for management and monitoring;
- review and amendment of Health and Safety policies and procedures in response to recent legislative changes (see page 74 for more information); and
- ongoing asset improvement.

RESPONSIBLE INVESTMENT

As a long-term responsible investor, we expect our farms to meet good-practice standards. FarmRight has a Responsible Farming Policy, agreed with the Guardians, that includes specific policies on:

- environmental management and sustainability;
- health and safety of staff, contractors and visitors;
- human resources;
- animal management and welfare;
- business standards and ethics; and
- asset management.

FarmRight provides detailed reports to the Guardians on compliance with the Responsible Farming Policy, and Guardians representatives make minimum six-monthly visits to each farm. We aim to bring any farms which are not up to industry good-practice standards at the time of purchase up to scratch within 12 months.

Daily checks by farm managers and a minimum of fortnightly checks by FarmRight's Farm Investment Managers and Farm Consultants ensure technical, animal welfare and environmental factors are central to the way the Fund's farms are managed. FarmRight operates within a detailed set of policies and procedures on:

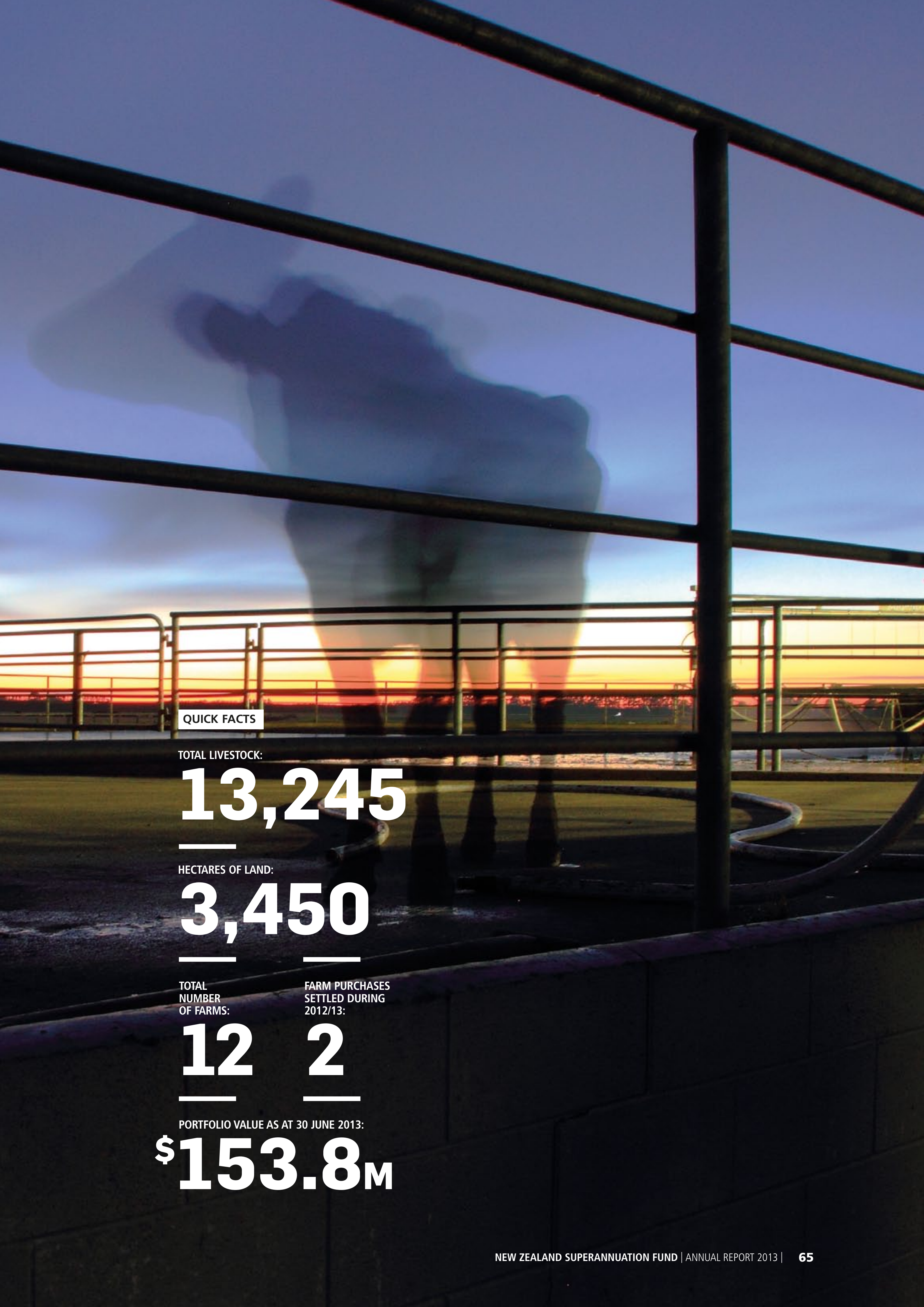
- animal welfare;
- nutrient budgeting;
- fertiliser and nitrogen use;
- effluent management and compliance;
- irrigation water management; and
- protection of waterways in line with the recently introduced Sustainable Dairying: Water Accord.

In 2012/13 we initiated a sponsorship of an annual sustainability award for FarmRight farm managers and contract milkers. The sponsorship is designed to foster and reward innovation at a farm level that leads to improved sustainability.

During the year the Guardians and FarmRight agreed upon a series of ESG requirements. These requirements include the commissioning of an external health and safety review of all farms within six months of purchase, and completing any corrective actions required by a review within the nominated time frame (100% achieved in 2012/13).

It is our expectation that the Fund's farms are operated in compliance with the Sustainable Dairying: Water Accord and with all relevant Regional Council environmental rules and standards. Development of riparian planting plans are scheduled to occur this year which, when implemented over the ensuing years, will bring all current farms up to full compliance with the Sustainable Dairying: Water Accord.

In 2013/14, we will be benchmarking the performance of our farms against industry standards.



QUICK FACTS

TOTAL LIVESTOCK:

13,245

HECTARES OF LAND:

3,450

TOTAL NUMBER OF FARMS:

12

FARM PURCHASES SETTLED DURING 2012/13:

2

PORTFOLIO VALUE AS AT 30 JUNE 2013:

$153.8M

INVESTING GLOBALLY.
GENERATING
RETURNS FOR KIWIS.

Operational Report

OPERATIONAL REPORT

Highlights

AWARDS SUCCESS

aiCIO Awards

In December 2012 the Fund won the prestigious Sovereign Wealth Fund category in the Asset International Chief Investment Officer (aiCIO) Industry Innovation Awards in New York.

The other finalists were the Australian Future Fund; Singaporean fund GIC; Norges Bank Investment Management; and the State Oil Fund of Azerbaijan.

Saying "NZ Super is pushing further and faster than any of its competitors," award organisers aiCIO commented on the Fund's transparency, consensus-based decision-making and shift away from a traditional asset allocation 'bucket' approach to investing.

Annual Report Awards

The Fund won two Annual Report awards during the year and was named a finalist in another prestigious reporting competition.

In December 2012, the Fund's 2010/11 Annual Report won the Public Sector Annual Report category in the New Zealand Institute of Chartered Accountants Awards.

In June 2013, the Fund's 2011/12 Annual Report won the Chairman's Award for Best First-Time Entrant at the 2013 Australasian Reporting Awards in Melbourne. This report was also named as a finalist in the inaugural global Responsible Investment Reporting Awards, out of more than 1,000 funds.

PERFORMANCE SYSTEM IMPLEMENTATION

The Fund's shift away from a traditional asset allocation 'bucket' approach to a more opportunistic investing style has increased its performance reporting needs. As a result, work has begun to introduce a new system for measuring the Fund's performance.

Measuring and attributing the Fund's performance to specific investments and strategies is extremely important, because it helps shed light on which decisions by the Guardians consistently add value on a risk-adjusted basis and which ones do not. The better understanding we have of how each investment has contributed to the Fund's overall performance, the better job the Guardians can do of managing the Fund.

Following an international search for a solution provider, the PEARL performance measurement and attribution system by Ortec Finance has been selected. PEARL calculates risk and returns for portfolio investments, and compares these to a wide range of benchmarks. It will also provide information about the overall level of risk in the portfolio.

The new system, which will be used to report performance from 1 July 2013, is expected to significantly improve the depth and granularity of the Fund's performance reporting.

Ortec Finance is a global provider of technology and advisory services for risk and return management. Established in Rotterdam in 1981, International organisations using the PEARL system include IDS-Allianz, APG, AP3, SEB, Robeco and SPF Beheer.

OTC DERIVATIVES REFORM

New rules relating to over-the-counter (OTC) derivatives are currently being rolled out internationally. These rules aim to improve transparency, mitigate systemic risk and protect against market abuse.

The pace of reform has been increasing for the past two years, with rules requiring:

- **central clearing** of certain OTC derivatives;
- real-time reporting;
- the execution of trades on new **swap execution facilities**; and
- new **margining rules** for non-cleared OTC derivatives.

What is central clearing?

Central clearing is a process by which financial transactions are cleared by a single (i.e. central) counterparty, instead of being transacted directly between the two parties involved. This new requirement is designed to reduce risk in the global financial system.

What are swap execution facilities?

A swap execution facility is a trading platform in which multiple participants can trade OTC swaps.

What are margining rules for non-cleared derivatives?

The rules that determine how much margin (cash or securities) investors have to provide upfront when transacting non-cleared derivative transactions.

We are monitoring these changes closely and are developing clearing, reporting and operational capability in order to comply with global regulations within the required time frames. As some of the new local and international rules are yet to be finalised, the full impact on the Fund's operations remain unclear at this point.

Progress made by the Guardians during 2012/13 includes the appointment of OTC clearing brokers and the following three clearing houses:

- LCH.Clearnet Limited;
- Chicago Mercantile Exchange; and
- Intercontinental Exchange Inc.

In June 2013, we completed the Fund's first cleared OTC transaction to trial our new OTC clearing infrastructure. Further test trades are planned for 2013/14 to further test our OTC clearing infrastructure.

BOARD AND STAFF EDUCATION PROGRAMME

As the number of staff employed by the Guardians grows, creating efficiencies in our induction process has become increasingly important. We want to ensure that it is as easy as possible for new staff to become familiar with what the Guardians and Fund do, and how. We also want to ensure that all Guardians staff, including those not in the Investment teams, have a good understanding of our key investment concepts, and processes and policies.

A series of intranet-based staff education modules were developed during 2012/13, covering the following topics:

- Why are we here?;
- How We Invest and the Reference Portfolio;
- Investment Themes;
- Responsible Investment;
- Risk Management;
- Risk Allocation Process; and
- Strategic Tilting.

The education modules were launched as part of a new Guardians intranet site early in 2013/14. A further six modules will be completed during 2013/14.

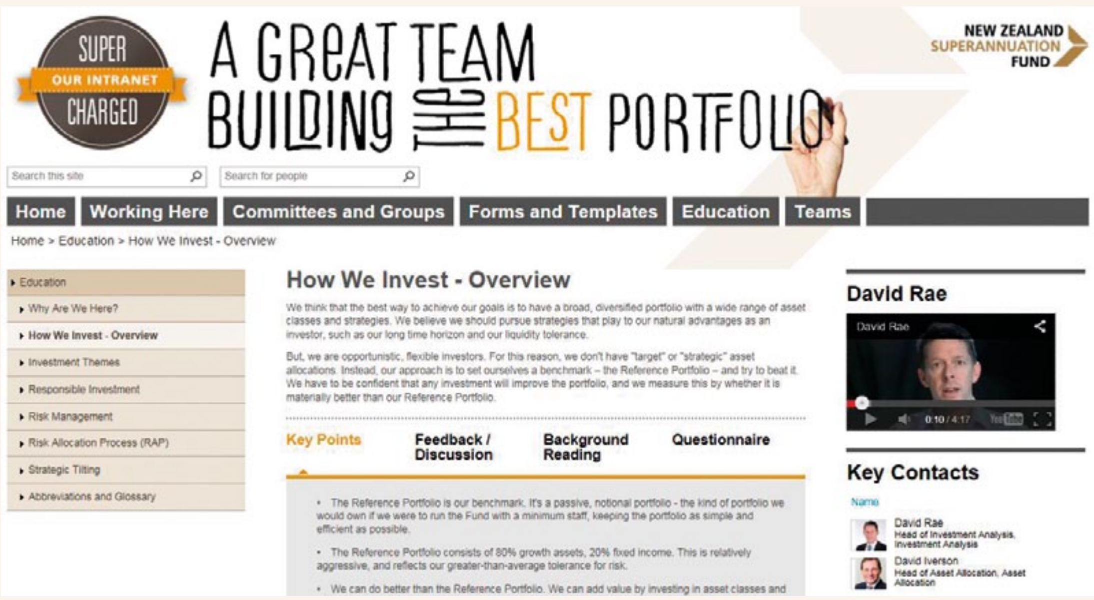
Board education sessions on natural catastrophe bonds, securities market rules and derivatives were also held during the year.

SPONSORSHIPS

The Guardians undertakes a limited number of sponsorships in New Zealand. The intention of the sponsorships is to support activities or events which are consistent with, and which positively raise awareness of, our role and responsibilities in managing the Fund. Current sponsorships are:

- AUT Centre for Financial Research – Auckland Finance Meeting – Award for Best Paper;
- New Zealand Financial Literacy Summit;
- WriteMark Plain English Awards – Best Plain English Investor Document; and
- Responsible Farming Award for FarmRight staff.

In 2013/14, we will add a new sponsorship to our portfolio: the 2013 RIAA Responsible Investment Briefing in Auckland.



Intranet-based staff education module.

Cost Efficiency and Benchmarking

The net expected return of an investment (return after all costs) is central to all our decisions. We therefore seek to:

- ensure that any fees paid to external managers are in line with market standards and the complexity of the investment;
- include the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted value;
- choose cost-effective access points for all investment opportunities; and
- benchmark our costs against those of our peers.

What do you mean by physical vs. synthetic access points?

Investors wanting simple, inexpensive access to a market index can either purchase the individual securities directly (physical holdings) or replicate the performance of the index using derivatives (synthetic products).

A derivative is a contract between two or more parties. The price of a derivative is dependent upon or derived from one or more underlying assets. The value of the derivative is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

Activities during 2012/13

During 2012/13, we:

- continued to judiciously shift between physical and synthetic ways of accessing investments, in order to achieve the most cost-effective and flexible result;
- reviewed our investment advisers on a value and cost basis;
- introduced a cost allocation tool to map resource use and staff time against investment projects, to ensure our efforts are optimal; and
- implemented a personal efficiency training programme.

Priorities for 2013/14 include building on previous staff project management training with a view to increasing the pace with which we progress investment transactions, and implementing and embedding a new Guardians intranet. As well as helping to streamline the induction of new staff, the intranet will facilitate process improvements and efficiencies in our Operations team.

Annual CEM Cost-Effectiveness Survey

The annual CEM Cost-Effectiveness Survey provides international benchmarking information for sovereign wealth and pension funds. The most recent survey, which is available on www.nzsuperfund.co.nz and encompassed 314 funds, estimated the Fund's total costs for the 2012 calendar year, when adjusted for asset mix, to be in line with the median costs of its peers.

Looking forward, our objective is for the Fund to continue to achieve or do better than the median ratings of its peers for value-add and cost.

Fund expenses

The Guardians' and the Fund's expenses are accounted for separately. Both sets of expenses are met by the Fund, with the exception of a small annual appropriation from Parliament to meet the expenses of the Board of the Guardians and for audit fees.

In dollar terms and as a proportion of funds under management, the Fund's overall expenses increased from the prior financial year, driven primarily by performance fees payable to investment managers – a result of the strong performance of the Fund for the year. Excluding performance fees, the Fund's expenses reduced from 0.45% to 0.41% of funds under management – a result of the growth in Fund size, coupled with the overall maintenance of expenses at a similar level to the prior year.

Base manager fees decreased from NZD38.3 million to NZD30.8 million following the termination of a number of external active managers in the first quarter of the financial year. This saving has, in part, been offset by an increase in trade expenses as the portfolio has been reallocated during the year.

Custody fees reduced for a second year from NZD4.5 million to NZD4.3 million following further cost-saving initiatives.

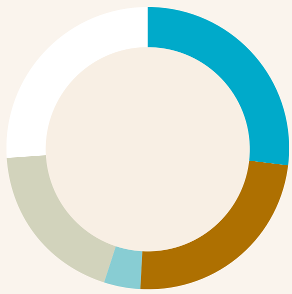
Personnel costs increased from NZD19.6 million to NZD21.2 million – a function of further increases to the headcount of the Guardians. As a proportion of funds under management, however, these costs remained stable at 0.10%.

Other operating expenses (including trading and brokerage expenses, audit fees and advisor costs) have increased from NZD22.8 million to NZD29.9 million (or 0.12% to 0.14% of funds under management). This is, in part, due to the higher trade expenses noted above as well as increased advisor costs arising from a number of new investments during the year.

Tax expense has increased from NZD183.3 million to NZD999.4 million as a direct result of the Fund's increased performance for the year.

EXPENSE TYPE	WHAT IS IT?
Base manager fees	The amounts paid to investment managers for their time and expertise in managing specific investments on the Fund's behalf. Typically, these fees are based on a percentage of the value of the assets under their management
Performance fees	The incentive fees paid to investment managers based on the performance of the assets under their management
Custody fees	The fees paid to the Fund's custodian in return for the safekeeping and administration of investments
Personnel costs	Comprised of employee remuneration, benefits and other associated costs
Other operating expenses	These expenses are primarily comprised of trade and brokerage expenses (the costs incurred in transacting investments); audit fees (amounts paid to the Fund and Guardians' auditor for the execution of the statutory audit); and advisor costs (the fees paid to external experts for specific projects such as the due diligence on prospective investments)

Fund Expenses 2012/13

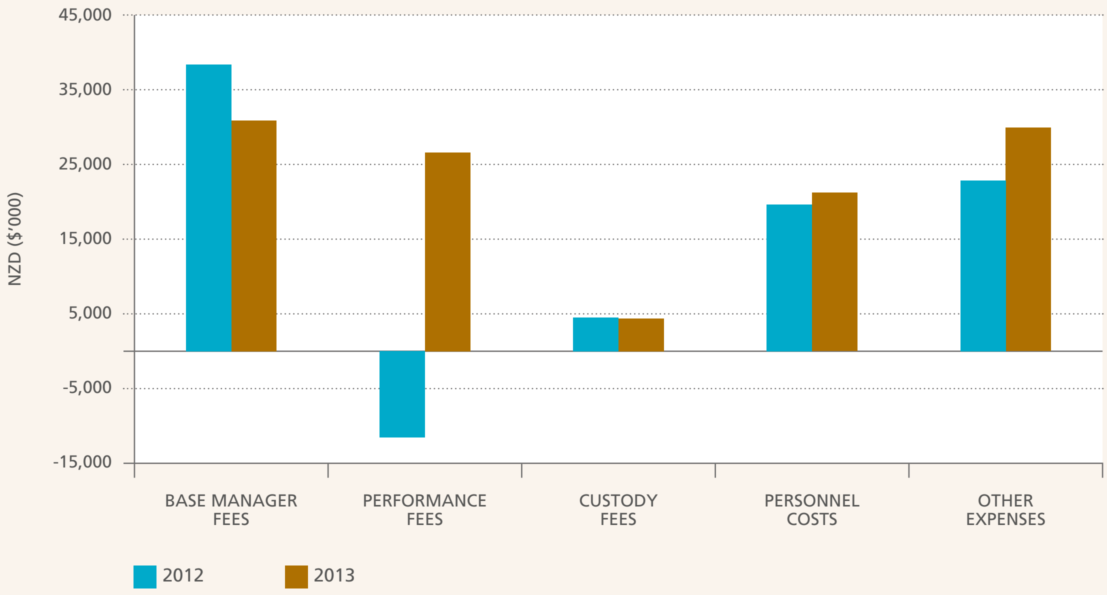


- Base Manager Fees **27%**
- Performance Fees **24%**
- Custody Fees **4%**
- Personnel Costs **19%**
- Other Expenses **26%**

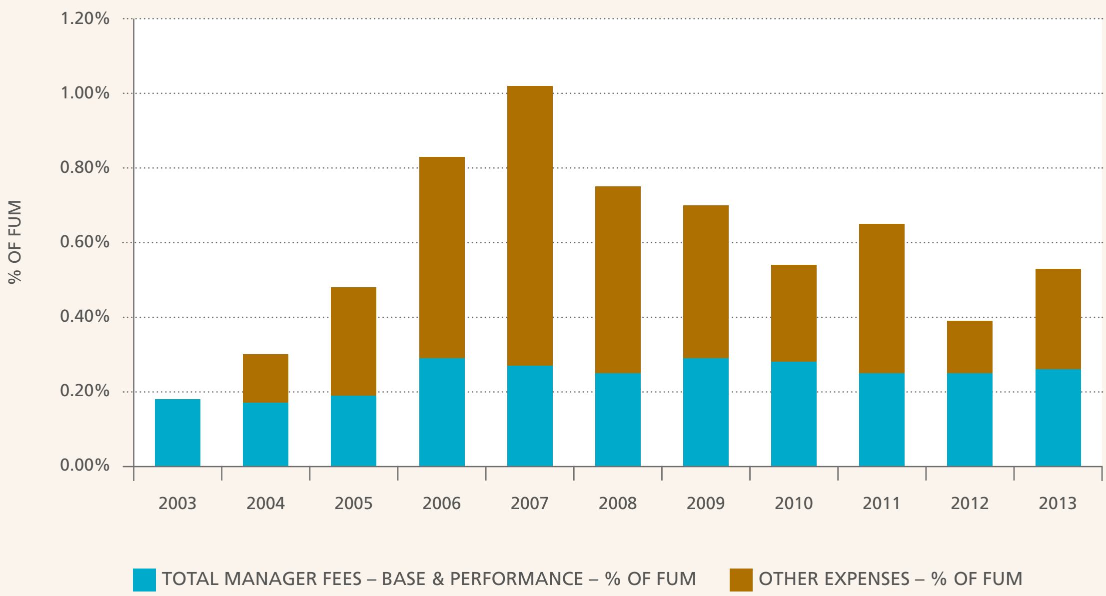
Cost Efficiency and Benchmarking (continued)

Expenses Analysis 2012/13

Total expenses 2013: NZD112.9 million 53.8bps (excluding performance fees: NZD86.3 million 41.1bps)
Total expenses 2012: NZD73.7 million 38.8bps (excluding performance fees: NZD85.2 million 44.8bps)



Fund Expenditure as a Percentage of Funds Under Management (FUM)



Regulatory Update

INTRODUCTION

As a global investor, the Fund is subject to the laws and regulations of the many and diverse jurisdictions in which it invests. Since the Global Financial Crisis, regulators internationally have introduced a number of new measures designed to protect the integrity of global financial markets.

An important challenge faced by the Guardians is to ensure that we comply with requirements in all of the jurisdictions in which the Fund invests.

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

INTERNATIONAL REGULATORY DEVELOPMENTS

Financial Services Sector Reform

Both the US and Europe are reforming aspects of their financial services sector. New regulations (such as the Dodd-Frank & Wall Street Reform and Consumer Protection Act and the Alternative Investment Fund Managers Directive) will impact on the Fund. We are monitoring compliance by our investment managers, counterparties and service providers. See pages 68-69 for a discussion of how the Fund is being readied for the changes.

Foreign Account Tax Compliance Act

This legislation, which passed in the US in March 2010, is designed to reduce tax evasion by US individuals relating to income from financial assets held outside the US. This Act and related guidance requires Foreign Financial Institutions to agree to provide the US Internal Revenue Service with certain information (including any accounts held by US Persons) or face a 30% withholding tax on certain payments received.

In addition, Foreign Financial Institutions will be required to withhold on certain payments made to other Foreign Financial Institutions that have not entered into an Internal Revenue Service agreement.

The Fund will qualify as a Foreign Financial Institution but, as a sovereign entity, we do not expect to suffer a 30% withholding on our US source income as a result of this legislation.

The US Internal Revenue Service has also published a Model Intergovernmental Agreement which the New Zealand Government is currently exploring. If this were to happen, Foreign Financial Institutions in New Zealand would be able to report the required information to the Inland Revenue Department in New Zealand.

NEW ZEALAND REGULATORY DEVELOPMENTS

Proposed changes to the New Zealand Superannuation and Retirement Act 2001

The Guardians has been discussing changes to the Act that established the Guardians and Fund with the New Zealand Treasury and the Minister of Finance, with a view to lowering costs, managing investment risks, increasing our efficiency and improving the Fund's access to investment opportunities.

The primary purpose of the proposed changes is to facilitate the efficient and effective investment of the Fund by allowing the Guardians to control entities (Fund Investment Vehicles) formed for the purpose of holding, facilitating and managing the investments of the Fund.

Like a number of institutional investors, the Guardians prefers to utilise flexible mandates with external investment managers. Flexible mandates give us, among other benefits, the ability to divert committed but undrawn funds away from existing investment opportunities and into new ones, in line with our view of the relative attractiveness of these opportunities over time. Being able to use Fund Investment Vehicles will enable greater use of flexible mandates.

Regulatory Update (continued)

The Guardians and Fund will continue to be prevented from holding or taking substantial controlling interests in any operating entity, such as through takeovers of listed companies or acquisitions of majority interests in unlisted operating entities.

The Bill also includes a number of other less material amendments to facilitate the efficient and effective investment of the Fund.

Financial Markets Conduct Bill
This Bill was introduced into the New Zealand Parliament in October 2011 and was reported back from Select Committee in September 2012. It is expected to be passed in 2013/14. The Bill represents a comprehensive overhaul of New Zealand's securities and financial markets law and will implement a new 'one-stop-shop' for securities law in New Zealand.

The Bill will dispose of the existing prospectus/investment statement disclosure model and introduce a new single-product disclosure statement. The Guardians has been monitoring its progress through the legislative process in order to ensure that it is fully aware of the new regime applicable to securities and financial markets law in New Zealand.

Financial Reporting Bill
The Financial Reporting Bill will repeal and replace the Financial Reporting Act 1993 and amend a number of other statues containing financial reporting obligations. The Bill is aimed at reducing compliance costs for small and medium-sized businesses as well as making financial reporting legislation more user-friendly.

The Guardians is monitoring the Financial Reporting Bill in order to ensure that it is able to comply with the new requirements when they become applicable.

Health and Safety
In light of an increasing regulatory focus on health and safety in New Zealand, the Guardians undertook a review of its current reporting practices and investment structures in 2012/13, with a particular focus on our farming and direct timber investments in New Zealand.

As part of good governance, it is important that the Guardians receive sufficient reporting on health and safety compliance. Operational decisions in relation to health and safety, however, remain with the experts – the relevant asset managers.

The Guardians will continue to monitor forthcoming regulatory reform in this area.

Other
Other important regulatory developments in New Zealand that may impact upon the Fund's business, the business of the Fund's appointed investment managers, counterparties and service providers or otherwise impact the markets in which the Fund operates include:

- Crown Entities Amendment Act 2013;
- Companies and Limited Partnerships Amendment Bill; and
- Class Action Bill.

We note that, in 2013, the Minister of Justice granted the Guardians exemption from all provisions of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

People and Environment Report

Our People

Being able to attract, retain and develop high calibre people in what is a global, highly competitive market is vital to the performance of the Fund.

We aim to embed the Guardians' vision, values and culture; translate business strategies into clear role requirements, accountabilities and competencies; and drive productivity and business performance through compensation, performance management, and leadership and coaching programmes.

We place a high priority on attracting the best candidates, retaining our top talent and building the capability of our team. We strive to be a good employer and are committed to offering equal employment opportunities to prospective and existing staff. Workplace flexibility, investing in professional development and offering staff career progression opportunities are central to our employment offering.

2012/13 ACHIEVEMENTS

Leadership development was again a strong focus during the year, with good progress being achieved against a programme to build leadership capability and, in turn, create an inclusive culture that is strongly focused on achievement and development.

Culture survey

In June 2013 the Guardians undertook the Organisational Culture Inventory® (OCI) and Organisational Effectiveness Inventory (OEI) surveys, achieving a 100% response rate from staff. The survey was last undertaken in 2011.

OCI, the most widely used and thoroughly researched tool for measuring organisational culture in the world, provides us with important staff feedback about how close we are to our desired culture. In broad terms, we aim to have a constructive organisational culture that is strong on support for others, achievement and satisfaction; and low on competitive, aggressive, oppositional and passive behaviour.

The results showed some positive gains since the OCI and OEI was last undertaken in 2011, as well as clear signals about areas for improvement. We are now using the results to build our culture development plan for 2013/14.

Internal promotions

We were pleased to be able to confirm internal transfers and promotions to 11 staff during the year. Being able to offer staff members career progression opportunities, and the ability to gain new skills, is an important attraction and retention strategy. It also allows us to retain our valuable institutional knowledge.

Staff training

We made a significant investment in personal efficiency training during 2012/13, as part of a wider effort to maximise productivity, reduce cost and increase efficiency and effectiveness. Thirty-five staff members completed tailored training sessions during the year.

A group of senior staff also completed intensive training in negotiation techniques.

Health and safety

Being mainly office based, the Guardians is not a high-risk environment from a safety point of view. Identified potential hazards include overseas travel, occupational overuse syndrome and stress.

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

In 2012/13, we achieved our second biennial primary-level standard in ACC's Workplace Safety Management Practices Programme. Under this programme, the Guardians receives a discount on the standard ACC Workplace Cover levy in recognition of our establishment of health and safety systems and good practices in injury prevention. ACC's audit report noted that there were no critical issues or recommendations for improvements in the Guardians' commitment to health and safety management practices.

Activities undertaken as part of our wellness programme include:

- annual review of health and safety policy;
- subsidised health insurance;
- workstation assessments for all employees;
- advice on safe travel practices;
- first-aid training including CPR and defibrillator training;
- free influenza injections;
- free healthy heart checks; and
- regular occupational health nurse visits.

GOOD EMPLOYER

As a Crown entity, the Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff, and recognising the employment aims of Maori, ethnic minorities, women and people with disabilities. Staff are involved in the development of our good employer and EEO programmes, and have the opportunity to provide input on our Human Resources Policy and approach.

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

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

ELEMENT	GUARDIANS ACTIVITY
Leadership, accountability and culture	• Alignment between strategic plan objectives, individual objectives and performance measures • Culture survey completed in June 2013 • Improvement in 360° leadership styles survey results
Employee development, promotion and exit	• Programme in place to identify and develop high-performing talent • Vacancies advertised internally • Secondment programme established • Exit interview process
Recruitment, selection and induction	• Robust recruitment and selection processes • Orientation and induction for all staff including a 12-week review • Summer internship programme
Remuneration, recognition and conditions	• Transparent, equitable and gender-neutral job evaluation practices • Remuneration benchmarked against third-party New Zealand data • New incentive programme into its third year
Flexibility and work design	• IT systems facilitate working from home • Flexible working arrangements supported where appropriate • 100% return rates from parental leave
Harassment and bullying prevention	• Employee Code of Conduct and relevant policies available and endorsed at all times • Performance-management process rewards positive and constructive behaviour
Safe and healthy environment	• Strong focus on employee health, safety and well-being through provision of support services (see above) • Achieved primary-level standard in ACC's Workplace Safety Management Practices Programme

STAFF PROFILE

PABLO SOSA SENIOR ANALYST:

Public Accountant, Universidad de Buenos Aires, Argentina; Specialisation in Finance – Universidad de San Andres, Argentina; CFA Charterholder – CFA Institute

Pablo, formerly the Chief of Treasury in Argentina for Unilever, moved to New Zealand with his partner in 2007 and joined the Fund in 2008 after a role with another investment provider.

Following roles in the Fund's Finance and Operations teams, Pablo is now a senior analyst in the Fund's Investment Analysis team.
The team is responsible for maintaining an updated view on the relative attractiveness of different investment opportunities across the Fund.

Pablo currently focuses on insurance-related strategies, fixed income and real estate.

Pablo is most proud of his achievements in redeveloping the Fund's performance reporting and contributing to the liquidity use and pricing framework at the Fund level.

"Integrity, a willingness to keep learning, and an analytical and logical approach to problem-solving are the top three skills needed to succeed in my job," he says.

Our People (continued)

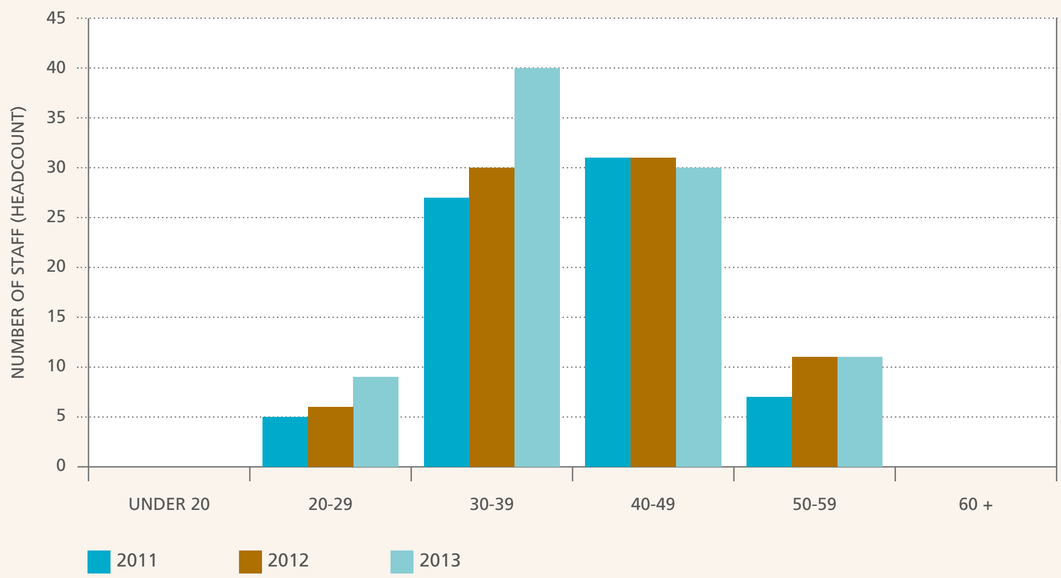
WORKFORCE PROFILE

Understanding and providing transparency over the demographics of our workforce is an important part of our commitment to being a good employer. This year, we continued to improve the depth of our reporting by including, for the first time, statistics on turnover by gender; educational qualifications of staff; and return to work and retention rates after parental leave, by gender.

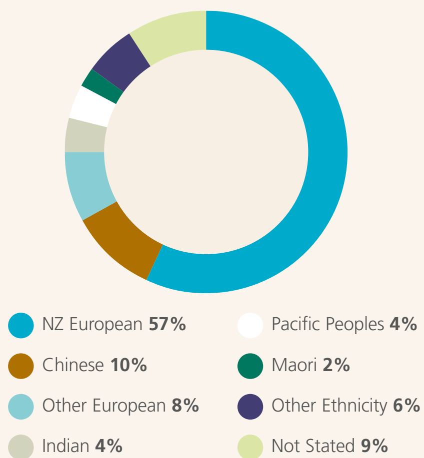
Workforce Statistics

COMPONENTS	2013	2012	2011
Our Workforce			
Full Time Equivalent (FTE) employees	86.4	75.2	66
Headcount	89	78	69
Full time (FTE)	92%	93%	92%
Part time (FTE)	8%	7%	8%
Staff members with disabilities	1%	0%	0%
Female Representation			
Female staff members	32 (36%)	26 (33%)	24 (36%)
Female Board members	3 (43%)	2 (28%)	1 (14%)
Female Leadership Team members and direct reports to CEO	2 (25%)	1 (14%)	1 (14%)
Female Heads of Teams	4 (26%)	5 (36%)	3 (20%)
Female investment professionals	8 (28%)	7 (22%)	6 (23%)
Turnover			
Turnover – all staff	12%	10%	13%
Turnover – male	13%	Not reported	Not reported
Turnover – female	9%	Not reported	Not reported
Educational Qualifications			
% of staff with a postgraduate tertiary qualification	52%	Not reported	Not reported
% of staff with an undergraduate tertiary qualification	91%	Not reported	Not reported
Return to Work and Retention after Parental Leave (as primary care-giver)			
Return to work – male	None taken	Not reported	Not reported
Return to work – female	100%	Not reported	Not reported
Retention as at 30 June 2013 after returning during the year – male	None taken	Not reported	Not reported
Retention as at 30 June 2013 after returning during the year – female	100%	Not reported	Not reported
Health and safety			
Lost-time work injuries	0	0	0
Absenteeism as measured by days of sick leave per FTE	2.4	Not reported	Not reported

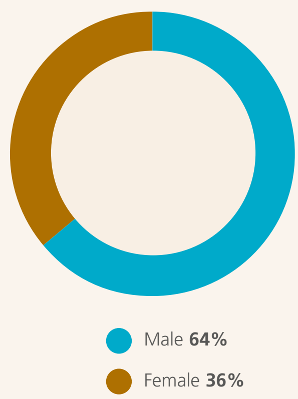
Workforce Age



Ethnic Profile as at 30 June 2013



Gender Balance as at 30 June 2013



Environmental Performance

The Guardians' Environmental Policy makes a commitment to monitoring and minimising the environmental footprint of our growing organisation.

In previous years, we have reported on environmental performance indicators based on a combination of internal monitoring and annual waste audits by external specialists. In 2012/13, we took our commitment to understanding and managing the environmental impact of our activities a step further by opting into the CarboNZero Programme.

CarboNZero is the world's first internationally accredited greenhouse gas (GHG) certification system. Through CarboNZero's Certified Emissions Management and Reduction Scheme, we are able to accurately measure our GHG emissions and set achievable annual targets for reducing them.

During the year, we participated in our first CarboNZero audit, allowing us to produce an accurate estimation of our internal office energy use by converting it into tCO_2e (tonnes of carbon dioxide equivalent). This included measuring our internal energy use, flights taken by staff and use of taxis. See the table on the facing page for a breakdown.

As 2012/13 is our first year in the programme, we will not provide year-on-year comparisons of our performance under it until 2013/14.

However, in real terms, 2012/13 showed a decrease in electricity use and kilometres flown per full-time-equivalent employee.

It should be noted that extensive overseas travel will continue to be necessary and important, given the context of the Fund's investment portfolio, 79% of which is offshore and is managed by more than 30 overseas advisors.

The past year has also seen the continuation of our comprehensive waste recycling programme, in which food/organic waste, recyclables such as cans, glass and plastic, and landfill rubbish are separated. This programme also covers our paper shredding and recycling system.

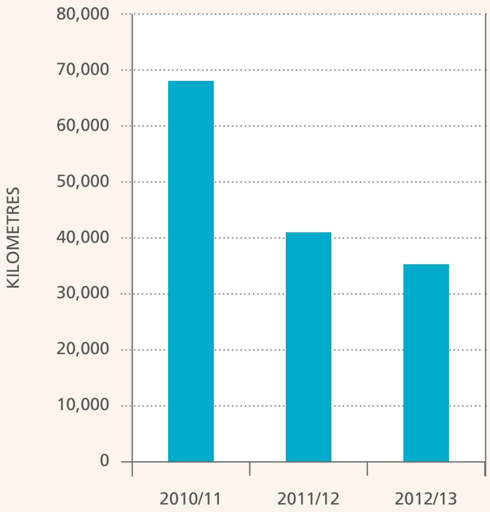
The Guardians' building manager at Zurich House, Precinct Properties, keeps a monthly record of how much rubbish we are creating and how much of it ends up being recycled. In 2012/13, we produced 11,088kg of waste of which 56% was recycled.

As a responsible investor, we also strive to integrate environmental concerns into our wider activities as an investment manager. See the Responsible Investment Report on pages 58-65 for more information.

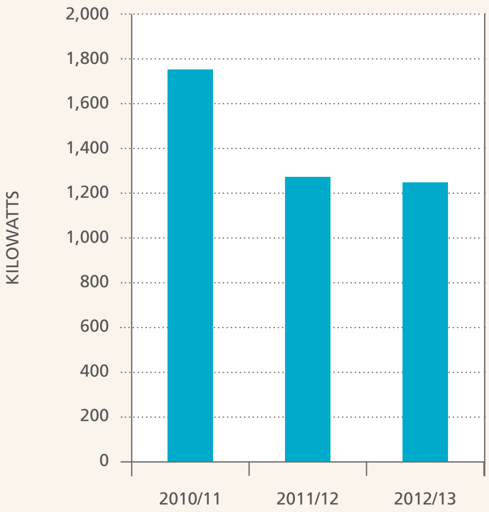
CARBON FOOTPRINT BY TCO_2E (TONNES OF CARBON DIOXIDE EQUIVALENT) UNDER THE CARBONZERO CEMARS PROGRAMME

ENERGY SOURCE	MEASURE	QUANTITY	CO_2
Electricity	kwh	104,456	16.09t
International Air Travel (long haul)	km	2,477,981	559.18t
International Air Travel (short haul)	km	533,637	105.24t
Domestic Air Travel	km	224,078	77.43t
Mileage (Medium Car) 1.6 – 2.0L	km	2,812	0.67t
Taxi – Cost	$	73,116	8.68t
Waste to Landfill	kg	4,862	5.08t
Total			**772.37t**

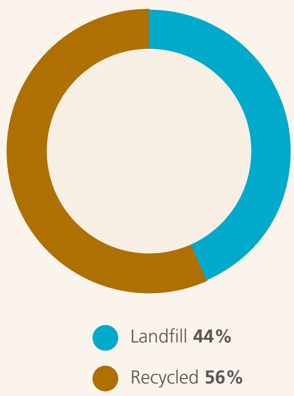
Estimated KMs flown per FTE



Electricity use per FTE



Proportion of rubbish being recycled, 2012/13



Statement of Service Performance

This Statement of Service Performance (SSP) measures the Guardians' progress against objectives and measurements set out in the Forecast Statement of Service Performance (FSSP) in our 2012-2017 Statement of Intent.

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

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

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

Note: while Government cash contributions to the Fund are suspended, we receive no Crown funding other than an appropriation to meet Board costs and audit fees (this appropriation, NZD318,000 in 2012/13, is required by our legislation). All other costs (e.g. manager fees, staff salaries, research costs) are met by the Fund, and it is these costs which are the subject of our cost control work programme.

OUTCOME MEASURES

The Fund's ultimate outcome is to reduce the tax burden on future New Zealand taxpayers arising from the cost of New Zealand Superannuation. This long-term outcome will begin to be achieved only when the Government starts withdrawals from the Fund in 2029/30 or thereabouts. In the shorter term, we seek to influence that outcome by maximising the Fund's returns without incurring undue risk.

MEASURE	EXPECTED OUTCOME – 1 YEAR	ACTUAL OUTCOME – 1 YEAR	EXPECTED OUTCOME – 5 YEARS	ACTUAL OUTCOME – 5 YEARS	ACTUAL OUTCOME – SINCE INCEPTION
Reference Portfolio returns relative to Treasury Bills (per annum)	+2.50%	+16.06%	+2.90% p.a.[8]	+2.60% p.a.	+2.76%
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.10%	+7.36%	+0.50% p.a.[8]	+1.67% p.a.	+1.14%
Expected worst-case downside return	-31.00%	25.83%	-5.00% p.a.[9]	+7.43% p.a.	+8.84%

FURTHER INFORMATION

See the Performance Summary at pages 2-3 and our Investment Performance Report on pages 31-41.

8 Our 2008 Statement of Intent did not include expected outcomes over a five-year period. To contextualise our performance relative to the Reference Portfolio and Treasury Bills, we have therefore cited the 10-year expected outcomes that were set out in 2008.

9 Because no figure for worst-case downside (potential Reference Portfolio loss in a one-in-100-year event) was calculated in 2008, the 2012 value has been applied. The expected worst-case outcome set in the 2012 SOI for the period 2012-2017 is compared to the actual outcome for the period 2008-2013.

Statement of Service Performance (continued)

OUTPUT MEASURES

WORK PROGRAMME	MEASURE	EXPECTED OUTCOME	ACTUAL RESULT	FURTHER INFORMATION
Investment	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above
Cost Control	Costs relative to peers in CEM survey	Achieve/better rating of 'median cost, value-adding'	Cost (1 year) = achieved Cost (5 year) = achieved Value-add (1 year) = achieved Value-add (5 year) = achieved	CEM's most recent annual survey of 314 sovereign wealth and pension funds noted that our net five-year value-add of 0.8% was significantly above the median value-add of our peers. The CEM survey report, which covers the five years to 31 December 2012, is available on www.nzsuperfund.co.nz
Risk Management	Expected worst case downside return (per annum)	As per Outcome Measures above	As per Outcome Measures above	As per Outcome Measures above
Risk Management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index, results as appropriate in other surveys	Achieved 10/10 Q1 2013	Refer to www.nzsuperfund.co.nz and www.swfinstitute.org for more information
Risk Management	Annual updating of response to 'Santiago Principles'	Completed	Completed	See www.nzsuperfund.co.nz and the website of the International Forum of Sovereign Wealth Funds at www.ifswf.org
Risk Management	UNPRI Assessment over time	Top quartile	The UNPRI survey was not held this year. In the most recent survey (for the 2008 – 2011 period) we achieved top quartile results on all measures	Refer to the Responsible Investment Report at pages 58-65 for more information
Risk Management	Published records of voting, Responsible Investment in Practice	Published	Published	See www.nzsuperfund.co.nz and the Responsible Investment Report at pages 58-65
Governance	Outcome of independent reviews	N/A (five-yearly independent review)	N/A (five-yearly independent review)	Refer to www.nzsuperfund.co.nz for copies of previous reviews. The next review will be completed in 2014
Organisational Capability	Key person risks identified and covered; 3 – 6 month cover in place for all critical roles	Board approval received for our assessment of our key person risks and our plans to mitigate that risk	Achieved	Refer to "Our People" section at pages 76-79
Organisational Capability	Key performance indicators (KPIs) achieved	Staff achieve their personal KPIs. Non-achievement to be explained	74% Achieved	Refer to "Remuneration" section at pages 28-29. Note: bonuses are discretionary and involve a mixture of project delivery and behavioural measures

Progress against our Strategic Plan

HIGHLIGHTS FOR 2012/13

In this section, we report in more detail on the Guardians' progress against seven specific activities that were highlighted in our 2012-2017 Statement of Intent, and which were central to our Strategic Plan for the 2012/13 year.

1. Continue responsible investment (RI) strategy

A revised engagement process was introduced during the year, resulting in the exclusion of a small number of companies from the Fund for breaches of RI standards. We also completed a RI review of our investment and asset managers, rating each manager's policy and practice. RI ratings for investment opportunities have also been integrated into the Risk Allocation Process, which is discussed in more detail at page 41. For further information on the implementation of our RI strategy see the RI Report at pages 58-65.

2. Enhancing Strategic Tilting

Strategic Tilting, the process of altering asset allocation weights as expected returns change over time, is one of the Guardians' most important investment strategies. Work continued during the year to further enhance our activities, including the successful implementation of a new portfolio design tool. The tool provides a more systematic, transparent and granular decision framework for managing and sizing tilt positions. For further information on our Strategic Tilting strategy, see page 42-43.

3. Manager segmentation

The Guardians is currently working with more than 40 investment and asset managers, along with a number of peer funds. At any one time we are also talking with a pipeline of prospective managers. These relationships give us access to investment opportunities and can also provide us with valuable information and knowledge. With so many relationships to manage, however, it is important that we are prioritising our efforts effectively and that we get the most out of each one in terms of investments and access to information.

During 2012/13, we therefore undertook an exercise to segment our managers into different priority tiers, with the aim of having deeper relationships with managers we consider are of strategic, long-term value to the Fund. The project also included developing a relationship management programme for each segment and identifying areas in which new managers might be required.

Progress against our Strategic Plan (continued)

4.

Accessing opportunities in the most efficient and effective manner

We continued to place a high focus on managing fees and costs, and on improving the efficiency of how we both implement investments and do business generally. As noted above, the results of our main cost benchmark, the CEM Cost Effectiveness Survey, showed the Fund is being managed cost-effectively. The implementation of the Risk Allocation Process, which is discussed in detail on page 41, was one of the highlights of the year. During the year, we also: implemented a tool to allocate internal costs to specific projects; put staff through personal efficiency training; and established a Fund-wide group to oversee the prioritisation of non-investment projects.

5.

Relationship management and seeking of co-investment opportunities

Peer collaboration is an important strategy to help us build organisational capability, overcome some of the challenges of geographical isolation and execute our investment strategies. The 2012/13 year was notable for our success in partnering with Canadian pension fund PSP and for the formation of the Innovation Alliance with the Alberta Investment Management Corporation and Abu Dhabi Investment Authority.

During the year we also completed an update of our peer collaboration strategy, identifying the peer funds with which we have the greatest similarities and assigning relationship managers to each. We also successfully implemented a new relationship management tool. For more information, see the Peer Collaboration case study on pages 54-55.

6.

Strengthen talent management

Talent management continues to be a high priority for the Guardians. Specific initiatives completed during the year included the preparation of development plans for all key talent, including succession planning options, and the completion of leadership capability and organisational culture surveys. One secondment was completed and a further two organised for 2013/14. For further information, see the Our People report on pages 76-79.

7.

Participate in CEM Global Leaders Risk Management benchmarking

Managing financial, operational and reputational risk is of fundamental importance to the Fund. We are therefore constantly seeking to ensure that our risk management is best practice. CEM, a well-known Canadian pension and sovereign wealth fund benchmarking organisation, surveyed its Global Leaders Group of 27 leading pension and sovereign wealth funds in 2012.

Since the Global Financial Crisis, there has been an increased focus on risk management among sovereign wealth funds globally, and the 2012 survey focused on risk-management practices including staffing, governance, organisational design and enterprise risk management. The survey results demonstrated that risk management at the Guardians and of the Fund is developing in line with best-practice standards at other funds overseas.

Managers and Custodians

This table sets out a complete list of the Fund's asset and investment managers (both those appointed by us and those who manage funds in which the Fund is invested), and custodians, during the financial year. It identifies where new managers or custodians have been appointed or terminated over the last 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

This year, for the first time, we have disclosed the value of the assets each manager holds on behalf of the Fund, as at 30 June 2013. We also disclose the value of each investment as a percentage of the total New Zealand Superannuation Fund.

MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDm	% OF TOTAL FUND (PRE-TAX)
New managers appointed in 2012/13					
BlackRock Investment Management (UK)	2013	Bespoke global listed passive equities	Listed	0	0.0
Leadenhall Capital Partners	2013	Catastrophe linked investments	Unlisted	247	1.1
Pioneer Capital Partners	2013	NZ Expansion Capital	Unlisted	0	0.0
Sankaty Advisors	2013	European Distressed Credit	Unlisted	17	0.1
Managers terminated in 2012/13					
AQR Capital Management, LLC	2007	AQR Absolute Return Fund - multi-strategy mandate	Listed	N/A	N/A
LSV Asset Management	2004	Value-oriented global equities	Listed	N/A	N/A
Numeric Investors	2006	Global equities - multi-strategy	Listed	N/A	N/A
Thompson, Siegal & Walmsley Inc.	2004	US small-cap value equities	Listed	N/A	N/A
Managers retained in 2012/13					
Adams Street Partners	2007	Adams Street Partnership Fund - 2007 Non-US Fund - non-US private equity	Unlisted	9	0.0
American Securities	2010	American Securities Opportunities Fund II - US companies experiencing operating or financial stress	Unlisted	34	0.1
AMP Capital Investors	2003	Bespoke New Zealand active equities	Listed	228	1.0
	2005	AMP Property Portfolio (APP) - New Zealand property	Unlisted	253	1.1
Apax Partners Europe Managers	2007	Apax Europe VII - large European buyouts in the financial and business services, healthcare, media, retail and consumer, and technology and telecoms sectors	Unlisted	46	0.2
Apollo Management	2012	Financial Credit Investment - US life settlements, in particular those acquired from other investors	Unlisted	66	0.3
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund - a diverse convertible arbitrage fund	Listed	22	0.1
Astorg Partners	2011	Astorg V FCPR - buy-outs and expansion capital in mid-market companies, predominantly based in France	Unlisted	7	0.0
BlackRock Investment Management (UK)	2010	Bespoke global fixed income	Listed	1,963	8.5
Blenheim Capital Management	2010	The Blenheim Fund - active commodities/global macro hedge fund	Unlisted	177	0.8
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited - global tactical asset allocation	Listed	242	1.1
Canyon Capital Advisors	2010	Canyon Distressed Opportunity Fund (Delaware) - distressed credit	Unlisted	125	0.5
Capital Partners Pty Limited (CP2)	2005	CP2 (A) Direct Investment Fund - global infrastructure mandate	Both	37	0.2
	2011	Infrastructure - Horizon Roads	Unlisted	288	1.3

Managers and Custodians (continued)

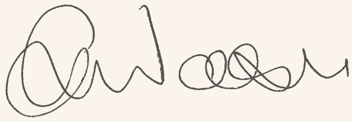
MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDm	% OF TOTAL FUND (PRE-TAX)
CITP	2011	China Infrastructure Partners - companies primarily engaged in the development, ownership or operation of infrastructure and related businesses and projects in mainland China, Hong Kong and Macau	Unlisted	31	0.1
Coller Investment Management	2007	Coller International Partners V Fund - global private equity secondaries	Unlisted	19	0.1
Devon Funds Management	2011	Bespoke New Zealand active equities	Listed	260	1.1
D.E. Shaw & Co	2012	D.E. Shaw Heliant International Fund - global macro hedge fund	Listed	306	1.3
Direct Capital	2005	Direct Capital Partners III - mid-sized private equity in New Zealand and Australia	Unlisted	7	0.0
	2009	Direct Capital Partners IV - mid-sized private New Zealand companies that typically require further capital to continue growing their businesses, expand into Australia, or to assist with ownership succession	Unlisted	21	0.1
	2011	Scales Corporation co-investment	Unlisted	26	0.1
Elementum Advisors	2010	Catastrophe-linked securities	Unlisted	208	0.9
FarmRight	2010	Rural land in New Zealand	Unlisted	153	0.7
GAW Capital	2010	Gateway Real Estate Fund III - real estate investments in greater China and South-East Asia	Unlisted	43	0.2
Gladius Capital Management	2011	Gladius Volatility Opportunities Onshore Fund - volatility trading in various markets	Listed	224	1.0
Global Forest Partners	2007	Global Timber Investors 8 - timber assets in Australia, New Zealand and South America	Unlisted	106	0.5
	2009 & 2012	AIF Properties - Australian timber	Unlisted	157	0.7
	2010	Global Timber Investors 9 - timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	33	0.1
GMO Renewable Resources	2005	Timber assets in New Zealand	Unlisted	7	0.0
Hancock Natural Resource Group, Inc	2005	Timber assets in the United States	Unlisted	35	0.2
	2005	Timber assets in New Zealand	Unlisted	38	0.2
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund - non-US private equity opportunities	Unlisted	57	0.2
Hellman & Friedman	2009	Hellman & Friedman Capital Partners VII (Parallel) - private equity in media, financial services, professional services, software and information services in developed markets	Unlisted	11	0.0
HIG Capital	2010	H.I.G. Bayside Loan Opportunity Fund II (Bayside II) - stressed/ distressed senior debt obligations of US and European small-cap companies	Unlisted	20	0.1
JMI Equity	2010	JMI Equity Fund VII - private equity focused on software, internet, business services and healthcare IT companies, predominantly based in US	Unlisted	19	0.1
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund - private equity in Asia, including Australasia	Unlisted	43	0.2
	2008	KKR 2006 Fund - large and predominantly US private equity buyouts with scope to invest in Europe and Asia-Pacific	Unlisted	58	0.3
LSV Asset Management	2005	Emerging markets equities	Listed	306	1.3
Milford Asset Management Limited	2009	Bespoke New Zealand active equities	Listed	304	1.3

MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDm	% OF TOTAL FUND (PRE-TAX)
H.R.L. Morrison & Co	2006	Global Infrastructure mandate which includes our investment in Z Energy	Both	758	3.3
	2009	Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	28	0.1
Mountgrange Investment Management	2010	Mountgrange Real Estate Opportunity Fund - UK real estate	Unlisted	14	0.1
	2010	MoREOF (Parallel I) Unit Trust - UK real estate	Unlisted	12	0.1
Orion Capital Managers	2009	Orion European Real Estate Fund III - private equity real estate	Unlisted	19	0.1
Pencarrow Private Equity	2005	AMP Pencarrow Private Equity JV Fund - New Zealand management buy-outs and expansion capital transactions	Unlisted	3	0.0
	2011	Pencarrow IV Investment Fund - small and mid-market New Zealand businesses	Unlisted	1	0.0
Red Fort Capital	2011	Red Fort India Real Estate Fund II - Indian real estate	Unlisted	38	0.2
QS Investors	2011	Global equities	Listed	668	2.9
Savanna Real Estate	2010	Savanna Real Estate (PIV) Fund II - private equity real estate in the major markets surrounding New York City, Washington, D.C. and Boston	Unlisted	52	0.2
Secured Capital	2010	SCJREP IV Loan Fund - non-performing and sub-performing commercial property loans in Japan	Unlisted	22	0.1
Sveafastigheter	2011	Sveafastigheter Fund III - real estate assets primarily in Sweden and Finland	Unlisted	41	0.2
State Street Global Advisors	2009	Bespoke global listed passive equities	Listed	4,428	19.3
Vermillion Asset Management	2010	Viridian Fund - active, market-neutral commodities strategy	Listed	294	1.3
Waterman Capital	2010	Waterman Fund II - small and mid-market New Zealand businesses	Unlisted	12	0.1
Willis Bond & Co	2010	Willis Bond Institutional Partners - private equity real estate in New Zealand	Unlisted	16	0.1

CUSTODIAN	ROLE
Custodians during the financial year	
Direct Capital	Holding shares in Scales Corporation Limited as custodian
The Northern Trust Company	Global Master Custodian for the Fund's public market assets
Custodians appointed for a specific purpose during the financial year	
Wells Fargo and Bank of New York Mellon	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand, the Public Trust and Perpetual Trust	Trustees for holding money relevant to tax pooling arrangements

SIPSP Compliance

A Statement of the Guardians' Investment Policies, Standards and Procedures (SIPSP) is published on our website www.nzsuperfund.co.nz. On behalf of the Board and Management of the Guardians of New Zealand Superannuation, we hereby certify that to the best of our knowledge that the SIPSP has been complied with during the 2012/13 financial year.



GAVIN WALKER, CHAIR

ADRIAN ORR, CEO

Financial Statements

NEW ZEALAND SUPERANNUATION FUND AND GROUP

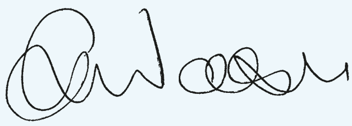
NEW ZEALAND SUPERANNUATION FUND AND GROUP

Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the 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 2013 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund and Group.



GAVIN WALKER, CHAIRMAN

24 September 2013

ADRIAN ORR, CHIEF EXECUTIVE OFFICER

24 September 2013

Statement of Comprehensive Income

For the year ended 30 June 2013		GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
Interest income	2(a)	250,628	243,065	329,103
Dividend income		276,123	237,143	188,562
Timber sales		60,441	56,377	36,142
Milk sales		12,935	8,700	8,786
Livestock sales		780	368	-
Net insurance premiums	21	1,715	-	-
Fair value changes in investments held at fair value through profit or loss	3	3,721,618	(792,006)	1,258,725
Net foreign exchange gain/(loss)		526,805	508,136	-
Fair value changes in forests		(6,608)	(27,253)	-
Fair value changes in livestock		(2,152)	(622)	-
Share of profit of investments accounted for using the equity method	6(f)	145,796	99,155	68,040
Net gain on sale of available-for-sale assets		1,564	-	-
Other income		328	4,172	-
Net operating income/(loss)		**4,989,973**	**337,235**	**1,889,358**
Operating expenses	2(b)	168,451	110,676	153,398
Profit/(Loss) for the year before income tax expense		**4,821,522**	**226,559**	**1,735,960**
Income tax expense/(credit)	5	999,374	183,342	425,166
Profit/(Loss) for the year after income tax expense		**3,822,148**	**43,217**	**1,310,794**
Other comprehensive income – reclassifiable to profit or loss in subsequent periods				
Net fair value gains/(losses) on available-for-sale financial assets		15,384	4,462	10,400
Translation of foreign operations		5,401	-	-
Income tax on items of other comprehensive income		(1,077)	-	-
Other comprehensive income – not reclassifiable to profit or loss in subsequent periods				
Gain/(Loss) on revaluation of assets		526	5,239	22,060
Income tax on items of other comprehensive income		2,840	(1,502)	-
Other comprehensive income for the year, net of tax		**23,074**	**8,199**	**32,460**
Total comprehensive income for the year		**3,845,222**	**51,416**	**1,343,254**

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

Statement of Financial Position

As at 30 June 2013		GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
ASSETS				
Cash and cash equivalents	19	5,630,533	2,716,586	3,115,937
Cash pledged as collateral	22	682,745	502,171	-
Trade and other receivables	8	133,599	116,727	884,696
Other assets	9	1,083	1,312	1,105
Investments				
Investments – derivative financial instrument assets	6	713,963	902,769	1,031,172
Investments – other financial assets	6	16,008,936	14,130,298	14,123,917
Other financial assets pledged as collateral	6, 22	81,935	199,018	-
Investments accounted for using the equity method	6	1,036,941	953,989	915,586
Agricultural assets	6	55,147	77,877	153,756
Total investments		17,896,922	16,263,951	16,224,431
Assets held for sale	7	750	91,075	-
Insurance assets	21	746	-	-
Property, plant and equipment	10	109,670	83,592	245,279
Intangible assets	11	3,162	1,239	4,450
Total assets		**24,459,210**	**19,776,653**	**20,475,898**
LIABILITIES				
Cash collateral received	22	81,419	162,646	-
Trade and other payables	12	732,423	183,151	103,877
Investments – derivative financial instrument liabilities	6	653,960	434,646	-
Insurance liabilities	21	20,097	-	-
Taxation payable		248,742	133,326	83,888
Provisions	13	499	-	26,483
Deferred tax liability	5	173,903	159,954	141,242
Total liabilities		**1,911,043**	**1,073,723**	**355,490**
Net assets		**22,548,167**	**18,702,930**	**20,120,408**
PUBLIC EQUITY				
Retained surplus		7,632,888	3,800,705	5,177,395
Available-for-sale reserve		23,128	7,744	26,798
Asset revaluation reserve		5,733	12,402	34,136
Foreign currency translation reserve		4,324	-	-
Contributed capital	15	14,882,079	14,882,079	14,882,079
Total public equity		**22,548,152**	**18,702,930**	**20,120,408**
Non-controlling interest		15	-	-
Total equity		**22,548,167**	**18,702,930**	**20,120,408**

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

Statement of Changes in Public Equity

For the year ended 30 June 2013 — GROUP ACTUAL

	NOTE	FOREIGN CURRENCY TRANSLATION RESERVE NZ$000	ASSET REVALUATION RESERVE NZ$000	AVAILABLE-FOR-SALE RESERVE NZ$000	CONTRIBUTED CAPITAL NZ$000	RETAINED SURPLUS/ (DEFICIT) NZ$000	NON-CONTROLLING INTEREST NZ$000	TOTAL NZ$000
Balance at 1 July 2011		**-**	**8,798**	**3,282**	**14,882,079**	**3,757,355**	**-**	**18,651,514**
Profit for the year						43,217		43,217
Other comprehensive income		-	5,239	4,462			-	9,701
Income tax on items of other comprehensive income		-	(1,502)	-				(1,502)
Transfer to retained surplus/ (deficit) on disposal of property, plant and equipment			(133)			133		-
Total comprehensive income for the year		-	3,604	4,462	-	43,350	-	51,416
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				9,583,511			9,583,511
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				(9,583,511)			(9,583,511)
Balance at 30 June 2012		**-**	**12,402**	**7,744**	**14,882,079**	**3,800,705**	**-**	**18,702,930**
Profit for the year						3,822,148	-	3,822,148
Other comprehensive income		5,401	526	15,384				21,311
Income tax on items of other comprehensive income		(1,077)	2,840	-				1,763
Transfer to retained surplus/ (deficit) on disposal of property, plant and equipment			(10,035)			10,035		-
Total comprehensive income for the year		4,324	(6,669)	15,384	-	3,832,183	-	3,845,222
Capital contributions					-		15	15
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				10,234,977			10,234,977
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15				(10,234,977)			(10,234,977)
Balance at 30 June 2013		**4,324**	**5,733**	**23,128**	**14,882,079**	**7,632,888**	**15**	**22,548,167**

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 2013		GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		25,914,783	11,316,816	20,142,110
Cash collateral received		6,486,578	8,114,666	-
Proceeds from sale of forests		66,049	1,377	-
Proceeds from sale of livestock		901	368	-
Proceeds from sale of associates		62,875	53,049	-
Dividends received		271,015	228,077	339,523
Interest received		244,235	240,325	311,939
Receipts from customers		84,398	76,552	45,216
Premiums received		3,613	-	-
Other income		23	1,567	-
Total cash inflow from operating activities		**33,134,470**	**20,032,797**	**20,838,788**
Cash was applied to:				
Purchases of investments		(22,537,182)	(11,428,395)	(20,355,069)
Cash collateral paid		(6,774,579)	(8,025,217)	-
Purchases of forests		-	(523)	-
Purchases of livestock		(6,095)	(11,747)	-
Interest paid on repurchase agreements		-	(88)	-
Managers' fees		(33,573)	(61,822)	(78,183)
Payments to suppliers		(82,646)	(75,299)	(90,082)
Income tax paid		(861,156)	(267,267)	(369,335)
Goods and Services Tax		(3,567)	(1,386)	-
Total cash outflow from operating activities		**(30,298,798)**	**(19,871,744)**	**(20,892,669)**
Net cash provided by/(used in) operating activities	19(c)	**2,835,672**	**161,053**	**(53,881)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		23,505	1,279	48,933
Total cash inflow from investing activities		**23,505**	**1,279**	**48,933**
Cash was applied to:				
Purchases of property, plant and equipment		(30,094)	(46,497)	(118,900)
Purchases of intangible assets		(1,067)	(1,176)	(500)
Total cash outflow from investing activities		**(31,161)**	**(47,673)**	**(119,400)**
Net cash provided by/(used in) investing activities		**(7,656)**	**(46,394)**	**(70,467)**
Net increase/(decrease) in cash and cash equivalents		**2,828,016**	**114,659**	**(124,348)**
Cash and cash equivalents at the beginning of the financial year		2,716,586	2,653,018	3,240,285
Effects of exchange rate changes on the balance of cash held in foreign currencies		85,931	(51,091)	-
Cash and cash equivalents at the end of the financial year	19(a)	**5,630,533**	**2,716,586**	**3,115,937**

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 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

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

The objective of the Fund is to reduce the tax burden on future New Zealand taxpayers of the cost of New Zealand Superannuation.

The consolidated financial statements comprise the Fund and its subsidiaries.

The Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to manage the Fund in a commercial, prudent fashion comprising:

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

The Fund's master custodian is the Northern Trust Company.

Under Section 43 of the Act, the Crown is required to make capital contributions to the Fund for investment based on a percentage of Gross Domestic Product (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. Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. No capital contributions were received during the current year, other than for superannuation entitlement payments.

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 201.

STATEMENT OF COMPLIANCE

The Fund is a profit-oriented entity. The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 24 September 2013.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Act.

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

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

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year. The budget figures are unaudited.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 July 2012:

(i) Amendments to NZ IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

(ii) Amendments to NZ IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income (OCI)

The adoption of the above amendments has not had any impact on recognition or measurement in the financial statements. The amendment to NZ IAS 1 has required disclosure of items in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods.

Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2013. The standards and interpretations applicable to the Fund are outlined in the table below.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IAS 28	Investments in Associates and Joint Ventures	NZ IAS 28 Investments in Associates and Joint Ventures (as amended in 2011) supersedes NZ IAS 28 Investments in Associates (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities. NZ IAS 28 (as amended in 2011) prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Disclosure requirements relating to these investments are now contained in NZ IFRS 12.	1 January 2013	The amendments will have an impact on the Group's associate and joint venture disclosures.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	These amendments introduce disclosures, which provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position.	1 January 2013	The amendments will have an impact on the Group's financial statement disclosures.	1 July 2013
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures	These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9. These disclosures are required even if entities choose to restate the comparative figures for the effect of applying NZ IFRS 9.	1 January 2013	The amendments will lead to additional disclosures when the Group adopts NZ IFRS 9.	1 July 2013
NZ IFRS 10	Consolidated Financial Statements	NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This could lead to more entities being consolidated.	1 January 2013	Management has assessed that the adoption of the new standard will not result in the Group consolidating any entities which it does not currently consolidate.	1 July 2013

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 11	Joint Arrangements	NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities – Non-monetary Contributions by Ventures. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition, NZ IFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets are accounted for using the equity method. This may result in a change in the accounting for joint arrangements.	1 January 2013	The new standard is unlikely to impact the recognition and measurement of the Group's joint ventures, but it may impact financial statement disclosures.	1 July 2013
NZ IFRS 12	Disclosure of Interests in Other Entities	NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The new standard will have an impact on the Group's subsidiary, associate and joint venture disclosures. There will also be new disclosures around the Group's involvement with structured entities.	1 July 2013
NZ IFRS 13	Fair Value Measurement	NZ IFRS 13 establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. Application of the guidance may result in different fair values being determined for the relevant assets. NZ IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	The new standard may lead to changes in the recognition, measurement and disclosure of assets and liabilities held at fair value.	1 July 2013
NZ IFRS 10, NZ IFRS 11 and NZ IFRS 12	Amendments to NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements and NZ IFRS 12 Disclosure of Interests in Other Entities – Transition Guidance	These amendments clarify: (i) The meaning of 'the date of initial application' in IFRS 10 as 'the beginning of the annual reporting period in which IFRS 10 applied for the first time'. (ii) That the assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. (iii) If the control assessment is different between NZ IFRS 10 and NZ IAS 27 Consolidated and Separate Financial Statements/NZ SIC-12 Consolidation – Special Purpose Entities, retrospective adjustment should be determined. (iv) If the control assessment is the same, no retrospective application is required. (v) That an investor should adjust comparative periods retrospectively if the consolidation conclusion reached at the date of initial application is different. (vi) If more than one comparative period is presented, additional relief is given to require only one period to be restated. (vii) That comparatives for the disclosures relating to unconsolidated structured entities under NZ IFRS 12 are not required.	1 January 2013	The amendments may impact disclosures in the financial statements.	1 July 2013

* Designates the beginning of the applicable reporting period.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
Annual Improvements to NZ IFRS's 2009-2011 Cycle	Amendments to NZ IFRS's arising from the Annual Improvements Project (2009-2011)	The following amendments may impact the Group: (i) NZ IAS 1 – Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. (ii) NZ IAS 16 – Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.	1 January 2013	The amendments may impact disclosures in the financial statements.	1 July 2013
NZ IFRS 10, NZ IFRS 11, NZ IFRS 12 and NZ IAS 27 Amendments	Investment Entities	The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with NZ IFRS 9 Financial Instruments in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in NZ IFRS 12 and NZ IAS 27.	1 January 2014	Management has assessed that the Fund meets the definition of an investment entity and therefore the Fund will be required to measure its subsidiaries at fair value through profit or loss rather than consolidating them. This is likely to result in measurement differences in the statement of financial performance, categorisation differences in the statement of financial position and additional disclosures in the financial statements.	1 July 2014
NZ IAS 32	Amendments to NZ IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.	1 January 2014	The amendments may impact disclosures in the financial statements.	1 July 2014

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 9 (2009)	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the International Accounting Standards Board's (IASB) project to replace NZ IAS 39 Financial Instruments: Recognition and Measurement. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: (a) Two categories for financial assets, being amortised cost or fair value; (b) Removal of the requirement to separate embedded derivatives in financial assets; (c) Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (i) the contractual cash flows from the instrument represent principal and interest and (ii) the entity's purpose for holding the instrument is to collect the contractual cash flows; (d) An option for investments in equity instruments which are not held for trading to recognise fair value changes through OCI with no impairment testing and no recycling through profit or loss on derecognition; (e) Reclassifications between amortised cost and fair value are no longer permitted unless the entity's business model for holding the asset changes; and (f) Changes to the accounting and additional disclosures for equity instruments classified as fair value through OCI.	1 January 2015	The new standard will affect the classification and measurement of the Group's financial assets.	1 July 2015
NZ IFRS 9 (2010)	Financial Instruments	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: (a) The change attributable to changes in credit risk is presented in other comprehensive income; and (b) The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk is also presented in profit or loss.	1 January 2015	The new standard will impact disclosures in the financial statements.	1 July 2015

* Designates the beginning of the applicable reporting period.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) 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 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 Changes 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 Changes in Public Equity.

(b) Capital withdrawals

(i) *Fund capital withdrawals*
In terms of Section 47 of the Act no withdrawals of Fund capital contributions are permitted prior to 30 June 2020.

(ii) *Superannuation entitlement payments*
The net cost of superannuation entitlements is treated as capital withdrawals by the Crown in respect of funding the net cost of superannuation entitlements and is recorded in the Statement of Changes 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's financial statements.

(c) Income tax

In accordance with Section HR 4B of the Income Tax Act 2007, the income derived by the Fund is subject to New Zealand tax determined by using the rules applying to companies.

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

Current tax is calculated by reference to the amount of taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

(i) except for a deferred income tax liability arising from the initial recognition of goodwill;

(ii) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(iii) in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax assets and unused tax losses can be utilised:

(i) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except that deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

(d) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, derivatives, investments (excluding agricultural assets), 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 Comprehensive Income.

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the instrument. Derivatives are recognised on a trade date basis. The Group offsets financial assets and financial liabilities when the Group has a current legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all of the risks and rewards or ownership. The Group derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

The Group classifies its financial assets and financial liabilities into the following categories:

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Held for trading

All derivatives are classified as Held for Trading.

Fair value through profit or loss upon initial recognition

These include equity securities, other equity interests and debt instruments. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Group.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

AVAILABLE-FOR-SALE

These are unquoted equity instruments where fair value cannot be reliably measured, or where the instrument is not managed on a fair value basis.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group includes in this category amounts relating to cash, reverse repurchase agreements, cash pledged as collateral, unquoted debt instruments and other short-term receivables.

FINANCIAL LIABILITIES AT AMORTISED COST

This category includes all non-derivative financial liabilities. The Group includes in this category amounts relating to cash collateral received, repurchase agreements and other short-term payables.

(e) Investments

Investments are represented by the following:	KEY
• Financial instruments at fair value through profit or loss (either designated at fair value through profit or loss or held for trading):	
– Equities	**(i)**
– Fixed income securities	**(ii)**
– Derivatives	**(iii)**
– Collective investment funds	**(iv)**
– Certain private equity investments	**(v)**
– Unlisted unit trusts	**(vi)**
– Insurance-linked investments	**(vii)**
– Unlisted debt instruments	**(viii)**
• Available-for-sale financial instruments:	
– Certain private equity investments	**(ix)**
– Other available-for-sale investments	**(x)**
• Loans and receivables: unlisted debt instruments	**(xi)**
• Investments accounted for using the equity method (refer accounting policies (i) and (j))	
• Agricultural assets – forests and livestock (refer accounting policies (k) and (l))	

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Initial recording

Financial instrument investments at fair value through profit or loss are initially recognised at fair value on a trade date basis. Transaction costs, e.g. trading commission, are expensed immediately in the Statement of Comprehensive Income.

Subsequent measurement

Subsequent to initial recognition, these investments are recorded at fair value and are classified into the category 'at fair value through profit or loss'. The Guardians manages and evaluates the performance of these investments on a fair value basis, in accordance with the Fund's investment strategy; and information about the investments is provided internally on this basis to the Guardians' key management personnel. Changes in fair value are recognised in profit or loss in the Statement of Comprehensive Income.

Determination of fair value

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:

(i) Listed equities are valued at the last quoted bid price on the relevant exchange as of the close of business at balance date.

(ii) Highly liquid fixed income securities and equity-linked notes are valued at the last quoted bid price by a reputable pricing vendor or broker as of the close of business at balance date. Where the market for fixed income securities is illiquid, prices are determined by a reputable pricing vendor who uses models to value these securities. The models can utilise a variety of inputs including loan level data, prepayment and default assumptions and benchmark prices for similar securities. Because of the inherent uncertainty of valuation, it is possible that those values estimated for the illiquid securities may differ from those values that would have been used had a ready market for those securities existed and those differences may be significant.

(iii) Fair value for derivatives is outlined under "Derivatives" below.

(iv) Investments in collective investment funds (unlisted investment funds) are valued at the last price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant collective investment fund.

(v) Certain private equity investments (unlisted investment funds and unlisted equity investments), which are designated at fair value through profit or loss, are valued at the last price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of underlying net assets of the private equity investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. Certain private equity investments are classified as available-for-sale. The accounting policy for these investments is outlined under (ix).

(vi) Investments in unlisted unit trusts are valued at the last bid price of the unit or security as provided by the administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the relevant unlisted unit trust.

(vii) Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers.

(viii) Unlisted debt instruments including fixed and floating rate instruments that form part of an investment into a private equity investment may be designated at fair value through profit or loss. These assets are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment and apportions that value across the instruments held, including the debt instruments. Any unlisted debt instruments that are not designated at fair value through profit or loss are classified as loans and receivables and are carried at amortised cost. Refer to (xi) below.

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

(ix) Certain private equity investments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured using the valuation methods outlined in (v) above, are classified as available-for-sale and are measured at cost less impairment. Transaction costs are included in the cost of the investment. Management has determined that fair value for these investments cannot be reliably measured where the entity's financial statements have not been prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP. Subsequently, where the fair value of these investments becomes able to be reliably measured, then the investment will be measured at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss in the Statement of Comprehensive Income.

(x) Other available-for-sale investments include investments in cooperative and processing companies. The Group is required to hold these investments to facilitate farming investment operations. As such, the Group is normally unable to sell these investments without disrupting farming investment operations. These available-for-sale investments are valued at fair value with gains or losses being recognised in other comprehensive income (reserves) until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is reclassified to profit or loss in the Statement of Comprehensive Income.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments (continued)

LOANS AND RECEIVABLES

(xi) Unlisted debt instruments, including fixed and floating rate notes and redeemable preference shares, are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Where such assets are not designated at fair value through profit or loss, these assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

DERIVATIVES

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk and to achieve exposure to assets and asset classes. The use of derivatives is governed by the Fund's Statement of Investment Policies, Standards and Procedures as approved by the Guardians, which provides written principles on the use of derivatives by the Group.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The fair value of cross currency swaps is determined using a discounted cash flow model.

The fair value of asset swaps is determined using a model, with the key inputs being interest rates and the pricing of inflation futures.

The fair value of interest rate swaps is determined using a model, with the key input being interest rates.

The fair value of credit default swaps is determined using a discounted cash flow model which incorporates default rate and credit spread assumptions for the reference entity or index.

The fair value of volatility swaps is determined using a discounted cash flow model with the key input being the volatility curve.

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

The fair value of index or total return swaps (commodity, equity, bond, real estate and longevity contingent swaps) is provided by the counterparty and is calculated by reference to the movement in the underlying index or basket of securities or other contracts. Index swaps are settled net in cash.

The fair value of insurance-linked swaps is calculated using a model which incorporates the premium paid or received and a price provided by reputable pricing vendors or brokers. Premiums are recognised based on a risk dissipation schedule, derived from third party catastrophe models.

The fair value of exchange-traded insurance-linked options is the closing price as reported by the primary exchange of the contract.

The fair value of other 'over-the-counter' (OTC) swaps is determined using a model, with the key inputs being the expected future cash flows under the swap contract.

The fair value of options is calculated using a Black-Scholes option valuation model or, where the option is traded on exchange, the exchange price is used to value the option.

'DAY 1' GAINS AND LOSSES

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' gain or loss) in profit or loss in the Statement of Comprehensive Income. In cases where the fair value is determined using data which is not observable, the difference between the transaction price and the model value is recognised on a systematic basis over the expected life of the instrument.

(f) Securities lending

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

(g) Repurchase and reverse repurchase agreements

Securities sold under agreement to repurchase at a fixed price or at the sale price plus a lender's return at a specified future date are not derecognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

(h) Consolidation of subsidiaries

Subsidiaries are those entities that are controlled by the Fund.

The Group's financial statements incorporate the financial statements of the Fund and its subsidiaries, which have been consolidated. 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.

Where the financial year ends of subsidiaries do not align with that of the Group, interim accounts are used for consolidation purposes.

All inter-entity transactions, balances and income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(i) Investments in associates

An associate is an entity over which the Fund is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the entity.

At inception, certain of the Fund's associates are designated at fair value through profit or loss under NZ IAS 39 Financial Instruments: Recognition and Measurement (in accordance with paragraph 1 of NZ IAS 28 Investments in Associates). All other associates are equity accounted in accordance with NZ IAS 28 Investments in Associates. The designation is made with reference to how the Guardians intends to manage the investment and the extent to which the Guardians will be involved in the management of the investment.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments in associates (continued)

The results of associates which are accounted for under NZ IAS 28 Investments in Associates are incorporated in the financial statements using the equity method of accounting, except where the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried at cost as adjusted for post-acquisition changes in the Fund's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Fund's interest in that associate are not recognised, unless the Fund has incurred legal or constructive obligations or made payments on behalf of the associate.

(j) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Guardians and other parties undertake an economic activity that is subject to joint control, which is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

At inception, certain of the Fund's joint ventures are designated at fair value through profit or loss under NZ IAS 39 Financial Instruments: Recognition and Measurement (in accordance with paragraph 1 of NZ IAS 31 Interests in Joint Ventures). All other joint ventures are equity accounted in accordance with NZ IAS 31 Interests in Joint Ventures. The designation is made with reference to how the Guardians intends to manage the investment and the extent to which the Guardians will be involved in the management of the investment.

The results of joint ventures which are accounted for under NZ IAS 31 Interests in Joint Ventures are incorporated in the financial statements using the equity method of accounting, except where the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in joint ventures are carried at cost as adjusted for post-acquisition changes in the Fund's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of the Fund's interest in that joint venture are not recognised, unless the Fund has incurred legal or constructive obligations or made payments on behalf of the joint venture.

(k) Forests

Forest assets are predominantly standing trees. These are recognised in the Statement of Financial Position at fair value less estimated point-of-sale costs. The costs to establish and maintain the forest assets are included in profit or loss in the Statement of Comprehensive Income together with the change in fair value for each accounting period.

The valuation of forest assets is based on discounted cash flow models. The annual harvest from forecast tree growth is multiplied by expected wood prices and the costs associated with forest management, harvesting, and distribution are then deducted to derive annual cash flows.

The fair value of the forest assets is measured as the present value of cash flows from one growth cycle based on productive forest land, taking into consideration environmental, operational and market restrictions. Forests are valued separately from the underlying freehold land. Further details on the valuation basis are set out in note 6(g).

(l) Livestock

Livestock is recorded at fair value less estimated point-of-sale costs.

Changes in the value of livestock are recognised in profit or loss in the Statement of Comprehensive Income.

(m) Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

(n) Deferred acquisition costs

Those direct and indirect costs incurred during the financial year arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Deferred acquisition costs (DAC) for insurance contracts are amortised over the period in which the related revenues are earned.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each balance date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised as an expense in the statement of comprehensive income. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related insurance contracts are either settled or disposed of.

(o) Inventory

All inventory items are stated at the lower of cost or net realisable value at balance date. The cost of agricultural produce transferred into inventory is measured at its fair value less estimated point-of-sale costs at the date of harvest. The net realisable value represents the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

(p) Receivables

Short-term receivables are initially recorded at fair value, then subsequently at amortised cost using the effective interest rate less any impairment.

(q) 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 and those costs directly attributable to bringing the item to working condition for its intended use.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, leasehold improvements, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate).

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Independent valuations of land and buildings are performed with sufficient regularity (at least every three years) to ensure that the carrying amount does not differ materially from the asset's fair value at balance date.

DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained surplus.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment (continued)

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of an item) is included in profit or loss in the year in which the item is derecognised.

IMPAIRMENT

All items of property, plant and equipment are assessed for indicators of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in profit or loss in the Statement of Comprehensive Income unless it relates to land and buildings, in which case it is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately unless it relates to land and buildings, in which case it is treated as a revaluation increase.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(r) Depreciation

Depreciation is provided on a straight-line basis at a rate that will write off the cost of the assets to their estimated residual value over their useful lives.

The useful lives of major classes of assets have been estimated as follows:

Land improvements	15–50 years
Buildings	25–50 years
Plant and machinery	3–17 years
Office equipment	3 years
Computer equipment	3 years
Motor vehicles	5–12 years
Office fit-out	12 years

The cost of office fit-out is capitalised and depreciated over the unexpired period of the lease (held by the Guardians) or the estimated remaining useful lives of the improvements, whichever is shorter.

(s) Intangible assets

SOFTWARE

Software and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of three years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

CARBON CREDITS

Allocations of New Zealand Units (NZU) and/or other carbon credits are initially recognised at fair value where they have been received, or the Group is reasonably certain that they will be received, and there is a market-determined price. Other changes in the quantity of carbon credits are recognised as an operating gain or loss based on the fair value at the time of the transaction.

Subsequent to initial recognition, the carbon credits are measured at fair value at the date of revaluation less any subsequent accumulated impairment losses. Fair value for this purpose is determined by reference to an active market. If the carbon credits cannot be revalued because there is no active market, the carbon credits shall be carried at the amount initially recorded less any impairment losses. The carbon credits are assessed to have indefinite useful lives and as such are not amortised but are tested annually for impairment. An impairment loss is recognised when the carbon credits' carrying amount exceeds their recoverable amount. Recoverable amount is the higher of the carbon credits' fair value less costs to sell or value in use.

(t) Assets held for sale

Assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and disposal groups are held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment are not depreciated once classified as held for sale.

(u) Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases 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 straight-line basis over the period of the lease.

Where there are contingent lease payments, which are assessed to be closely related to the host lease contract, they are recognised as an expense as they arise.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as deferred income in the Statement of Financial Position. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the period of the lease.

(v) Payables

Short-term payables are not interest bearing. They are initially recognised at fair value and subsequently at amortised cost.

(w) Insurance contract liabilities

Insurance contract liabilities include the outstanding claims provision, the provision for unearned premiums and the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at balance date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at balance date. The provision is recognised when contracts are entered into and premiums are charged, and is recognised as premium income over the term of the contract in accordance with the pattern of the incidence of risk under the contract.

At each balance date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Statement of Comprehensive Income by writing down the related deferred acquisition costs and, if insufficient, setting up a provision for premium deficiency.

The Group has determined that cash pledged as collateral on insurance contracts and insurance premiums receivable are held to back the Group's insurance liabilities. These assets have been designated as loans and receivables at amortised cost.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, 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.

(y) Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

INTEREST

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. Interest earned on cash balances is accrued at the effective interest rate.

DIVIDENDS

Dividend income is recognised when the shareholder's 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 Comprehensive Income.

SALE OF GOODS

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

INSURANCE PREMIUMS

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by insurance contracts entered into during the year. They are recognised on the date on which the policy commences. Premiums include any adjustments arising during the year for premiums receivable in respect of business written in prior years. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium; others are recognised as an expense.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the balance date. Unearned premiums are calculated in accordance with the pattern of the incidence of risk. The proportion attributable to subsequent years is deferred as a provision for unearned premiums.

(z) 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 a foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised separately in profit or loss in the Statement of Comprehensive Income.

(aa) Translation of the financial statements of foreign operations

Assets and liabilities of foreign operations with functional currencies other than New Zealand dollars are translated at the closing rate. Revenue and expense items are translated at a weighted average of exchange rates over the year, 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 Changes in Public Equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at exchange rates prevailing at the reporting date.

On disposal of a foreign operation, the accumulated amount of the exchange differences taken to the foreign currency translation reserve that relate to the foreign operation is transferred out of the foreign currency translation reserve and recognised as income or expense in the Statement of Comprehensive Income.

(ab) 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 property, plant and equipment and intangible assets.

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 Group and is accordingly not recorded in the Statement of Cash Flows.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less, which have an insignificant risk of change in fair value.

(ac) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised exclusive of GST, with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(ad) Changes in accounting policies

Other than those disclosed in Note 1, there have been no changes in accounting policies. The accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These reclassifications have no impact on the overall financial performance or financial position for the comparable year.

(ae) Significant estimates and judgements

In preparing these financial statements, estimates and judgements have been made concerning the future. These estimates and judgements may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are detailed within the following accounting policies and notes:

- Note 1 (e) Investments. In particular: fixed income securities where the market is illiquid; private equity funds; unlisted unit trusts; derivatives; 'day 1' gains and losses.
- Note 1 (k) Timber investments – forests
- Note 1 (l) Livestock
- Note 1 (q) Property, plant and equipment – valuation of land and buildings
- Note 1 (s) Intangible assets
- Note 6 Investments
- Note 10 Property, plant and equipment
- Note 11 Intangible assets
- Note 20 Financial instruments
- Note 21 Insurance contracts

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

2. PROFIT/(LOSS) FROM OPERATIONS

(a) Interest income

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Interest income – financial instruments held at fair value through profit or loss		
Interest income – Crown	412	-
Interest income – State-Owned Entities	9,747	12,024
Interest income – Other	130,931	152,224
	141,090	164,248
Interest income – financial instruments not at fair value through profit or loss		
Other interest	109,538	78,817
Total interest income	**250,628**	**243,065**

(b) Operating expenses

Profit/(loss) before income tax has been arrived at after charging/(crediting):

	2013	2012
Timber harvesting and operating expenses	22,283	24,766
Farm operating expenses	10,289	5,579
Other insurance expenses (note 21)	51	-
Interest expense	-	88
Depreciation of property, plant and equipment	843	1,206
(Gain)/loss on disposal of property, plant and equipment	17,982	(331)
(Gain)/loss on disposal of intangible assets	550	-
Loss on revaluation of property, plant and equipment	2,963	2,423
Impairment loss on intangible assets	1,897	4,613
Amortisation of intangible assets	898	683
Managers' fees – base	30,862	38,349
Managers' fees – performance	26,608	(11,513)
Custody fees	4,367	4,526
Auditor's remuneration (note 4)	396	313
Reimbursement of Guardians' expenses (note 17)	25,640	23,819
Trade expenses	8,970	4,018
Other expenses	13,852	12,137
	168,451	**110,676**

3. FAIR VALUE CHANGES IN INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Financial assets or liabilities designated at fair value through profit or loss	1,329,288	(375,577)
Financial assets or liabilities held for trading recognised at fair value through profit or loss	2,392,330	(416,429)
	3,721,618	**(792,006)**

4. REMUNERATION OF AUDITOR

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Auditor of the parent entity		
Audit of the financial statements – Attest	349	284
Audit of the Fund's subsidiaries	2	2
Audit of the Guardians' subsidiaries	14	14
	365	**300**

The auditor of the Fund and its subsidiaries and the Guardians' subsidiaries is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

Other auditors in the Group		
Audit of the Fund's subsidiaries	31	13
Total audit fees	**396**	**313**

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

5. INCOME TAX

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Income tax expense		
Current tax – current year	989,319	167,782
Current tax – prior year	(6,677)	(11,769)
Deferred tax – current year	17,092	32,496
Deferred tax – prior year	(360)	(5,167)
Income tax expense	**999,374**	**183,342**
Reconciliation of income tax expense		
Profit/(loss) for the year before income tax	4,821,522	226,559
Income tax calculated at 28%	1,350,026	63,437
Fair Dividend Regime	(202,688)	130,862
Portfolio Investment Entities (PIE) Regime	(115,706)	14,291
Controlled Foreign Companies (CFC) Regime	186	3,175
Imputation credits	(27,695)	(20,563)
Prior period adjustments	(7,036)	(16,936)
Other items	2,287	9,076
Income tax expense	**999,374**	**183,342**
Deferred tax assets are attributed to the following:		
Other	6,325	1,448
Set-off against deferred tax liability	(6,325)	(1,448)
Balance at the end of the year	**-**	**-**
Movement in deferred tax assets		
Balance at the beginning of the year	-	-
Prior year adjustments	(55)	75
Credited to profit or loss	4,932	(6,237)
Set-off against deferred tax liability	(4,877)	6,162
Balance at the end of the year	**-**	**-**

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Deferred tax liabilities are attributed to the following:		
Timber investments – forest revaluation	(176,602)	(151,830)
Amounts recognised directly in asset revaluation reserve	(1,231)	(5,501)
Other	(2,395)	(4,071)
Set-off against deferred tax asset	6,325	1,448
Balance at the end of the year	**(173,903)**	**(159,954)**
Movement in deferred tax liabilities		
Balance at the beginning of the year	(159,954)	(129,877)
Prior year adjustments	415	3,334
Amount recognised directly in asset revaluation reserve	(2,840)	1,502
Other movements	5,623	(2,491)
Set-off against deferred tax asset	4,877	(6,162)
Credited to profit or loss	(22,024)	(26,260)
Balance at the end of the year	**(173,903)**	**(159,954)**

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

6. INVESTMENTS

(a) Investments by asset type

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Financial assets		
Derivative financial instrument assets:		
Forward foreign exchange contracts	208,639	247,547
Cross currency swaps	340,868	391,090
Volatility swaps	6,036	203
Longevity contingent swaps	92,696	80,469
Futures contracts	-	-
Total return swaps – equity	47,704	169,185
Total return swaps – bonds	-	5,481
Credit default swaps	9,167	1,607
Insurance-linked swaps	1,698	3,654
Options	-	2,600
Interest rate swaps	7,105	883
Other OTC swaps	50	50
Total derivative financial instrument assets	**713,963**	**902,769**
Other financial assets:		
New Zealand equities – State-Owned Entities	50,878	5,751
New Zealand equities – Other	1,018,391	1,150,115
Global equities	5,691,553	4,589,217
Total equities	**6,760,822**	**5,745,083**
New Zealand fixed income – State-Owned Entities	-	3,042
Other fixed income	4,391,531	3,780,296
Total fixed income	**4,391,531**	**3,783,338**
Collective investment funds	1,563,838	2,073,661
Reverse repurchase agreements	831,701	625,408
Insurance-linked investments – catastrophe bonds	232,698	260,962
Private equity (i)	1,941,957	1,331,837
Redeemable preference shares	57,500	57,500
Unlisted unit trusts	228,889	252,509
Total other financial assets	**16,008,936**	**14,130,298**
Other financial assets pledged as collateral	**81,935**	**199,018**
Total financial assets	**16,804,834**	**15,232,085**
Investments accounted for using the equity method	**1,036,941**	**953,989**

(i) Includes unlisted investment funds and unlisted equity investments.

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Agricultural assets		
Forests	36,979	63,770
Livestock and crops	18,168	14,107
Total agricultural assets	**55,147**	**77,877**
Total investments	**17,896,922**	**16,263,951**
Financial liabilities		
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	281,919	58,634
Cross currency swaps	34,462	22,799
Asset swaps	107,882	147,337
Futures contracts	-	-
Total return swaps – equity	200,493	110,606
Total return swaps – bonds	4,997	1,117
Credit default swaps	13,020	56,516
Insurance-linked options	-	161
Insurance-linked swaps	-	9,770
Interest rate swaps	7,646	27,266
Options	3,541	440
Total derivative financial instrument liabilities	**653,960**	**434,646**
Net investments	**17,242,962**	**15,829,305**

(b) Restrictions

For restrictions on those investment balances pledged as collateral, refer to note 22.

(c) Fair values

The basis of the fair value determination is set out in the summary of significant accounting policies (note 1).

(d) Illiquid securities

The Group holds asset-backed securities, medium-term notes and corporate bonds for which the market is illiquid. The fair value of these securities is $38,322,000 (2012: $37,600,000), which is included in the other fixed income asset category.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

6. INVESTMENTS (continued)

(e) Investments in subsidiaries

NAME OF SUBSIDIARY	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2013 %	OWNERSHIP INTEREST 2012 %
CNI Timber Operating Company Limited	(i)	30 June	New Zealand	0%	0%
Separate Account NZ0001 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0002 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0003 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0004 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0005 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0006 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0007 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	100%
Separate Account NZ0008 of Horseshoe Re Limited	(ii)	31 December	Bermuda	100%	0%
Sankaty Managed Account (NZSF) Limited Partnership	(iii)	31 March	Cayman Islands	99.9%	0%
Separate Account GN0001 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0002 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0004 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0005 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0006 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0007 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0008 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0009 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0010 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0011 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0012 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0013 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0014 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0015 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0016 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0017 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0018 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0019 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0020 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0021 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0022 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0023 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0024 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0025 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0026 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0027 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0028 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0029 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0030 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0031 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0032 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0033 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0034 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0035 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%

NAME OF SUBSIDIARY	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2013 %	2012 %
Separate Account GN0036 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0037 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0038 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0039 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0040 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0041 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0042 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0043 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0044 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0045 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0046 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0047 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%
Separate Account GN0048 of Horseshoe Re II Limited	(ii)	31 December	Bermuda	100%	0%

(i) All of the shares in CNI Timber Operating Company Limited are legally owned by the Guardians. However, beneficial ownership of the shares remains with the Fund, and as such this company has been consolidated into these financial statements. Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) restricts the Fund from taking a 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 may be 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 Operating Company Limited arose during the purchase of timberland estate. The Group has been restructured so that legal ownership of this entity sits with the Guardians. However, due to certain performance guarantee contracts that exist within the company which have not been transferred, the beneficial ownership of the shares has been retained by the Fund.

(ii) Horseshoe Re Limited and Horseshoe Re II Limited acting for, and for the benefit of, the separate accounts enter into agreements relating to the Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well-regulated, centre for reinsurance business. Section 59 of the Act restricts the Fund from taking an enduring controlling interest in any other entity. As a matter of Bermudan law, a segregated account is not a 'legal person' and has no existence separate from the segregated account company. In addition, the Fund does not control the segregated account company. Therefore, even though the separate accounts have been consolidated into these financial statements, they are not 'entities' for the purposes of Section 59 of the Act and accordingly the interest held does not constitute a breach of that section. During the year, the Fund established an additional separate account (NZ0008) in Horseshoe Re Limited. NZ0008 was established on 1 June 2013. During the year, the Fund established separate account GN0001 in the Bermudan segregated account company Horseshoe Re II Limited. GN0001 was established on 20 May 2013. In addition the Fund established separate accounts GN0002, GN0004, GN0005 and GN0006 in Horseshoe Re II Limited. These separate accounts were established on 15 May 2013. Separate accounts GN0007 through to GN0048 in Horseshoe Re II Limited were established on 1 June 2013.

(iii) During the year the Fund subscribed for an interest in Sankaty Managed Account (NZSF) Limited Partnership. Section 59 of the Act restricts the Fund from taking an enduring controlling interest in any other entity. As a matter of Cayman Islands law, an exempted limited partnership is not a 'legal person'. Even though the limited partnership has been consolidated into these financial statements, it is not an 'entity' for the purposes of Section 59 of the Act and accordingly the interest held does not constitute a breach of that section.

The Fund holds investments in a number of entities where its ownership interest exceeds 50%. The Fund has no power to govern or participate in the financial and operating policy decisions of these entities, and therefore does not have control. As such, investments in these entities have been designated at fair value through profit or loss in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement.

The Fund seeks to maximise after-tax returns. In some cases, this includes the use of holding vehicles that are subsidiaries for accounting purposes. Importantly, the Fund is not invested in schemes and arrangements that use secrecy laws to conceal assets and income that are subject to tax or which create or promote false or fraudulent tax deductions. All investment opportunities are diligently evaluated to ensure they generate an adequate pre-tax return to the Fund. Full transparency and information exchange for tax purposes and compliance with all relevant laws is required.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

6. INVESTMENTS (continued)

(f) Investments accounted for using the equity method

	GROUP ACTUAL 2013 NZ$000	GROUP ACTUAL 2012 NZ$000
Investments in associates	**1,036,941**	**953,989**

NAME OF ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2013 %	OWNERSHIP INTEREST 2012 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	41.25%	40%

	GROUP ACTUAL 2013 NZ$000	GROUP ACTUAL 2012 NZ$000
Summarised financial information of associate company:		
Current assets	112,138	89,178
Non-current assets	2,564,502	2,382,439
Total assets	2,676,640	2,471,617
Current liabilities	32,075	31,196
Non-current liabilities	156	8,554
Total liabilities	32,231	39,750
Net assets	**2,644,409**	**2,431,867**
Revenue	332,824	266,190
Net profit	362,758	250,347
Share of associate's profit	**145,796**	**99,155**

(g) Agricultural assets – forests

Forests are accounted for under NZ IAS 41 Agriculture and are carried at fair value less estimated point-of-sale costs.

	GROUP ACTUAL 2013 NZ$000	GROUP ACTUAL 2012 NZ$000
Gross carrying amount – forests		
Carrying amount at beginning of the year	63,770	135,650
Additions	-	410
Disposals	-	(1,317)
Fair value changes due to harvesting	(17,824)	(21,305)
Other fair value changes	(12,172)	(6,019)
Other changes	-	112
Transfer from/(to) assets held for sale	3,205	(43,761)
Carrying amount at end of the year	**36,979**	**63,770**

At 30 June 2013, the Group's forests measured approximately 1,195 hectares (ha) (2012: 12,166 ha). During the year ended 30 June 2013, the Group harvested a total of 0.74 million cubic meters (m^3) from the current forest holdings as well as amounts harvested from the Group's Forest Estate held for sale at 30 June 2012 (2012: 0.71 million m^3).

The forests have been measured at fair value based on a net present value or discounted cash flow approach. The following methodology and assumptions were applied:

An estate-based approach was employed whereby the net cash flows for each geographically distinct area was forecast and discounted to provide a forest value. These cash flows reflect management's future harvesting and silvicultural intentions for the forest.

(i) The forests have been valued on the basis of a going concern and capture the value of the existing crop on a single rotation basis.

(ii) Notional land rental costs have been included for freehold land based on current government valuations.

(iii) The net present value is calculated using a pre-tax discount rate of 8.5 to 9.5% (2012: 9.0 to 9.5%).

(iv) The cash flows do not take into account income tax.

(v) The impact of movement in prices is estimated by adjusting the starting prices for price forecasting by the quarter-on-quarter movement in market prices and maintaining a consistent price path to the long-run averages by grade category.

(vi) Costs are current average costs. No allowance has been made for cost improvements in future operations.

(vii) The net change in value arising from harvest, growth and change in prices by log grade category is taken as the change in fair market value of the crop and is included in profit or loss in the Statement of Comprehensive Income.

(viii) Estimated point-of-sale costs of 1% have been deducted from the fair valuation.

FOREST RISK MANAGEMENT

The Group is exposed to financial risks in respect of its forestry activities. The primary financial risk that these activities expose the Group to are pricing risks due to the global volatility of log prices, exchange rates and transportation costs. Management monitors these movements and adjusts harvest levels and marketing efforts to minimise the impacts of these changes.

EMISSIONS TRADING SCHEME

The New Zealand Emissions Trading Scheme (ETS) was established by the passing of the Climate Change Response Act 2002. The legal requirements relating to forestry in the ETS are set out in the Climate Change (Forestry Sector) Regulations 2008.

Participants in the ETS have three core obligations:

(i) to monitor their emissions and / or removals of greenhouse gases;

(ii) to report these to the Government by periodically filing an emissions return; and

(iii) to surrender units to cover their reported emissions, or to claim units for their removals.

The primary unit of trade in the ETS is the New Zealand Unit (NZU). One NZU represents one tonne of carbon dioxide either released to the atmosphere (emissions) or removed from the atmosphere (removals).

The forestry sector became a participant in the ETS from 1 January 2008. Participation in the ETS is mandatory for owners of pre-1990 forest land, while owners of post-1989 forest land / foresters may opt into the ETS voluntarily.

Post-1989 forest land is exotic or indigenous forest that is established after 31 December 1989 on land that was not forest land on 31 December 1989.

Pre-1990 forest land is an area of forest land covered by predominantly exotic forest species that was established on or before 31 December 1989 and that remained forest land on 31 December 2007.

The Group owns approximately 235 ha (2012: 7,600 ha) of pre-1990 forest land for which participation in the ETS is mandatory. The Group also owns approximately 89 ha (2012: 4,500 ha) of post-1989 forest land for which participation in the ETS is voluntary. The Group has elected to opt-in for all of its post-1989 forest land.

The Group classifies NZUs (carbon credits) as an intangible asset. Refer to note 11.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

6. INVESTMENTS (continued)

(h) Agricultural assets – livestock

Livestock are accounted for under NZ IAS 41 Agriculture and carried at fair value less estimated point-of-sale costs.

The Group owns dairy cattle primarily held to produce milk. Young stock are held for replacement purposes. The quantity of livestock owned by the Group at 30 June is shown below.

	GROUP ACTUAL	
	2013	2012
	HEAD	HEAD
Livestock class		
R1 heifers	2,484	1,186
R2 heifers	2,140	1,612
Mixed-age cows	8,621	6,752
Total head of cattle	**13,245**	**9,550**

The change in the value of livestock owned by the Group during the year was due to:

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Livestock reconciliation		
Carrying amount at beginning of the year	14,009	2,998
Purchases	6,095	11,747
Fair value changes in livestock – price changes	(1,165)	(138)
Growth of animals	977	390
Birth of animals	3,396	2,110
Livestock losses	(841)	(560)
Book value of livestock sold	(4,550)	(2,538)
Carrying amount at end of the year	**17,921**	**14,009**

During the year ended 30 June 2013, the Group produced 2,399,802 kilograms (kg) of milk solids (2012: 1,692,715 kg).

LIVESTOCK RISK MANAGEMENT

The Group is exposed to financial risks in respect of its farming activities. The primary financial risk that these activities expose the Group to are pricing risks due to the global volatility of milk prices and the price of key inputs, for example feed and fertiliser. Historically, movements in dairy prices have tended to correlate to a reasonable degree with key inputs, and movements are monitored so that management can adapt operations as required. There are procedures in place to minimise and manage the risks that the land and livestock assets are exposed to that could lead to financial loss. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(i) Investments in joint ventures

Investments in joint ventures that have been designated as at fair value through profit or loss are classified as private equity investments.

JOINTLY CONTROLLED ENTITIES DESIGNATED AT FAIR VALUE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2013 %	OWNERSHIP INTEREST 2012 %
Aotea Energy Holdings Limited	31 March	New Zealand	50%	50%
Datacom Group Limited	31 March	New Zealand	37.3%	0%

(j) 'Day 1' gains and losses

	GROUP ACTUAL 2013 NZ$000	GROUP ACTUAL 2012 NZ$000
Other OTC swaps reconciliation of 'day 1' gains		
'Day 1' gain at beginning of the year	9,190	10,583
Unwinding and discount rate adjustment	36	495
Effect of movement in foreign exchange rates	262	295
Gain recognised during the year	(2,153)	(2,183)
Remaining 'day 1' gain at end of the year	**7,335**	**9,190**

The closing balance of the 'day 1' gain has not been recognised in the Statement of Financial Position. It will be recognised on a systematic basis over the life of the instrument to which it relates.

7. ASSETS HELD FOR SALE

As at 30 June 2012, the Group was seeking offers for a portion of the Group's land, forest, crop and carbon credits (Forest Estate). During the year ended 30 June 2013, the majority of these assets were sold. Part of the residual of this Forest Estate has been transferred back into the forest portfolio. The remainder is subject to a sale agreement and will be settled at a later date.

The major classes of assets classified as held for sale as at 30 June 2013 are as follows:

	GROUP ACTUAL 2013 NZ$000	GROUP ACTUAL 2012 NZ$000
Assets		
Forests	-	43,761
Property, plant and equipment	750	42,940
Intangible assets	-	4,374
Assets held for sale	**750**	**91,075**

No gains or losses have been recognised on reclassification of these assets.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

8. TRADE AND OTHER RECEIVABLES

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Trade receivables	6,937	13,480
Accrued interest	53,676	51,537
Dividends receivable	21,406	23,153
Unsettled sales	31,044	28,332
Insurance receivables	19,704	-
GST receivable	832	225
	133,599	**116,727**

Trade receivables have standard 30-day credit terms.

The timing and amount of expected cash flows for accrued interest, dividends receivable, unsettled sales and insurance receivables are certain as they are based on contractual terms and corporate actions. All receivables are expected to be settled within one year.

No allowance has been made for irrecoverable amounts as the Group has assessed that there is no evidence of impairment.

9. OTHER ASSETS

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Inventory (agricultural produce)	1,026	1,253
Prepayments	57	59
	1,083	**1,312**

10. PROPERTY, PLANT AND EQUIPMENT

	GROUP ACTUAL							
	LAND AND LAND IMPROVEMENTS	BUILDINGS	PLANT AND MACHINERY	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	OFFICE FIT-OUT	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Gross carrying amount								
Balance at 1 July 2011	78,972	1,722	225	141	704	90	1,224	83,078
Additions	36,232	6,091	1,995	-	71	656	98	45,143
Disposals	(730)	-	(46)	-	-	(6)	-	(782)
Transfer (to)/from assets held for sale	(45,394)	(173)	-	(40)	-	-	-	(45,607)
Net revaluation increments/ (decrements)	2,381	531	-	-	-	-	-	2,912
Balance at 30 June 2012	**71,461**	**8,171**	**2,174**	**101**	**775**	**740**	**1,322**	**84,744**
Additions	25,146	2,859	892	-	78	311	12	29,298
Disposals	-	(6)	(10)	-	-	(104)	-	(120)
Transfer (to)/from assets held for sale	724	-	-	-	-	-	-	724
Net revaluation increments/ (decrements)	(5,467)	2,229	-	-	-	-	-	(3,238)
Balance at 30 June 2013	**91,864**	**13,253**	**3,056**	**101**	**853**	**947**	**1,334**	**111,408**
Accumulated depreciation								
Balance at 1 July 2011	2,061	31	2	73	522	1	83	2,773
Depreciation expense	564	151	207	13	99	46	126	1,206
Transfer (to)/from assets held for sale	(2,614)	(33)	-	(20)	-	-	-	(2,667)
Depreciation reversed on revaluation	(11)	(149)	-	-	-	-	-	(160)
Balance at 30 June 2012	**-**	**-**	**209**	**66**	**621**	**47**	**209**	**1,152**
Depreciation expense	2	243	269	10	106	83	130	843
Depreciation recovered	-	-	(2)	-	-	(10)	-	(12)
Depreciation reversed on revaluation	(2)	(243)	-	-	-	-	-	(245)
Balance at 30 June 2013	**-**	**-**	**476**	**76**	**727**	**120**	**339**	**1,738**
Net book value								
As at 30 June 2012	71,461	8,171	1,965	35	154	693	1,113	83,592
As at 30 June 2013	**91,864**	**13,253**	**2,580**	**25**	**126**	**827**	**995**	**109,670**

Land, land improvements and buildings have been valued by Property Advisory Limited, an independent registered valuer. The valuer uses New Zealand Valuation and Property Standards as a reference, to determine the fair value of the land, land improvements and buildings. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's-length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions for land, land improvements and buildings of comparable size and location as those held by the Group. The effective date for the valuation was 30 June 2013.

Land, land improvements and buildings purchased during the year have not been independently valued at balance date. The Group believes the purchase price paid reflects fair value at balance date.

The carrying amount of land and buildings that would have been recognised under the cost model is $101,055,000 (2012: $73,272,000).

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

11. INTANGIBLE ASSETS

	GROUP ACTUAL		
	COMPUTER SOFTWARE NZ$000	CARBON CREDITS NZ$000	TOTAL NZ$000
Gross carrying amount			
Balance at 1 July 2011	2,118	7,897	10,015
Additions	1,122	1,619	2,741
Disposals	-	(529)	(529)
Impairment loss	-	(4,613)	(4,613)
Transfer (to)/from assets held for sale	-	(4,374)	(4,374)
Balance at 30 June 2012	**3,240**	**-**	**3,240**
Additions	1,426	720	2,146
Impairment loss	-	(1,897)	(1,897)
Transfer (to)/from assets held for sale	-	2,572	2,572
Balance at 30 June 2013	**4,666**	**1,395**	**6,061**
Accumulated amortisation			
Balance at 1 July 2011	1,318	-	1,318
Amortisation expense	683	-	683
Balance at 30 June 2012	**2,001**	**-**	**2,001**
Amortisation expense	898	-	898
Balance at 30 June 2013	**2,899**	**-**	**2,899**
Net book value			
As at 30 June 2012	1,239	-	1,239
As at 30 June 2013	**1,767**	**1,395**	**3,162**

Carbon credits have been written down to their estimated fair value of $1.80 per unit (2012: $6.85).

12. TRADE AND OTHER PAYABLES

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Trade payables	4,457	1,922
Accrued expenses	43,782	23,565
Unsettled purchases	677,404	151,346
Related party payable to the Guardians – current	6,108	6,031
Related party payable to the Guardians – non-current	136	264
Insurance payables	536	-
Deferred income	-	23
	732,423	**183,151**

The average credit period on trade payables is 30 days. No interest is charged on overdue balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases and insurance payables are certain as they are based on contractual terms and corporate actions. Other than the non-current portion of the related party payable, all payables are expected to settle within one year. The related party payable will settle progressively over a four-year period.

13. PROVISION FOR PERFORMANCE-BASED FEES

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Balance brought forward	-	12,348
New provision during the year	499	32
Unused provision released during the year	-	(11,609)
Current portion transferred to accrued expenses	-	(771)
Closing provision	**499**	**-**
Represented by:		
Current	-	-
Non-current	499	-
	499	**-**

Certain external investment managers earn performance-based fees once agreed hurdles have been reached. For some investment managers, the pay-out of the current year fee is capped, with the remainder of the fee being held by the Group for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain. The current portion of the performance-based fees is included in accrued expenses.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

14. AMOUNTS EXPECTED TO BE RECOVERED OR SETTLED AFTER MORE THAN 12 MONTHS

The Group's Statement of Financial Position is presented on a liquidity basis. Accordingly, certain line items combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
ASSETS		
Investments		
Investments – derivative financial instrument assets	345,131	678,654
Investments – other financial assets	2,163,358	1,532,008
Investments accounted for using the equity method	1,036,941	953,989
Forests	2,316	63,770
Livestock and crops	18,168	14,107
Total investments	**3,565,914**	**3,242,528**
Property, plant and equipment	109,670	83,592
Intangible assets	3,162	1,239
Total assets	**3,678,746**	**3,327,359**
LIABILITIES		
Trade and other payables	136	264
Investments – derivative financial instrument liabilities	159,444	449,049
Provisions	499	-
Deferred tax liability	173,903	159,954
Total liabilities	**333,982**	**609,267**
Net assets	**3,344,764**	**2,718,092**

15. MANAGEMENT OF FUND CAPITAL AND RESERVES

OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING THE FUND'S CAPITAL

The Fund's 'capital' comprises the investments and all other assets of the Fund less any liabilities.

FUNDING – INVESTMENT CAPITAL

The Fund is the property of the Crown. Its purpose is to build a portfolio of financial assets to help reduce the impact of providing universal retirement income, in the form of New Zealand Superannuation, to an ageing population. The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 inclusive of the New Zealand Superannuation and Retirement Income Act 2001 (Act). The Government announced in the 2009 Budget a cessation in contributions to the Fund. Capital contributions are projected to resume from 2020/21 under current Treasury modelling. This may change, however, depending on future Fiscal and Economic Updates.

FUNDING – NET COST OF 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. The 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 has had no control over these transfers, with The Treasury acting as agent for the Fund.

MANAGEMENT OF THE FUND'S CAPITAL

The Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the Fund on a prudent, commercial basis and, in doing so, ensure that the Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The Fund invests the contributions from the Crown, in accordance with the Statement of Investments Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz

NATURE AND PURPOSE OF RESERVES

Asset revaluation reserve

The asset revaluation reserve is used to record increases and decreases in the fair value of land, land improvements and buildings.

Available-for-sale reserve

This reserve records movements in the fair value of available-for-sale financial assets.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Notes to the Financial Statements
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For the year ended 30 June 2013

16. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

COMMITMENTS

The Group has entered into three operating leases for the lease of dairy farm land. The leases have remaining terms of one, three and five years, with options to extend for three, five and three years respectively. The Group does not have an option to purchase the leased assets at the expiry of the lease period and there are no restrictions placed upon the lessee by entering into the lease. The lease agreement stipulates that the rental rate for each year is contingent on the final milk price as announced by Fonterra.

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Within 1 year	200	112
After 1 year but not more than 5 years	316	109
Greater than 5 years	-	21
	516	**242**

At year end, the Group had outstanding commitments to private equity funds totalling $769,167,000 (2012: $730,122,000), of which $11,077,000 has been called but not yet paid (2012: $6,235,000). These commitments are denominated in the foreign currency of the respective fund and have been translated at the year-end rate.

CONTINGENT LIABILITIES

The Group has a contingent liability in respect of both its pre-1990 and post-1989 forests which are part of the New Zealand Emissions Trading Scheme. Should the Group harvest, and not replant, all of its pre-1990 forests, it would have a liability under the ETS of approximately $275,000 determined at 30 June 2013 (2012: $28,064,000). Should the Group harvest, and not replant, all of its post-1989 forests, it would have a liability under the ETS of approximately $31,000 (2012: $3,846,000). The amount and timing of any liability is uncertain and is dependent on the intention of the Group with respect to re-establishing forests after harvesting and the price of carbon at the time of emission.

17. RELATED PARTY DISCLOSURES

(a) Parent entities

The Fund is managed and administered by the Guardians which in turn is a wholly-owned entity of the Crown. Both the Guardians and the Crown prepare financial statements which are available to the public.

(b) Equity interests in related parties

Details of the interests held in subsidiaries, associates and joint ventures are disclosed in notes 6(e), 6(f) and 6(i) (respectively) to the financial statements.

(c) Transactions with related parties

The Guardians has paid expenses relating to the Group, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of the reimbursement to the Guardians for the financial year was $25,640,000 (2012: $23,819,000).

The related party payable to the Guardians at 30 June 2013 is $6,244,000 (2012: $6,295,000).

Related party transactions entered into with subsidiaries, associates and joint ventures during the financial year are as follows:

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Subsidiaries		
Expenses paid by the parent on behalf of subsidiaries	64	73

The Group has made a financial commitment to Sankaty Managed Account (NZSF) Limited Partnership totalling $260,877,000 (equivalent to EUR 155m) (2012: $nil), of which $243,920,000 remains outstanding at year end (2012: $nil). The subsidiary can call on this financial commitment at any time by giving 10 business days notice. This financial commitment expires on 25 February 2016.

Associates		
Interest income	49	-

Related party loans to Kaingaroa Timberlands Partnership and associated companies comprise interest bearing loans of $19,434,000 repayable on 23 May 2043 and an interest-free loan of $12,285,000 repayable on demand.

Joint ventures		
Dividend income	43,984	18,000
Preferred dividends	5,146	5,174
Interest income	8,361	8,455
Purchases of intangible assets	335	-

Related party loans with Aotea Energy Holdings No. 2 Limited (a subsidiary of Aotea Energy Holdings Limited) comprise unsecured floating rate notes of $122,250,000 (2012: $122,250,000) and unsecured redeemable preference shares of $57,500,000 (2012: $57,500,000) repayable on 30 September 2013.

Amounts accrued or payable to joint ventures for purchases of fixed assets, intangible assets and services at year end were $145,000 (2012: $nil). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

Transactions with government-related entities

The Group transacts with the New Zealand Debt Management Office (NZDMO) for a portion of its foreign exchange contracts and cross currency swaps. The rates at which the Group transacts are negotiated with the NZDMO. The fair value of outstanding contracts at year end was an asset of $324,373,000 (2012: asset $374,858,000). Gains on contracts with the NZDMO recognised in profit in the Statement of Comprehensive Income for the year were $16,697,000 (2012: gains $182,477,000).

During the year the Group purchased shares in Datacom Group Limited from New Zealand Post Limited, a Government-related entity. The price paid for the purchase was $140,380,000.

During the year the Group sold land, forests and intangible assets to Meridian Energy Limited, a Government-related entity. The price was $5,300,000.

The Group has invested a proportion of its assets in fixed income securities and equities issued by the Government, Crown Entities and State-Owned Entities. These are detailed in note 6. Interest income earned from these investments for the year was $75,000 (2012: $108,000). Dividend income earned from these investments for the year was $649,000 (2012: $363,000).

The Group places cash on deposit with Kiwibank Limited, a Government-related entity. The balance on deposit at year end was $250,000,000 (2012: $225,000,000). Interest income earned on Kiwibank deposits for the year was $9,671,000 (2012 $11,293,000).

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

18. SUBSEQUENT EVENTS

On 19 August 2013, Z Energy Limited, a subsidiary of Aotea Energy Holdings Limited (a joint venture owned by the Fund) listed on the New Zealand stock exchange. In the listing, 60% of the shares in Z Energy Limited were sold. The fund's share of the gross proceeds from the listing of $420,000,000 will be received via the repayment of floating rate notes, the redemption of redeemable preference shares and by way of a dividend from Aotea Energy Holdings Limited.

On 1 August 2013 the Fund redeemed all of its shares in Separate Accounts NZ0002, NZ0004, NZ0005, NZ0006 and NZ0007 of Horseshoe Re Limited. There was no impact on the financial statements from these redemptions as the Separate Accounts were inactive at 30 June 2013.

Since 30 June 2013, the Fund subscribed for shares in Separate Accounts GN0049, GN0050, GN0051, GN0052, GN0053, GN0054 and GN0055 of Horseshoe Re II Limited. The Fund owns 100% of the shares in these Separate Accounts. There was no impact on the financial statements as the Separate Accounts did not contain any assets or liablilites at the time of subscription.

19. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of 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. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Cash and cash equivalents	5,630,533	2,716,586

At balance date, cash of $335,109,000 (2012: $171,291,000) had been allocated and was held by investment managers awaiting investment.

(b) Restrictions

For restrictions on cash balances pledged as collateral, refer to note 22.

(c) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

	GROUP ACTUAL	
	2013 NZ$000	2012 NZ$000
Profit/(loss) for the year after income tax expense	3,822,148	43,217
Add/(deduct) non-cash items:		
Share of profit of investments accounted for using the equity method	(145,796)	(99,155)
Depreciation and amortisation of non-current assets	1,741	1,889
Loss on revaluation of property, plant and equipment	2,963	2,423
Impairment loss on intangible assets	1,897	4,613
Fair value changes in forests	6,608	27,253
Fair value changes in livestock	2,152	622
Fair value changes in investments	(3,721,618)	792,006
Net foreign exchange (gain)/loss	(526,805)	(508,136)
Other non-cash items	21,875	(4,958)
Add items classified as investing activities:		
Gain/loss on disposal of property, plant and equipment	17,982	(331)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	(16,872)	48,792
Other assets	229	1,063
Increase/(decrease) in liabilities:		
Trade and other payables	549,272	17,490
Provisions	499	(12,348)
Increase/(decrease) in current tax balances	115,416	(117,505)
Increase/(decrease) in deferred tax balances	13,949	30,077
Add/(deduct) changes in net assets and liabilities related to operating cash flows not included in net profit / (loss):		
Unsettled sales	2,712	(45,299)
Unsettled purchases	(526,058)	(39,580)
Add/(deduct) net operating cash flows not included in net profit/(loss)(i)	3,213,378	18,920
Net cash provided by/(used in) operating activities	**2,835,672**	**161,053**

(i) Net operating cashflows not included in net profit/(loss) is primarily comprised of the cashflows arising from the sale and purchase of investments and the net movement in cash collateral.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities by category

Key: **H4T:** At fair value through profit or loss – Held for trading
Designated at FVTPL: Designated at fair value through profit or loss
L&R: Loans and receivables at amortised cost
A4S: Available-for-sale
AC: Amortised cost

	GROUP ACTUAL					
2013	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Financial assets						
Cash and cash equivalents			5,630,533			5,630,533
Cash pledged as collateral			682,745			682,745
Trade and other receivables			133,599			133,599
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	208,639					208,639
Cross currency swaps	340,868					340,868
Volatility swaps	6,036					6,036
Longevity contingent swaps	92,696					92,696
Futures contracts	-					-
Total return swaps – equity	47,704					47,704
Credit default swaps	9,167					9,167
Insurance-linked swaps	1,698					1,698
Interest rate swaps	7,105					7,105
Other OTC swaps	50					50
Total derivative financial instrument assets	713,963	-	-	-	-	713,963
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		50,878				50,878
New Zealand equities – Other		1,018,391				1,018,391
Global equities		5,691,553				5,691,553
Total equities	-	6,760,822	-	-	-	6,760,822
Fixed income						
Other fixed income		4,164,428	227,103			4,391,531
Total fixed income	-	4,164,428	227,103	-	-	4,391,531
Collective investment funds		1,563,838				1,563,838
Reverse repurchase agreements			831,701			831,701
Insurance-linked investments – catastrophe bonds		232,698				232,698
Private equity		1,845,290		96,667		1,941,957
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		228,889				228,889
	-	3,870,715	889,201	96,667	-	4,856,583
Total investments	713,963	14,795,965	1,116,304	96,667	-	16,722,899
Other financial assets pledged as collateral		81,935				81,935
Total financial assets	**713,963**	**14,877,900**	**7,563,181**	**96,667**	**-**	**23,251,711**

2013	GROUP ACTUAL H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Financial liabilities						
Cash collateral received					81,419	81,419
Trade and other payables					732,423	732,423
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	281,919					281,919
Cross currency swaps	34,462					34,462
Asset swaps	107,882					107,882
Total return swaps – equity	200,493					200,493
Total return swaps – bonds	4,997					4,997
Credit default swaps	13,020					13,020
Interest rate swaps	7,646					7,646
Options	3,541					3,541
Total derivative financial instrument liabilities	653,960	-	-	-	-	653,960
Total financial liabilities	**653,960**	**-**	**-**	**-**	**813,842**	**1,467,802**

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and financial liabilities by category (continued)

	GROUP ACTUAL					
2012	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Financial assets						
Cash and cash equivalents			2,716,586			2,716,586
Cash pledged as collateral			502,171			502,171
Trade and other receivables			116,727			116,727
Investments						
Investments – derivative financial instrument assets:						
Forward foreign exchange contracts	247,547					247,547
Cross currency swaps	391,090					391,090
Volatility swaps	203					203
Longevity contingent swaps	80,469					80,469
Futures contracts	-					-
Total return swaps – equity	169,185					169,185
Total return swaps – bonds	5,481					5,481
Credit default swaps	1,607					1,607
Insurance-linked swaps	3,654					3,654
Interest rate swaps	883					883
Options	2,600					2,600
Other OTC swaps	50					50
Total derivative financial instrument assets	902,769	-	-	-	-	902,769
Investments – other financial assets:						
Equities						
New Zealand equities – State-Owned Entities		5,751				5,751
New Zealand equities – Other		1,150,115				1,150,115
Global equities		4,589,217				4,589,217
Total equities	-	5,745,083	-	-	-	5,745,083
Fixed income						
New Zealand fixed income – State-Owned Entities		3,042				3,042
Other fixed income		3,583,215	197,081			3,780,296
Total fixed income	-	3,586,257	197,081	-	-	3,783,338
Collective investment funds		2,073,661				2,073,661
Reverse repurchase agreements			625,408			625,408
Insurance-linked investments – catastrophe bonds		260,962				260,962
Private equity		1,245,100		86,737		1,331,837
Redeemable preference shares			57,500			57,500
Unlisted unit trusts		252,509				252,509
	-	3,832,232	682,908	86,737	-	4,601,877
Total investments	902,769	13,163,572	879,989	86,737	-	15,033,067
Other financial assets pledged as collateral		199,018				199,018
Total financial assets	**902,769**	**13,362,590**	**4,215,473**	**86,737**	**-**	**18,567,569**

	GROUP ACTUAL					
2012	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Financial liabilities						
Cash collateral received					162,646	162,646
Trade and other payables					183,151	183,151
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	58,634					58,634
Cross currency swaps	22,799					22,799
Asset swaps	147,337					147,337
Total return swaps – equity	110,606					110,606
Total return swaps – bonds	1,117					1,117
Credit default swaps	56,516					56,516
Insurance-linked options	161					161
Insurance-linked swaps	9,770					9,770
Interest rate swaps	27,266					27,266
Options	440					440
Total derivative financial instrument liabilities	434,646	-	-	-	-	434,646
Total financial liabilities	**434,646**	**-**	**-**	**-**	**345,797**	**780,443**

(b) Fair value

The Group uses various methods in estimating the fair value of a financial instrument. These methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

The fair value of the financial instruments as well as the methods used to estimate fair value are summarised in the tables below.

		GROUP ACTUAL			
2013	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ$000	NZ$000	NZ$000	NZ$000
Financial assets					
Investments					
Investments – derivative financial instrument assets:					
Forward foreign exchange contracts			208,639		208,639
Cross currency swaps			340,868		340,868
Volatility swaps			6,036		6,036
Longevity contingent swaps	(i)			92,696	92,696
Futures contracts			-		-
Total return swaps – equity			47,704		47,704
Credit default swaps			9,167		9,167
Insurance-linked swaps			1,698		1,698
Interest rate swaps			7,105		7,105
Other OTC swaps	(ii)			50	50
Total derivative financial instrument assets		-	621,217	92,746	713,963
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		50,878			50,878
New Zealand equities – Other		1,018,391			1,018,391
Global equities	(iii)	5,691,475		78	5,691,553
Total equities		6,760,744	-	78	6,760,822
Fixed income					
Other fixed income	(iv)	3,949	4,062,361	98,118	4,164,428
Total fixed income		3,949	4,062,361	98,118	4,164,428
Collective investment funds	(v)	172,313	1,266,150	125,375	1,563,838
Insurance-linked investments – catastrophe bonds			232,698		232,698
Private equity	(vi)		19,527	1,922,430	1,941,957
Unlisted unit trusts	(vi)			228,889	228,889
		172,313	1,518,375	2,276,694	3,967,382
Other financial assets pledged as collateral			81,935		81,935
Total financial assets at fair value		**6,937,006**	**6,283,888**	**2,467,636**	**15,688,530**

		GROUP ACTUAL			
2013	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ$000	NZ$000	NZ$000	NZ$000
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			281,919		281,919
Cross currency swaps			34,462		34,462
Asset swaps			107,882		107,882
Total return swaps – equity			200,493		200,493
Total return swaps – bonds			4,997		4,997
Credit default swaps			13,020		13,020
Interest rate swaps			7,646		7,646
Options			3,541		3,541
Total financial liabilities at fair value		**-**	**653,960**	**-**	**653,960**

(i) The fair value of longevity contingent swaps is provided by the counterparty and is calculated by reference to movements in the underlying basket of contracts. The price provided by the counterparty is a non-binding bid price based on a valuation model which uses a discount rate. If a 2% movement in discount rate is applied, the fair value of the swap would increase by $7,127,000 or decrease by $6,296,000.

(ii) For Level 3 other OTC swaps, the fair value is determined using an internally-generated model, with the key input being interest rates. The other OTC swaps are market-neutral, and the interest rate is fixed. A reasonably likely movement in the fair value in a one-year period has been determined to be 0% based on internal risk modelling, which would increase or decrease the fair value of these securities by $nil.

(iii) The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange as of the close of business at balance date. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange), the price is determined using non-binding broker quotes. These securities have been classified as Level 3. A reasonably likely movement in the fair value in a one-year period has been determined to be 20% based on internal risk modelling, which would increase or decrease the fair value of these securities by $15,500.

(iv) The fair value of other fixed income investments is determined by a reputable pricing vendor who uses models to value the securities or by an independent valuer if the fixed income instrument forms part of a private equity investment. A reasonably likely movement in the fair value in a one-year period has been determined to be 12% based on internal risk modelling, which would increase or decrease the fair value of these securities by $8,355,000.

(v) The fair value of collective investment funds is provided by the investment manager or administrators. The price is based on the fair value of the underlying net assets of the investment. A reasonably likely movement in the fair value in a one-year period has been determined to be 13% based on internal risk modelling, which would increase or decrease the fair value of these securities by $16,071,000.

(vi) The fair value of private equity funds, unlisted equity investments and unlisted unit trusts is provided by the investment manager or administrators. The price is based on the underlying net assets of the investments. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. The Group does not have access to the underlying valuation models to disclose sensitivities to assumptions. However, a reasonably likely movement in the fair value in a one-year period has been determined to be 20% for private equity funds, 16% for private timber funds, 12% for private infrastructure funds and 13% for life settlements investments based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $331,741,000.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

		GROUP ACTUAL			
2012	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ$000	NZ$000	NZ$000	NZ$000
Financial assets					
Investments					
Investments – derivative financial instrument assets:					
Forward foreign exchange contracts			247,547		247,547
Cross currency swaps			391,090		391,090
Volatility swaps			203		203
Longevity contingent swaps	(i)			80,469	80,469
Futures contracts			-		-
Total return swaps – equity			169,185		169,185
Total return swaps – bonds			5,481		5,481
Credit default swaps			1,607		1,607
Insurance-linked swaps			3,654		3,654
Other OTC swaps	(ii)			50	50
Options			2,600		2,600
Interest rate swaps			883		883
Total derivative financial instrument assets		-	822,250	80,519	902,769
Investments – other financial assets:					
Equities					
New Zealand equities – State-Owned Entities		5,751			5,751
New Zealand equities – Other		1,150,115			1,150,115
Global equities	(iii)	4,589,167		50	4,589,217
Total equities		5,745,033	-	50	5,745,083
Fixed income					
New Zealand fixed income – State-Owned Entities			3,042		3,042
Other fixed income	(iv)		3,484,352	98,863	3,583,215
Total fixed income		-	3,487,394	98,863	3,586,257
Collective investment funds	(v)	62,703	1,896,029	114,929	2,073,661
Insurance-linked investments – catastrophe bonds			260,962		260,962
Private equity	(vi)			1,331,837	1,331,837
Unlisted unit trusts	(vi)			252,509	252,509
		62,703	2,156,991	1,699,275	3,918,969
Other financial assets pledged as collateral			199,018		199,018
Total financial assets at fair value		**5,807,736**	**6,665,653**	**1,878,707**	**14,352,096**

		GROUP ACTUAL			
2012	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZ$000	NZ$000	NZ$000	NZ$000
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			58,634		58,634
Cross currency swaps			22,799		22,799
Asset swaps			147,337		147,337
Total return swaps – equity			110,606		110,606
Total return swaps – bonds			1,117		1,117
Credit default swaps			56,516		56,516
Insurance-linked options		161			161
Insurance-linked swaps			9,770		9,770
Options			440		440
Interest rate swaps			27,266		27,266
Total financial liabilities at fair value		**161**	**434,485**	**-**	**434,646**

(i) The fair value of longevity contingent swaps is provided by the counterparty and is calculated by reference to movements in the underlying basket of contracts. The price provided by the counterparty is a non-binding bid price based on a valuation model which uses a discount rate. If a 2% movement in discount rate is applied, the fair value of the swap would increase by $5,363,000 or decrease by $4,730,000.

(ii) For Level 3 other OTC swaps, the fair value is determined using an internally-generated model, with the key input being interest rates. The other OTC swaps are market-neutral, and the interest rate is fixed. A reasonably likely movement in the fair value in a one-year period has been determined to be 0% based on internal risk modelling, which would increase or decrease the fair value of these securities by $nil.

(iii) The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange as of the close of business at balance date. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange), the price is determined using non-binding broker quotes. These securities have been classified as Level 3. A reasonably likely movement in the fair value in a one-year period has been determined to be 20% based on internal risk modelling, which would increase or decrease the fair value of these securities by $9,800.

(iv) The fair value of other fixed income investments is determined by a reputable pricing vendor who uses models to value the securities or by an independent valuer if the fixed income instrument forms part of a private equity investment. A reasonably likely movement in the fair value in a one-year period has been determined to be 4% based on internal risk modelling, which would increase or decrease the fair value of these securities by $2,491,000.

(v) The fair value of collective investment funds is provided by the investment manager or administrators. The price is based on the fair value of the underlying net assets of the investment. A reasonably likely movement in the fair value in a one-year period has been determined to be 13% based on internal risk modelling, which would increase or decrease the fair value of these securities by $14,732,000.

(vi) The fair value of private equity funds, unlisted equity investments and unlisted unit trusts is provided by the investment manager or administrators. The price is based on the underlying net assets of the investment. Fair value is determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. The Group does not have access to the underlying valuation models to disclose sensitivities to assumptions. However, a reasonably likely movement in the fair value in a one-year period has been determined to be 20% for private equity funds, 16% for private timber funds, 12% for private infrastructure funds and 13% for life settlements investments based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $228,838,000.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)

Transfers between categories

There were no significant transfers between Level 1 and Level 2 during the year.

Reconciliation of Level 3 fair value movements

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Opening balance	1,878,707	1,303,059
Gains and losses – profit or loss	325,513	(53,476)
Gains and losses – other comprehensive income	8,843	4,575
Purchases	417,079	690,739
Sales	(45,711)	(4,123)
Settlements	(105,906)	(62,067)
Transfers to other categories	(10,889)	-
Closing balance	**2,467,636**	**1,878,707**

Transfers out of Level 3 during the year relate to shares where the main valuation input is now the valuation of a similar share with a quoted market price.

Total gain or loss stated in the table above for assets held at the end of the period:		
– Profit/(Loss) – Included in fair value changes in investments held at fair value through profit or loss	306,940	(61,403)
– Other comprehensive income – Included in net fair value gains/(losses) on available-for-sale financial assets	4,429	3,896

(c) Financial risk management objectives

Through its activities the Group is exposed to the financial risks of market risk, credit risk and liquidity risk.

The Guardians has established investment policies, standards and procedures to manage the Group's exposure to financial risks. The Guardians manages the risks by adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund, avoiding concentration of risk by: ensuring there is adequate diversification between and within asset classes and geographically; careful selection and monitoring of managers to ensure the Guardians has sufficient conviction that each manager will maximise the probability that return expectations for each investment opportunity will be met and to ensure that there are no unintended biases away from the intended investment strategy; and rigorous measurement and management of market risk.

In addition, the Guardians has imposed constraints on the portfolio which specify a minimum level of liquidity to be held and limit the amount of capital that can be allocated to a single asset, a single investment manager, and each illiquid asset class.

Management monitors and manages the financial risks relating to the Group's operations through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (which includes currency risk, interest rate risk, and equity price risk), credit risk and liquidity risk. Management reports regularly to the Board of the Guardians and the Audit Committee.

The Group is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that reduces the risk of loss of value of the securities held by the custodian, in event of its failure, the ability of the Group to transfer securities might be temporarily impaired.

(d) Derivatives

The use of derivatives is governed by the Group's investment policies which provide written principles on the use of derivatives. Compliance with policies and exposure limits is reviewed by the Guardians on a continuous basis.

Derivatives may be used to: manage risk or hedge against movements in interest rates, values or prices in relation to permitted investments and movements in foreign currency exposures held within the Group; achieve or reduce exposure to assets, all or part of any asset class and foreign currency; and ensure transactional efficiency or reduce the transactional cost of achieving required exposures.

At balance date, the Group has positions in the following types of derivatives:

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the Over-The-Counter (OTC) market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Group has credit exposure to the counterparties of forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. Forward contracts are settled gross and, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Where swap contracts are settled net, the payment flows are usually netted against each other, with the difference being paid by one party to the other. All swaps other than cross currency swaps are settled net. In a cross currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the Group to counterparty credit risk, market risk and liquidity risk.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells put and call options through regulated exchanges and OTC markets. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options are generally settled on a net basis.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

The contract maturities, notional and fair values for all derivatives are set out below:

FORWARD FOREIGN EXCHANGE CONTRACTS

	GROUP ACTUAL			
	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Less than 3 months	(11,530,204)	(48,689)	(4,573,494)	122,934
3 to 12 months	(3,586,498)	(24,545)	(2,741,635)	65,979
Over 12 months	(3,878)	(46)	-	-
	(15,120,580)	**(73,280)**	**(7,315,129)**	**188,913**

All forward foreign exchange contracts are settled gross.

CROSS CURRENCY SWAPS

	GROUP ACTUAL		
2013	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
	NZ$000	NZ$000	NZ$000
Less than 1 year	NZD / AUD	136,299	12,729
	NZD / EUR	168,309	32,305
	NZD / GBP	155,971	22,126
	NZD / USD	332,270	43,321
1 to 2 years	NZD / EUR	90,887	5,727
	NZD / JPY	110,798	20,336
	NZD / USD	842,810	34,162
	USD / JPY	912,451	910
	USD / EUR	305,312	1,477
2 to 5 years	NZD / EUR	420,772	60,123
	NZD / GBP	123,336	9,682
	NZD / JPY	39,105	8,839
	NZD / USD	581,380	55,459
	USD / EUR	388,248	(790)
		4,607,948	**306,406**

2012	GROUP ACTUAL		
	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
	NZ$000	NZ$000	NZ$000
Less than 1 year	NZD / AUD	353,268	(4,659)
	USD / AUD	21,834	(453)
	USD / GBP	188,639	(6,029)
	USD / JPY	41,381	(944)
1 to 2 years	NZD / EUR	157,891	41,488
	NZD / GBP	154,982	22,865
	NZD / USD	319,269	55,926
2 to 5 years	NZD / EUR	558,935	90,610
	NZD / GBP	122,554	9,630
	NZD / JPY	933,243	(4,267)
	NZD / USD	2,397,328	157,610
	USD / EUR	286,415	6,514
		5,535,739	**368,291**

All cross currency swaps are settled gross. Notional value is derived from the "buy" leg of these contracts.

ASSET SWAPS

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Less than 1 year	78,555	(2,115)	-	-
1 to 2 years	65,382	(652)	-	-
2 to 5 years	372,953	(32,015)	87,814	(17,517)
5 to 10 years	168,309	(73,100)	236,837	(84,944)
Over 10 years	-	-	379,261	(44,876)
	685,199	**(107,882)**	**703,912**	**(147,337)**

All asset swaps are settled net.

VOLATILITY SWAPS

	GROUP ACTUAL			
	VEGA NOTIONAL VALUE	FAIR VALUE	VEGA NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
5 to 10 years	1,295	6,036	-	-
Over 10 years	-	-	1,244	203
	1,295	**6,036**	**1,244**	**203**

All volatility swaps are settled net.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

LONGEVITY CONTINGENT SWAPS

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Over 10 years	357,374	92,696	359,565	80,469
	357,374	**92,696**	**359,565**	**80,469**

All longevity contingent swaps are settled net.

CREDIT DEFAULT SWAPS

		GROUP ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2013	2013	2012	2012
		NZ$000	NZ$000	NZ$000	NZ$000
Buy protection	Less than 1 year	1,333,679	(22,961)	2,923,795	(65,281)
	1 to 2 years	837,757	(30,400)	497,667	(10,846)
	2 to 5 years	2,474,854	(15,719)	5,012,753	(25,777)
	5 to 10 years	388,450	(23)	622,084	22,794
		5,034,740	**(69,103)**	**9,056,299**	**(79,110)**
Sell protection	Less than 1 year	1,319,435	22,347	2,416,174	58,513
	1 to 2 years	837,757	29,402	497,667	10,222
	2 to 5 years	3,838,158	13,501	6,656,309	(22,295)
	5 to 10 years	-	-	607,154	(22,239)
		5,995,350	**65,250**	**10,177,304**	**24,201**

The notional values of the credit default swap contracts represent the original notional values. Any subsequent reduction in the notional values due to the default of underlying reference entities has not been reflected in the notional value.

All credit default swaps are settled net.

INSURANCE-LINKED SWAPS

		GROUP ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2013	2013	2012	2012
		NZ$000	NZ$000	NZ$000	NZ$000
Buy protection	Less than 1 year	24,330	1,698	62,880	3,654
Sell protection	Less than 1 year	-	-	127,061	(9,770)
		24,330	**1,698**	**189,941**	**(6,116)**

All insurance-linked swaps are settled net.

OTHER OTC SWAPS

		GROUP ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2013	2013	2012	2012
		NZ$000	NZ$000	NZ$000	NZ$000
Credit default arbitrage swaps	5 to 10 years	129,484	50	124,416	50
		129,484	**50**	**124,416**	**50**

All other OTC swaps are settled net.

OPTIONS

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Insurance-linked options	-	-	-	(161)
Equity options	307,523	(3,541)	118,622	2,160
	307,523	**(3,541)**	**118,622**	**1,999**

INTEREST RATE SWAPS

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Less than 1 year	41,483	(573)	-	-
1 to 2 years	42,778	(619)	122,693	(1,973)
2 to 5 years	381,000	(2,417)	233,431	(4,720)
5 to 10 years	171,463	3,068	126,353	(3,770)
Over 10 years	-	-	49,767	(15,920)
	636,724	**(541)**	**532,244**	**(26,383)**

All interest rate swaps are settled net.

TOTAL RETURN SWAPS – EQUITY

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Less than 1 year	10,911,965	(152,789)	7,752,928	61,079
1 to 2 years	-	-	8,263	(2,500)
	10,911,965	**(152,789)**	**7,761,191**	**58,579**

All equity total return swaps are settled net.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(d) Derivatives (continued)

TOTAL RETURNS SWAPS – BONDS

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Less than 1 year	87,420	(4,997)	278,907	4,364
	87,420	**(4,997)**	**278,907**	**4,364**

All bond total return swaps are settled net.

FUTURES

	GROUP ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2013	2013	2012	2012
	NZ$000	NZ$000	NZ$000	NZ$000
Equity futures	1,875,747	-	3,490,674	-
Fixed interest futures	2,279,551	-	3,070,085	-
	4,155,298	**-**	**6,560,759**	**-**

The margin on futures contracts is settled daily.

MATURITY PROFILE OF DERIVATIVE FINANCIAL LIABILITIES

	GROUP ACTUAL				
2013	LESS THAN 1 YEAR	1–2 YEARS	2–5 YEARS	5–10 YEARS	10+ YEARS
	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Net-settled derivatives	(212,642)	(2,891)	(47,807)	(74,239)	-
Gross-settled derivatives – cash inflow	9,807,942	524,547	8,389	-	-
Gross-settled derivatives – cash outflow	(10,089,815)	(558,219)	(9,225)	-	-
	(494,515)	**(36,563)**	**(48,643)**	**(74,239)**	**-**
2012					
Net-settled derivatives	(126,363)	(5,496)	(71,240)	(89,317)	(60,797)
Gross-settled derivatives – cash inflow	4,291,929	-	420,969	-	-
Gross-settled derivatives – cash outflow	(4,362,649)	-	(431,682)	-	-
	(197,083)	**(5,496)**	**(81,953)**	**(89,317)**	**(60,797)**

(e) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The market risks that the Group is primarily exposed to are: equity price risk, both globally and in New Zealand; interest rate risk (primarily to changes in New Zealand and United States interest rates); and currency risk (primarily to changes in the New Zealand dollar versus the US dollar).

Market risk is managed for the Group as a whole as noted in Note 20(c) under financial risk management objectives, policies and processes. Market risk is further managed by requiring investment managers to manage their portfolios by tracking a benchmark index, within a defined tolerance for tracking error. The tolerance for tracking error imposes certain restrictions on the manager. Those restrictions will include: limits on percentage weight of any particular company in the portfolio relative to its benchmark weight; limits on aggregate investment in companies not represented in the benchmark; limits on investment in any individual company not represented in the benchmark; limits on the maximum investment in any individual company; duration limits relative to the duration of the benchmark; and maximum limits on exposure to single entities.

(i) Equity price risk

Equity price risk is the risk of unfavourable changes in the fair values of equities.

The Group is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivatives or unlisted equities where value is determined with reference to an equity market index or comparable transactions in a listed equity market.

Equity price risk is managed by imposing limits on the overall acceptable level of investment risk in the Fund. This is implemented by imposing limits on investment managers within their mandates.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(i) Equity price risk (continued)

CONCENTRATION OF EQUITY PRICE RISK

The following tables analyse the Group's concentration of equity price risk by geographical and industrial distribution. The analyses include all equities and equity-linked derivatives as well as any other securities that have equity price exposure.

BY GEOGRAPHY	GROUP ACTUAL	
	2013	2012
	%	%
New Zealand	9	10
Australia	5	6
United States	44	46
Europe	25	22
Asia	14	14
Other	3	2
	100%	**100%**

BY INDUSTRY	GROUP ACTUAL	
	2013	2012
	%	%
Basic materials	7	6
Communications	6	6
Consumer – Cyclical	6	6
Consumer – Non-cyclical	16	16
Energy	11	10
Financial	23	22
Funds	3	3
Healthcare	3	2
Industrial	11	14
Technology	7	7
Utilities	6	7
Other	1	1
	100%	**100%**

EQUITY PRICE SENSITIVITY

The following table details the Group's sensitivity to a change of price with all other variables held constant. The analysis has been performed on the same basis as that used in 2012. The percentages used represent management's assessment of a reasonably possible change in equity prices, equivalent to one standard deviation, based on internal risk modelling.

		GROUP ACTUAL			
2013	%	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZ$000	DECREASE NZ$000	INCREASE NZ$000	DECREASE NZ$000
New Zealand equities	18%	202,876	(202,876)	-	-
Global large cap equities	16%	1,965,828	(1,965,828)	-	-
Global small cap equities	20%	262,757	(262,757)	-	-
Emerging markets equities	26%	356,084	(356,084)	-	-
Private equity	20%	95,018	(95,018)	11,394	(11,394)
2012					
New Zealand equities	18%	179,524	(179,524)	-	-
Global large cap equities	16%	1,520,344	(1,520,344)	-	-
Global small cap equities	20%	426,454	(426,454)	-	-
Emerging markets equities	26%	331,221	(331,221)	-	-
Private equity	20%	66,399	(66,399)	10,826	(10,826)

(ii) Foreign currency exchange rate 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 investments in offshore assets and actively manages its risk by taking out forward foreign exchange contracts and cross currency swaps.

Currency risk is managed by:

(a) establishing a foreign currency hedging policy at a total fund level;

(b) specifying the bounds within which each manager may take on currency exposures relative to their benchmark; and

(c) engaging one or more counterparties to transact the Group's foreign exchange transactions, including both spot and forward transactions, at the most favourable rate.

The instruments managers may use, and the creditworthiness of the counterparties, are detailed in the investment management agreements with respective managers. Any forward contracts entered into must be with entities that have an appropriate minimum credit rating as determined by an international credit rating agency for counterparty risk and appropriate contractual arrangements must be in place between the currency manager and the counterparty.

Exposures are mainly economically hedged with derivative financial instruments such as forward foreign exchange contracts and cross currency swaps.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(ii) Foreign currency exchange rate risk (continued)

	GROUP ACTUAL	
	ASSETS	ASSETS
	2013	2012
	NZ$000	NZ$000
Foreign currency exposure		
Australian Dollars	5,480	14,407
Brazilian Real	181,938	176,626
Canadian Dollars	180,964	212,983
Swiss Francs	8,602	1,750
Chilean Pesos	30,915	26,804
Colombian Pesos	18,703	17,255
Czech Koruny	5,498	4,896
Danish Kroner	3,213	1,928
Egyptian Pounds	3,719	4,607
European Union Euros	20,933	601,057
British Pounds	651,269	770,664
Hong Kong Dollars	247,714	205,456
Hungarian Forints	3,776	3,928
Indonesian Rupiahs	51,241	36,688
Israeli New Shekels	31,695	25,130
Indian Rupees	142,519	87,113
Japanese Yen	464,104	59,272
South Korean Won	3,205	-
Moroccan Dirhams	1,360	1,280
Mexican Pesos	93,734	69,249
Malaysian Ringgits	78,646	57,129
Norwegian Krone	-	796
Peruvian Nuevo Sol	7,407	9,370
Philippines Pesos	16,773	12,671
Polish Zloty	30,267	20,885
Russian Rubles	92,881	80,343
Swedish Kronor	5,459	1,222
Singaporean Dollars	6,188	2,734
Thai Baht	50,618	30,598
Turkish New Lira	31,278	22,548
Taiwanese New Dollars	4,738	-
United States of America Dollars	2,233,091	2,787,560
South African Rand	120,291	109,170
	4,828,219	**5,456,119**

This table shows effective foreign currency exposure after forward foreign exchange contracts have been taken into account.

FOREIGN CURRENCY SENSITIVITY

The following table details the Group's sensitivity to a change in the New Zealand dollar against the major foreign currencies, with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts. The analysis has been performed on the same basis as that used in 2012. The percentages used represent management's assessment of a reasonably possible change in foreign currency rates, equivalent to one standard deviation.

		GROUP ACTUAL			
2013	%	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZ$000	DECREASE NZ$000	INCREASE NZ$000	DECREASE NZ$000
NZD / USD	10%	(160,811)	160,811	(4,160)	4,160
NZD / EUR	10%	(1,507)	1,507	-	-
NZD / GBP	10%	(46,891)	46,891	-	-
NZD / JPY	10%	(33,415)	33,415	-	-
NZD / Others	10%	(105,006)	105,006	-	-
2012					
NZD / USD	10%	(201,064)	201,064	(3,953)	3,953
NZD / EUR	10%	(43,276)	43,276	-	-
NZD / GBP	10%	(55,488)	55,488	-	-
NZD / JPY	10%	(4,268)	4,268	-	-
NZD / Others	10%	(88,745)	88,745	-	-

(iii) Interest rate risk

Interest rate risk is the risk that the value of the Group's investments in fixed interest securities and cash and cash equivalents will fluctuate due to changes in market interest rates. Interest rate swaps are used to manage exposure to interest rates. In addition, interest rate risk-management activities are undertaken by investment managers in accordance with the limits imposed in their mandates. 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.

The Group is primarily exposed to changes in New Zealand and US dollar short-term interest rates.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(iii) Interest rate risk (continued)

INTEREST RATE EXPOSURE – MATURITY PROFILE OF FINANCIAL INSTRUMENTS

The following tables are based on the earlier of contractual repricing or maturity period and exclude accrued interest.

	GROUP ACTUAL							
			FIXED MATURITY DATES					
2013	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 5 YEARS	5 – 10 YEARS	10+ YEARS	NON-INTEREST BEARING
	%	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000	NZ$000
Financial assets								
Cash and cash equivalents (i)	1.30%	5,238,445						392,088
Cash pledged as collateral (ii)	0.00%	682,745						
Redeemable preference shares	8.95%		57,500					
Other fixed income investments	3.33%		550,524	355,002	1,094,265	1,491,613	900,127	
		5,921,190	**608,024**	**355,002**	**1,094,265**	**1,491,613**	**900,127**	**392,088**

2012								
Financial assets								
Cash and cash equivalents (i)	2.39%	2,646,471						70,115
Cash pledged as collateral (ii)	0.00%	502,171						
New Zealand fixed income – State-Owned Entities	4.61%					3,042		
Redeemable preference shares	8.95%		57,500					
Other fixed income investments	3.00%		281,097	193,674	1,126,083	964,576	1,214,866	
		3,148,642	**338,597**	**193,674**	**1,126,083**	**967,618**	**1,214,866**	**70,115**

(i) Non-interest bearing cash and cash equivalents is primarily comprised of non-NZD denominated currencies held in custody, the majority of which earn no interest.

(ii) The majority of cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements. The rate of interest earned on this cash, whilst variable, is minimal and consequently a weighted average effective interest rate of 0.00% has been applied.

INTEREST RATE SENSITIVITY

The sensitivity analysis in the table below, showing the effect on profit after tax and other comprehensive income, has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables remaining constant. The analysis has been performed on the same basis as that used in 2012. The percentages used represent management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation.

		GROUP ACTUAL			
2013	BASIS POINTS	PROFIT AFTER TAX		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
		NZ$000	NZ$000	NZ$000	NZ$000
Cash and cash equivalents	50	20,270	(20,270)	-	-
Fixed income	50	18,551	(18,551)	-	-
2012					
Cash and cash equivalents	50	9,780	(9,780)	-	-
Fixed income	50	40,676	(40,676)	-	-

(f) Credit risk management

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 Group to risk consist principally of cash, investments and receivables.

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.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

The Group seeks to mitigate credit risk by applying policies as follows:

(i) Any investment that represents exposure to a single sector within one geography or is a listed security that is over 2% of the net asset value of the Fund requires Board approval;

(ii) Total direct exposure to a counterparty is capped at 2% or 5% (for New Zealand counterparties) of the Fund's net asset value;

(iii) Maximum exposure to New Zealand counterparties in aggregate, is capped at 15% of the Fund's net asset value; and

(iv) Maximum exposure to "BBB" rated counterparties in aggregate, is capped at 6% of the Fund's net asset value.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk management (continued)

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (CONTINUED)

(i) Counterparty credit risk

It is the Group's policy to enter into financial instruments with reputable counterparties. Management closely monitor the creditworthiness of the Group's counterparties by reviewing their credit ratings, credit default swap spreads and press releases on a regular basis.

At balance date, the Group has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset swaps, volatility swaps, longevity contingent swaps, total return swaps, credit default swaps, insurance-linked swaps, interest rate swaps and other OTC swaps. The table below sets out the net exposures by individual counterparty where an instrument has a positive fair value and excludes collateral held against these exposures:

	GROUP ACTUAL	
2013	NOTIONAL VALUE	FAIR VALUE
	NZ$000	NZ$000
Argo Group International Holdings, Ltd.	7,122	514
ANZ National Bank Limited	1,554,252	63,655
Bank of New Zealand	1,150,460	15,419
Barclays Bank PLC, London Branch	1,856,360	15,728
Barclays Bank PLC, New York Branch	664,894	7,545
BNP Paribas, London Branch	785,082	9,518
Citibank N.A., London Branch	1,098,253	9,889
Citibank N.A., New York Branch	132,073	76
Commonwealth Bank of Australia, Sydney Branch	631,176	25,559
Credit Suisse Securities (Europe) Limited	747,784	102,234
Deutsche Bank AG, London Branch	1,572,257	30,094
Goldman Sachs International	545,125	1,319
Hannover Rückversicherung, AG	1,230	54
Her Majesty the Queen In Right of New Zealand (NZ DMO)	2,278,825	324,374
JP Morgan Chase Bank N.A., London Branch	371,497	2,711
Leadenhall Capital Partners	1,644	84
Morgan Stanley & Co. International PLC	1,070,363	4,712
National Australia Bank Limited	129	-
Nomura International PLC	1,300,427	28,307
Odyssey Re Holdings Corp	1,644	85
SCOR ILS Fund SA	9,711	804
St Johns Insurance Company, Inc.	12,948	-
The Hong Kong and Shanghai Banking Corporation Limited	1,042,334	11,260
The Northern Trust Company	219	1
The Royal Bank of Scotland Group	11,103	240
Toronto-Dominion Bank	91,483	1,206
UBS AG, London Branch	561,017	2,112
UBS AG, Singapore Branch	2,058,736	38,110
Westpac Banking Corporation, Wellington Branch	1,146,769	18,353
	20,704,917	**713,963**

2012	GROUP ACTUAL NOTIONAL VALUE	FAIR VALUE
	NZ$000	NZ$000
Amlin Bermuda	9,020	505
ANZ National Bank Limited	1,291,674	33,584
Aon Benfield	12,442	-
Bank of New Zealand	1,620,820	55,167
Barclays Bank PLC, New York Branch	188,535	2,663
BNP Paribas, London Branch	906,803	38,994
Citibank N.A., London Branch	408,736	10,552
Citibank N.A., New York Branch	1,353,655	606
Commonwealth Bank of Australia, Sydney Branch	767,804	15,521
Credit Suisse Securities (Europe) Limited	359,565	80,469
Deutsche Bank AG, London Branch	1,580,960	62,567
Goldman Sachs International	1,569,607	36,842
Hannover Rückversicherung, AG	5,288	171
Hardy Bermuda Limited	5,524	132
Her Majesty the Queen In Right of New Zealand (NZ DMO)	2,204,847	377,444
JP Morgan Chase Bank N.A., London Branch	785,614	26,776
Morgan Stanley & Co. International PLC	952,789	9,951
Nomura International PLC	935,886	44,092
The Hong Kong and Shanghai Banking Corporation Limited	444,015	16,517
The Northern Trust Company	278	2
Tokio Millennium Re Limited	43,048	2,846
UBS AG, Australia Branch	126,159	2,287
UBS AG, London Branch	427,078	20,929
UBS AG, Singapore Branch	125,354	1,060
Westpac Banking Corporation, Wellington Branch	1,697,492	60,492
	17,822,993	**900,169**

The Group restricts the exposure to credit losses on derivative instruments it holds by entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. Such an arrangement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the statement of financial position unless certain conditions for offsetting under NZ IAS 32 apply.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

20. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk management (continued)

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (CONTINUED)

(ii) Credit quality of financial assets

The following table analyses the Group's portfolio of fixed income securities by rating agency category.

	GROUP ACTUAL	
	% OF FIXED INCOME ASSETS	
	2013	2012
Credit rating		
AAA/Aaa	17	34
AA/aa	33	15
A/A	25	22
BBB/Baa	7	7
Other credit rating	7	11
Not rated	11	11
	100%	**100%**

(g) Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Fund is long term by nature (no Fund capital withdrawals are permitted prior to 30 June 2020 and, on current assumptions, none are expected before the 2029/30 financial year).

Liquidity risk is managed by:

(i) forecasting liquidity requirements;

(ii) maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;

(iii) regular review of the liquidity available by senior management; and

(iv) periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

Information about the contractual maturity periods of financial assets and liabilities is included in notes 20(d) and 20(e)(iii).

(h) Fair values

The majority of the Group's assets and liabilities are carried at fair value. For all financial assets and liabilities, carrying value is not materially different from fair value.

21. INSURANCE CONTRACTS

The Group invests in catastrophe reinsurance products via insurance-linked securities, insurance-linked swaps and reinsurance contracts. Insurance-linked securities and swaps are financial instruments and are disclosed in note 6. Reinsurance contracts, which meet the definition of an insurance contract under NZ IFRS 4, are treated as insurance contracts in accordance with that standard.

(a) Net insurance premiums

	GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Premiums written in the year	21,274	-
Change in unearned premiums provision	(19,559)	-
Net earned insurance premiums	**1,715**	**-**

(b) Other insurance expenses

Acquisition costs incurred in the year	765	-
Deferred acquisition costs	(714)	-
Acquisition costs	**51**	**-**

(c) Insurance assets

Collateral pledged	84,897	-
Insurance receivables	19,704	-
Deferred acquisition cost asset	746	-
	105,347	**-**

(d) Deferred acquisition costs

Balance at the start of the year	-	-
Acquisition costs deferred	714	-
Foreign exchange adjustment	32	-
Balance at the end of the year	**746**	**-**

(e) Insurance liabilities

Insurance payables	536	-
Provision for unearned premiums	20,097	-
Total insurance liabilities	**20,633**	**-**

(f) Provision for unearned premiums

Balance at start of the year	-	-
Premiums written in the year	21,274	-
Premiums earned during the year	(1,715)	-
Foreign exchange adjustment	538	-
Balance at end of the year	**20,097**	**-**

The liability adequacy test resulted in a surplus of $19,351,000 as at 30 June 2013. The surplus is based on the Group's 0% claims ratio to 30 June 2013.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

21. INSURANCE CONTRACTS (continued)

(g) Insurance risk

The Group is exposed to insurance risk through its investment in catastrophe reinsurance contracts. The principal risk the Group faces under these contracts is that the actual claims and benefit payments, or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Risks under catastrophe reinsurance contracts usually cover twelve months duration.

For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Group has also limited its exposure by imposing maximum claim amounts on contracts in order to limit exposure to catastrophic events.

The Group's investment managers use both their own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Group, the following table shows the impact of hypothetical 1-in-200 year claims arising for various realistic disaster scenarios based on the Group's average risk exposures during 2013 – the estimates represent the maximum claim that would be expected from a single event to a 99.5% level of confidence.

	MODELLED MAXIMUM INDUSTRY CLAIMS	ESTIMATED MAXIMUM GROSS CLAIMS
	NZ$000	NZ$000
US Wind	300,527,571	94,765
US Quake	89,931,351	22,824
Japanese Quake	106,481,514	12,165
Japanese Wind	37,304,397	29,681
Euro Wind	47,527,736	3,322

(h) Significant concentrations of insurance risk

At balance date, the Group had geographic and peril concentration risk in respect of its catastrophe reinsurance contracts. While the cumulative exposure from all the Group's reinsurance contracts was $198,604,000 (2012: nil), many reinsurance contracts expose the Group to a number of perils in a number of geographic areas. The table below sets out the estimated exposures by geography and peril for the Group's reinsurance contracts for all possible exposures.

KEY PERILS AND GEOGRAPHIC EXPOSURE	ESTIMATED EXPOSURE	
	2013	2012
	NZ$000	NZ$000
US Wind 1 (South coast + Florida)	112,320	-
US Wind 2 (East coast + Florida)	98,701	-
Others	33,100	-
Japan Wind	29,681	-
US Wind 3 (rest of USA)	24,467	-
US Quake 1 (California)	21,397	-
US Quake 2 (rest of USA)	21,397	-
US All Natural Perils	20,717	-
Florida Wind	12,948	-
Japan Quake	12,165	-
Central & Latin America Wind	4,730	-
Central & Latin America Quake	4,730	-
Canada Wind	4,730	-
Canada Quake	4,730	-
US and Canada Earthquake	2,428	-
	408,241	**-**

(i) Significant estimates and judgements

The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount for losses incurred but not reported (IBNR) which have been estimated based on information provided by the ceding insurer. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided and any adjustments will be reflected in the years in which they become known. Thus the aggregate assets and liabilities are subject to change.

Similar estimates, judgements and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining where the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Notes to the Financial Statements

(continued)

For the year ended 30 June 2013

22. COLLATERAL

(a) Collateral pledged

The cash balance pledged as collateral to meet obligations under Credit Support Agreements for derivative positions is $488,734,000 (2012: $295,060,000). The counterparties are not permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the Group when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

Cash balances totalling $194,011,000 (2012: $207,111,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $81,935,000 (2012: $199,018,000) have been lodged with a broker. These cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2012: $nil) held by the Group.

Cash balances totalling $117,297,000 are held awaiting to be pledged as collateral for insurance contracts (2012: $nil).

(b) Collateral received

The cash balance received as collateral to meet obligations under Credit Support Agreements for derivative positions is $81,419,000 (2012: $162,646,000). The Group is not permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under Global Master Repurchase Agreements is $831,288,000 (2012: $625,248,000). The Group is not permitted to sell or repledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Group is entitled to apply the collateral in order to settle the liability.

23. COMPARISON TO BUDGET (UNAUDITED)

During the year ended 30 June 2013 market returns were higher than the medium-term return expectations on which the budget is based. Given the weight of growth assets in the Fund, management expects significant year-to-year variations in the Fund's returns. It is not possible to accurately predict these variations and incorporate them into the budget.

Building a better working world

Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND AND GROUP'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of the New Zealand Superannuation Fund (Fund) and Group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund and Group on her behalf.

We have audited the financial statements of the Fund and Group on pages 93 to 164, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

In our opinion the financial statements of the Fund and Group on pages 93 to 164:

– comply with generally accepted accounting practice in New Zealand; and

– fairly reflect the Fund and Group's:

  • financial position as at 30 June 2013; and

  • financial performance and cash flows for the year ended on that date.

Our audit was completed on 24 September 2013. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

An audit also involves evaluating:

– the appropriateness of accounting policies used and whether they have been consistently applied;

– the reasonableness of the significant accounting estimates and judgements made by the Guardians;

– the adequacy of all disclosures in the financial statements; and

– the overall presentation of the financial statements.

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

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Independent Auditor’s Report
(continued)

RESPONSIBILITIES OF THE GUARDIANS

The Guardians are responsible for preparing financial statements that:

– comply with generally accepted accounting practice in New Zealand; and

– fairly reflect the Fund and Group’s financial position, financial performance and cash flows.

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

The Guardians’ responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR

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

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

BR Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Financial Statements

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Statement of Responsibility

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Service Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Service Performance for the year ended 30 June 2013 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

GAVIN WALKER, CHAIRMAN

24 September 2013

MARK TUME, BOARD MEMBER

24 September 2013

Statement of Comprehensive Income

For the year ended 30 June 2013		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
Revenue	2(a)	26,106	24,242	30,882
Expenses	2(b)	26,106	24,242	30,882
Profit/(Loss) for the year		**-**	**-**	**-**
Other comprehensive income		-	-	-
Total comprehensive income for the year		**-**	**-**	**-**

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

Statement of Financial Position

As at 30 June 2013		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
Current assets				
Cash and cash equivalents	15	1,069	637	898
Trade and other receivables	4	332	244	2,200
Related party receivables	4, 11	6,249	6,098	3,764
Total current assets		**7,650**	**6,979**	**6,862**
Non-current assets				
Related party receivables	4, 11	136	264	-
Investments in subsidiaries	10	-	-	-
Intangible assets	5	-	-	-
Property, plant and equipment	6	-	-	-
Total non-current assets		**136**	**264**	**-**
Total assets		**7,786**	**7,243**	**6,862**
Current liabilities				
Trade and other payables	7, 11	6,363	5,658	5,591
Related party payables	7, 11	41	-	-
Deferred lease incentive	9	75	75	75
Total current liabilities		**6,479**	**5,733**	**5,666**
Non-current liabilities				
Trade and other payables	7, 11	136	264	-
Deferred lease incentive	9	671	746	696
Total non-current liabilities		**807**	**1,010**	**696**
Total liabilities		**7,286**	**6,743**	**6,362**
Net assets		**500**	**500**	**500**
Public equity				
Retained surplus		-	-	-
General equity reserve	8	500	500	500
Total public equity		**500**	**500**	**500**

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

Statement of Changes in Public Equity

For the year ended 30 June 2013	PARENT AND GROUP ACTUAL		
	GENERAL EQUITY RESERVE NZ$000	RETAINED SURPLUS NZ$000	TOTAL NZ$000
Balance at 1 July 2011	**500**	**-**	**500**
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 30 June 2012	**500**	**-**	**500**
Profit/(Loss) for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 30 June 2013	**500**	**-**	**500**

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 2013		PARENT AND GROUP ACTUAL		BUDGET (UNAUDITED)
		2013	2012	2013
	NOTE	NZ$000	NZ$000	NZ$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		258	254	528
Receipts from New Zealand Superannuation Fund		25,626	24,182	28,457
Interest received		37	34	57
Other receipts		97	120	60
Total cash inflow from operating activities		**26,018**	**24,590**	**29,102**
Cash was applied to:				
Payments to suppliers		(6,071)	(5,678)	(4,669)
Payments to employees		(19,502)	(19,153)	(24,581)
Goods and Services Tax		(14)	(13)	647
Total cash outflow from operating activities		**(25,587)**	**(24,844)**	**(28,603)**
Net cash provided by/(used in) operating activities	**15**	**431**	**(254)**	**499**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		1	-	-
Total cash inflow from investing activities		**1**	**-**	**-**
Net cash provided by investing activities		**1**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**432**	**(254)**	**499**
Cash and cash equivalents at the beginning of the financial year		637	891	399
Cash and cash equivalents at the end of the financial year	**15**	**1,069**	**637**	**898**

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

Statement of Commitments

As at 30 June 2013	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Non-cancellable operating lease commitments payable		
No later than 1 year	507	535
1 – 2 years	507	507
2 – 5 years	1,522	1,522
Later than 5 years	2,537	3,045
	5,073	**5,609**

Statement of Contingent Liabilities

As at 30 June 2013

There were no contingent liabilities as at 30 June 2013 (2012: nil).

Notes to the Financial Statements

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the Guardians of New Zealand Superannuation (the Guardians), a Crown entity in terms of the Crown Entities Act 2004.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 201.

STATEMENT OF COMPLIANCE

The Guardians is a public benefit entity, as its primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for public benefit entities.

The financial statements of the Guardians of New Zealand Superannuation and Subsidiaries (Group) for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 24 September 2013.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The financial statements have been prepared on a historical cost basis, are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZ$000).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

In May 2013 the External Reporting Board (XRB) approved, with effect for periods on or after 1 July 2014, a new framework for public sector Public Benefit Entities (PBE's), including a suite of 39 standards based largely on International Public Sector Accounting Standards (IPSAS). The Guardians will adopt the new framework when it becomes mandatory. The new framework is not expected to result in a material impact on the Guardians' financial statements. In the interim, all NZ IFRS's approved in, and subsequent to, March 2011 are applicable to profit-oriented entities only. This means that the financial reporting requirements for PBE's are frozen for the short-term. Consequently, new or amended NZ IFRS's released during the year are not applicable to PBE's and hence no disclosure has been made.

Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2013. These are outlined in the table below:

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
New accounting framework for Public Benefit Entities	PBE Standards for Tier 1 and Tier 2 Public Sector Entities	The package of PBE Standards issued, applicable for Tier 1 and Tier 2 public sector PBE's consists of the following standards: • Standard XRB A1 Accounting Standards Framework, which is the overarching standard that sets out the accounting standards framework; • A suite of 39 PBE Standards; and • The Public Benefit Entities (conceptual) Framework. The new PBE Standards are based on International Public Sector Accounting Standards, which are themselves based on IFRS. Therefore major changes to accounting policies are not expected. Nevertheless, there are some potentially significant differences and also a range of smaller differences between the PBE Standards and NZ IFRS. Examples of potentially significant differences could include: • PBE Standards with no equivalent NZ IFRS – PBE IPSAS 23 Revenue from Non-Exchange Transactions, which prescribes requirements for accounting for revenue from non-exchange transactions; – PBE IPSAS 32 Service Concession Arrangements: Grantor, which prescribes the accounting for service concession arrangements by the grantor. • Differences between equivalent standards – PBE IPSAS 20 Related Party Disclosures, exempts all transactions between related parties (except key management personnel remuneration) that occur on arm's length terms and conditions from disclosure, and provides a potentially wider definition of key management personnel compared to NZ IFRS 24 Related Party Disclosures. Please note that this is not a complete list of differences between PBE Standards and NZ IFRS. Early adoption of PBE Standards by Tier 1 and Tier 2 public sector PBE's is not permitted.	1 July 2014	These standards will impact the disclosures in the financial statements.	1 July 2014
NZ IFRS 7	Amendments to NZ IFRS 7 Financial Instruments: Disclosures – Transition Disclosures	These amendments to NZ IFRS 7 remove the requirement for the restatement of comparative period financial statements upon initial application of the classification and measurement requirements of NZ IFRS 9. Instead, the amendments introduce additional disclosures on transition from the classification and measurement requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement to those of NZ IFRS 9. For entities adopting NZ IFRS 9 from 2013 onwards, these disclosures are required even if they choose to restate the comparative figures for the effect of applying NZ IFRS 9.	1 January 2013	These amendments will require additional disclosures in the financial statements.	1 July 2013

* Designates the beginning of the applicable annual reporting period.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GROUP*
NZ IFRS 9 (2009)	Financial Instruments	NZ IFRS 9 (2009) includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace NZ IAS 39. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of NZ IAS 39. The revised standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • Two categories for financial assets being amortised cost or fair value; • Removal of the requirement to separate embedded derivatives in financial assets; • Strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows; • An option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition; • Reclassifications between amortised cost and fair value are no longer permitted unless the entity's business model for holding the asset changes; and • Changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income.	1 January 2015	This standard will impact the classification and measurement of financial instruments.	1 July 2015
NZ IFRS 9 (2010)	Financial Instruments	NZ IFRS 9 (2010) supersedes NZ IFRS 9 (2009). The requirements for classifying and measuring financial liabilities were added to NZ IFRS 9 as issued in 2009. The existing NZ IAS 39 Financial Instruments: Recognition and Measurement requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for as follows: The change attributable to changes in credit risk is presented in other comprehensive income. The remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk is also presented in profit or loss.	1 January 2015	The new standard will impact disclosures in the financial statements.	1 July 2015

* Designates the beginning of the applicable annual reporting period.

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

(a) Budget figures

The budget was approved by the Board of Guardians of New Zealand Superannuation for the year. The budget figures are unaudited.

(b) Consolidation of subsidiaries

The Group financial statements comprise the Guardians of New Zealand Superannuation and its subsidiaries.

Subsidiaries are those entities that are controlled by the Guardians. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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.

(c) Revenue and income

The Group primarily derives revenue through the provision of outputs to the Crown and to the Fund, and also derives income from its investments. Revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

RENDERING OF SERVICES

Revenue from the rendering of services is recognised by reference to the stage of completion.

New Zealand Superannuation Fund reimbursement of costs:

Stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

Crown appropriations:

Revenue is recognised on a straight-line basis over the period to which the appropriations relate, because the services are performed by an indeterminate number of acts over a specified period of time.

Other service revenue:

Where outputs cannot be measured reliably, revenue is recognised only to the extent that the expenses recognised are recoverable.

INTEREST

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(d) Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised exclusive of GST, with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(e) Taxation

The Guardians is a public authority in terms of the Income Tax Act 2007 and consequently is exempt from income tax.

(f) Receivables

Short-term receivables are stated at their estimated realisable value net of impairment allowance.

Collectability of receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Subsidiaries

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

(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.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of an item) is included in the Statement of Comprehensive Income in the year the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for indications of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

Recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated pre-tax future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

HELD FOR SALE

Items of property, plant and equipment classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Items of property, plant and equipment are classified as 'held for sale' if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

(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 of major classes of assets have been estimated as follows:

Office equipment	3 years
Computer equipment	1–3 years

(j) Intangible assets

Software and licences are finite life intangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives of three years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, incentives and sick leave when it is probable that settlement will be required and such benefits are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(l) Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases 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 straight-line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as deferred income in the Statement of Financial Position. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the period of the lease.

(m) 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 a 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 Comprehensive Income. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

(n) Financial instruments

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Comprehensive Income.

Financial assets and financial liabilities are recognised in 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 currently 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 a separate accounting policy, all financial instruments are shown at their amortised cost.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, 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 the 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.

(p) Payables

Short-term payables are not interest bearing and are stated at their nominal value.

(q) Equity

Equity is the Crown's interest in the Guardians and is measured as the difference between total assets and total liabilities.

(r) Statement of Cash Flows

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

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

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

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

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

(s) Changes in accounting policies

Other than those disclosed in Note 1, there have been no changes in accounting policies. The accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These reclassifications have no impact on the overall financial performance or financial position for the comparable year.

(t) Critical accounting estimates and assumptions

In preparing these financial statements the Group has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

EMPLOYEE ENTITLEMENTS – LONG-TERM PORTION OF INCENTIVE

A component of the incentive scheme is based on the long-term performance of the Fund. The calculation of this portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption utilised in the calculation of the long-term portion of the incentive liability, this will impact the employee benefits expense in the Statement of Comprehensive Income and the carrying amount of the incentive liability in the Statement of Financial Position. The Group manages this risk by using a medium-term expectation of Fund performance.

2. PROFIT/(LOSS) FROM OPERATIONS

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
(a) Revenue		
Revenue from operations consisted of the following items:		
Appropriations from the Crown	318	266
Cost reimbursement from New Zealand Superannuation Fund	25,640	23,819
Other revenue	111	123
Interest revenue	37	34
	26,106	**24,242**
(b) Expenses		
Profit/(Loss) has been arrived at after charging for/(crediting):		
Depreciation and amortisation of non-current assets (note 5 and note 6)	-	-
(Gain)/Loss on disposal of property, plant and equipment	(1)	-
Auditors' remuneration (note 3)	41	39
Board members' fees (note 11)	216	198
Employee benefit expense*:		
Employee remuneration and related expenses	16,398	15,408
Employee incentives	4,419	3,958
Employer contributions to KiwiSaver	394	278
Travel and accommodation expenses	1,625	1,500
IT expenses	949	875
Operating lease rental expenses:		
Minimum lease payments	460	479
Professional fees	316	144
Other expenses	1,289	1,363
	26,106	**24,242**

* Compensation of key management personnel of the entity is specifically disclosed in note 11.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

3. REMUNERATION OF AUDITOR

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Auditor of the parent entity		
Audit of the financial statements – Attest current year	41	39
	41	**39**
Auditor of entities in the Group (not including the parent entity)		
Audit of the financial statements	-	-
	-	**-**

The audit fees of other entities in the Group are paid by the Fund.

The auditor of all entities in the Group is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

4. TRADE RECEIVABLES AND OTHER RECEIVABLES

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Current receivables		
Trade receivables	65	-
Goods and Services Tax (GST) receivable	91	77
Prepayments	176	167
	332	**244**
Related party receivables:		
Accident Compensation Corporation (ACC)	13	11
Government Superannuation Fund	13	-
The Treasury	115	56
New Zealand Superannuation Fund	6,108	6,031
	6,249	**6,098**
Non-current receivables		
Related party receivables:		
New Zealand Superannuation Fund	136	264
	136	**264**

Trade receivables have standard 30-day credit terms.

Related party receivables classified as current consist of amounts payable by the Fund or other Crown Entities to the Guardians on standard 30-day credit terms.

The Group does not have a history of default on receivables. Accordingly, no allowance has been made for impairment.

5. INTANGIBLE ASSETS

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Gross carrying amount	**21**	**21**
Accumulated amortisation		
Opening balance	21	21
Amortisation	-	-
Closing balance	**21**	**21**
Net book value	**-**	**-**

Intangible assets are software licences and applications used by the Group in day-to-day operations.

6. PROPERTY, PLANT AND EQUIPMENT

	PARENT AND GROUP ACTUAL		
	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	TOTAL
	NZ$000	NZ$000	NZ$000
Gross carrying amount			
Balance at 1 July 2011	156	46	202
Balance at 30 June 2012	**156**	**46**	**202**
Disposals	(8)	-	(8)
Balance at 30 June 2013	**148**	**46**	**194**
Accumulated depreciation			
Balance at 1 July 2011	156	46	202
Balance at 30 June 2012	**156**	**46**	**202**
Accumulated depreciation reversed on disposals	(8)	-	(8)
Balance at 30 June 2013	**148**	**46**	**194**
Net book value			
As at 30 June 2012	-	-	-
As at 30 June 2013	**-**	**-**	**-**

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

7. TRADE AND OTHER PAYABLES

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Current payables and accruals		
Trade payables (i)	267	294
Employee entitlements – annual leave (key management personnel)	183	169
Employee entitlements – annual leave (other)	674	563
Employee entitlements – accrued salary (key management personnel)	58	48
Employee entitlements – accrued salary (other)	242	378
Employee entitlements – incentives (key management personnel) (ii)	1,112	1,015
Employee entitlements – incentives (other) (ii)	3,602	2,999
Accrued expenses	225	192
	6,363	**5,658**
Related party payables (iii)	41	-
	41	**-**
Non-current payables and accruals		
Employee entitlements – incentives (key management personnel) (ii)	25	68
Employee entitlements – incentives (other) (ii)	111	196
	136	**264**

(i) The average credit period on purchases is 30 days. No interest is charged on overdue balances. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame.

(ii) The Guardians has an incentive scheme for all employees. A component of the scheme is based on the performance of the Fund. This part of the incentive vests progressively over a rolling four-year performance period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the Statement of Financial Position reflects the present value of the Guardians' obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of Fund performance.

(iii) Related party payables are due to Datacom Employer Services Limited, Datacom Engineering Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the Fund.

8. MANAGEMENT OF CAPITAL

As a public benefit entity which is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

9. LEASES

OPERATING LEASES

Non-cancellable operating lease commitments payable have been disclosed under the Statement of Commitments.

Operating leases relate to office premises in one location with a remaining term of 10 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

DEFERRED LEASE INCENTIVE

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 10 years.

10. SUBSIDIARIES

			OWNERSHIP INTEREST AND VOTING RIGHTS	
NAME OF SUBSIDIARY	BALANCE DATE	COUNTRY OF INCORPORATION	2013 %	2012 %
New Zealand Superannuation Fund Nominees Limited (i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 1) Limited (i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 2) Limited (i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 3) Limited (i)	30 June	New Zealand	100	100
NZSF Timber Investments (No 4) Limited (i)	30 June	New Zealand	100	100
NZSF Private Equity Investments (No 1) Limited (i)	30 June	New Zealand	100	100
NZSF Rural Investments (No 1) Limited (i)	30 June	New Zealand	100	100
CNI Timber Operating Company Limited (ii)	30 June	New Zealand	100	100
NZSF Aotea Limited (iii)	30 June	New Zealand	100	-

(i) 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. Nominee companies may only act on the direction of the Guardians.

(ii) The share in CNI Timber Operating Company Limited, together with the rights and benefits arising from that share, is held for and on behalf of the New Zealand Superannuation Fund. As such, this company is consolidated into the financial statements of the Fund rather than these financial statements.

(iii) On 1 March 2013, the Guardians established NZSF Aotea Limited. The Guardians own 100% of the equity of the company. The assets and liabilities of the Group did not change as a result of the establishment of this company. The principal activity of this subsidiary is to hold 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.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

11. RELATED PARTY DISCLOSURES

(a) Parent entities

The parent entity in the Group is the Guardians, which is 100% owned by the ultimate parent entity, the Crown.

(b) Equity interests in related parties

Details of the interests held in subsidiaries are disclosed in note 10 to the financial statements.

(c) Transactions with related parties

The Guardians has paid expenses relating to the Fund during the year, as it is required to do under the Act. Crown appropriations (for budgeted Board and audit costs) and reimbursement of costs from the Fund are the main sources of revenue.

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Appropriations from the Crown	318	266
Cost reimbursement from New Zealand Superannuation Fund	25,640	23,819
Other income from related parties:		
The Treasury	23	13
Accident Compensation Corporation	44	40
Government Superannuation Fund Authority	44	40
Earthquake Commission	-	30
	26,069	**24,208**

During the year the Group purchased services from entities related to a joint venture owned by the Fund. These purchases totalled $170,898 from the time the Fund purchased the joint venture.

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions relate to the purchase of goods and services from Air New Zealand, New Zealand Post and The University of Auckland. In addition, the Group has utilised the services of Crown Law. For the year ended 30 June 2013, these purchases totalled $1,081,811 (2012: $1,062,925).

Amounts receivable from or payable to related parties at balance date are disclosed in notes 4 and 7 of these financial statements, along with terms and conditions around settlement. Outstanding balances at year end are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: $nil).

All related party transactions have been entered into on an arm's-length basis.

(d) Compensation of key management personnel

EMPLOYEE BENEFITS

The compensation of the Board, executives and other key management personnel is set out below:

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Employee benefits (including salaries and Board member fees)	3,002	2,715
Employee incentive scheme	1,131	1,083
	4,133	**3,798**
Board members' fees		
Board members earned the following fees during the year:		
G Walker (Chairman) (i)	51	28
D May (Chairman, Retired) (ii)	9	54
C Savage (Deputy Chairman) (iii)	32	27
D Newman (Deputy Chairman, Retired) (iv)	-	8
M Tume	27	27
S Moir	27	27
C Ansley (v)	27	23
P Dunphy (vi)	27	4
L Wright (vii)	16	-
	216	**198**

(i) Gavin Walker was appointed Chairman in September 2012.

(ii) David May retired from the Board in August 2012.

(iii) Catherine Savage was appointed Deputy Chairman in September 2012.

(iv) David Newman retired from the Board in September 2011.

(v) Craig Ansley was appointed to the Board in September 2011.

(vi) Philippa Dunphy was appointed to the Board in May 2012.

(vii) Lindsay Wright was appointed to the Board in December 2012.

BOARD MEMBERS' AND EMPLOYEES INDEMNITY AND INSURANCE

The Guardians has indemnified Board members in respect of any 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.

The Guardians has also identified certain of its employees (and one former employee) who have been appointed as directors, nominated by the Guardians, or other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the appointment. Each employee is also indemnified in repect of costs incurred by that employee in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

12. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM

For a full discussion of the Guardians' remuneration framework, please refer to page 28 of the Annual Report.

The total remuneration figures in the following table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after this financial year end.

The remuneration bands and benefits listed below are annual amounts. As some employees commenced part-way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, the actual remuneration paid has been reported, rather than annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

PARENT AND GROUP ACTUAL					
BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZ$000	2013	2012	NZ$000	2013	2012
100-110	1	3	100-110	5	4
110-120	5	4	110-120	3	4
120-130	2	3	120-130	1	1
130-140	5	1	130-140	4	3
140-150	4	2	140-150	2	1
150-160	6	5	150-160	4	3
160-170	4	3	160-170	7	4
170-180	2	4	170-180	-	2
180-190	3	2	180-190	3	1
190-200	3	3	190-200	2	1
200-210	5	5	200-210	1	1
210-220	2	1	210-220	3	3
220-230	1	3	220-230	1	3
230-240	5	4	230-240	2	3
240-250	3	3	240-250	1	3
250-260	3	3	250-260	2	3
260-270	-	-	260-270	4	3
270-280	1	1	270-280	2	1
280-290	2	2	280-290	3	1
290-300	-	2	290-300	3	1
300-310	3	-	300-310	2	4
310-320	-	2	310-320	3	-
320-330	1	1	320-330	-	2
330-340	1	1	330-340	-	3
340-350	2	-	340-350	1	-
350-360	-	-	350-360	3	1
360-370	-	-	360-370	2	1
370-380	1	1	370-380	1	1

PARENT AND GROUP ACTUAL

BASE REMUNERATION RANGE NZ$000	NUMBER OF EMPLOYEES 2013	NUMBER OF EMPLOYEES 2012	TOTAL REMUNERATION RANGE NZ$000	NUMBER OF EMPLOYEES 2013	NUMBER OF EMPLOYEES 2012
380-390	-	-	380-390	-	1
390-400	-	-	390-400	-	1
400-410	-	-	400-410	1	2
430-440	-	1	430-440	1	-
440-450	2	1	440-450	-	1
450-460	-	-	450-460	2	1
470-480	1	1	470-480	-	-
			480-490	1	-
			490-500	1	1
			520-530	1	-
			640-650	-	3
			660-670	2	-
			670-680	1	-
	68	**62**		**75**	**68**

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

13. REDUNDANCY AND SEVERANCE PAYMENTS

There were two severance payments made in respect of employees who resigned during the year. These payments totalled $54,444 (2012: four redundancy payments totalling $426,133).

14. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2012: nil).

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	PARENT AND GROUP ACTUAL	
	2013	2012
	NZ$000	NZ$000
Cash and cash equivalents	1,069	637
	1,069	**637**

(b) Reconciliation of profit/(loss) for the year to net cash flows from operating activities

Profit/(Loss) for the year	-	-
Add/(Deduct) non-cash items:		
Depreciation and amortisation of non-current assets	-	-
Gain on disposal of property, plant and equipment	(1)	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables	(111)	300
Increase/(Decrease) in liabilities:		
Payables and accruals	618	(479)
Deferred lease incentive	(75)	(75)
Net cash provided by/(used in) operating activities	**431**	**(254)**

16. FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities by category

Key: **L&R:** Loans and receivables at amortised cost **AC:** Amortised cost

	PARENT AND GROUP ACTUAL		
2013	L&R	AC	TOTAL
	NZ$000	NZ$000	NZ$000
Financial assets			
Cash and cash equivalents	1,069	-	1,069
Trade receivables	65	-	65
Related party receivables	6,385	-	6,385
Total financial assets	**7,519**	**-**	**7,519**
Financial liabilities			
Trade payables and accruals	-	5,641	5,641
Related party payables	-	41	41
Total financial liabilities	**-**	**5,682**	**5,682**
2012			
Financial assets			
Cash and cash equivalents	637	-	637
Related party receivables	6,362	-	6,362
Total financial assets	**6,999**	**-**	**6,999**
Financial liabilities			
Trade payables and accruals	-	4,924	4,924
Total financial liabilities	**-**	**4,924**	**4,924**

(b) Financial risk management objectives

Through its activities, the Guardians is exposed to the financial risks of market risk, credit risk and liquidity risk.

The Guardians does not hold significant financial assets or liabilities. Cash and cash equivalents are held with creditworthy institutions. Market risk, credit risk and liquidity risk are not considered significant for these reasons. Policies do not allow any transactions which are speculative in nature to be entered into.

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 1 to the financial statements.

Notes to the Financial Statements
(continued)

For the year ended 30 June 2013

16. FINANCIAL INSTRUMENTS (continued)

(d) Market risk

The market risk to which the Guardians is primarily exposed is interest rate risk (primarily to changes in New Zealand interest rates).

The Guardians holds cash which is interest-bearing and has no interest-bearing liabilities. The Guardians invests cash and cash equivalents with the ANZ Bank New Zealand Ltd, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and does not specifically monitor exposure to interest rates or interest rate returns.

INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows of the Guardians' investments in cash and cash equivalents will fluctuate due to changes in market interest rates. There were no interest rate options or interest rate swap options in place as at 30 June 2013 (30 June 2012: $nil). The Board does not consider that there is any significant interest exposure on the Group's investments.

INTEREST RATE EXPOSURE – MATURITY PROFILE OF FINANCIAL INSTRUMENTS

The following tables are based on the earlier of contractual repricing or maturity period.

	PARENT AND GROUP ACTUAL	
2013	AVERAGE EFFECTIVE INTEREST RATE	CASH AT VARIABLE INTEREST RATE
	%	NZ$000
Financial assets		
Cash and cash equivalents	2.24	1,069
	2.24	**1,069**
2012		
Financial assets		
Cash and cash equivalents	2.27	637
	2.27	**637**

INTEREST RATE SENSITIVITY

The sensitivity analysis in the table below, showing the effect on net surplus, has been determined based on the exposure to interest rates at the reporting date and the stipulated change that took place at the beginning of the financial year and held constant throughout the reporting period. A 100-basis-point change is used when reporting interest rate risk internally to key management personnel and represents the Guardians' assessment of a reasonably possible change in interest rates.

		PARENT AND GROUP ACTUAL	
2013		PROFIT/(LOSS) AND EQUITY	
		2013	2012
	BASIS POINTS	NZ$000	NZ$000
Cash and cash equivalents	+100 bps	11	6
Cash and cash equivalents	-100 bps	(11)	(6)

The Guardians' sensitivity to interest rate changes has not changed significantly from that of the prior year.

(e) Credit risk management

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 Group to risk consist principally of cash and cash equivalents.

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.

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Group primarily invests cash balances with the ANZ Bank New Zealand Ltd. The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

(f) Liquidity risk management

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.

Because the Guardians recovers all expenditure from the Crown or the New Zealand Superannuation Fund and, as the Guardians has a positive cash position, no specific liquidity policies have been developed.

Information about the contractual maturity periods of financial assets and financial liabilities is included above.

(g) Fair value

The fair value of financial instruments is approximately equivalent to the carrying amount disclosed in the Statement of Financial Position.

17. COMPARISON TO BUDGET (UNAUDITED)

	PARENT AND GROUP ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE/ (UNFAVOURABLE) VARIANCE
	2013	2013	2013
	NZ$000	NZ$000	NZ$000
Statement of Comprehensive Income – expenses (i)	26,106	30,882	4,776
Statement of Changes in Public Equity	500	500	-
Statement of Financial Position	500	500	-

(i) Expenses were lower than budget predominantly due to lower remuneration and travel costs. This was as a result of recruitment activity being slower than was envisaged with the budget.

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2013

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation (the Guardians) and Group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and non-financial performance information of the Guardians and Group on her behalf.

We have audited:

– the financial statements of the Guardians and Group on pages 169 to 193, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in public equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and

– the non-financial performance information of the Guardians and Group that comprises the statement of service performance on pages 82 to 84 which includes outcomes.

OPINION

In our opinion:

– the financial statements of the Guardians and Group on pages 169 to 193:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Guardians and Group's:
    + financial position as at 30 June 2013; and
    + financial performance and cash flows for the year ended on that date.

– the non-financial performance information of the Guardians and Group on pages 82 to 84:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Guardians and Group's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
    + the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    + the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 24 September 2013. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

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

An audit also involves evaluating:

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

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

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

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

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

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

The Board's responsibilities arise from the Crown Entities Act 2004 and the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

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

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

BR Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Glossary

Access point	The actual investment the Fund makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, 'stress test' outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
Active management	Where a fund's manager attempts to outperform a market index through various investing strategies and buying/selling decisions. Active managers rely on analytic research, forecasts and their own judgement and experience in making investment decisions. Active investment strategies are more complex and expensive to implement than passive management. See 'passive management', below.
Active returns	Any return differential between the actual portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as value add.
Active risk	Any deviation in risk in the actual portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value-adding strategies. Note that the actual portfolio can have the same total or absolute risk as the Reference Portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns.
Active strategies	Value-add strategies.
Actual portfolio	The Fund's portfolio at any point in time reflecting all the positions arising from the Fund's value adding strategies as well as drift. Conceptually, the actual portfolio equals the Reference Portfolio (cash plus risk premiums) plus drift plus active risk.
Asset class	An asset class is well-diversified exposure to a group of securities or assets that share common characteristics.
Belief	The Fund's stated view on some aspect of financial markets and investing.
Capability	Management's ability to execute a value add strategy. Incorporates depth and breath of experience, risk management abilities, etc.
Cash	Generally taken to mean a very short-term investment earning interest from a highly-rated bank or an equivalent bank bill.
CDP	Carbon Disclosure Project (www.cdproject.net).
CEM	CEM Global Benchmarking.
Central clearing	Central clearing is a process by which financial transactions are cleared by a single (i.e. central) counterparty, instead of being transacted directly between the two parties involved. This new requirement is designed to reduce risk in the global financial system.
Compensation	Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash that the investment offers.
Conviction	A measure of the degree of confidence we have in an active manager's investment skill. The Fund's approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors.
Counterparty	A counterparty is a term used to describe a legal entity, unincorporated entity or collection of entities to which an exposure to financial risk might exist.
Credit risk	The risk associated with the variability in the perceived credit quality of a fixed income instrument.

Crown entity	A Crown entity is an organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004, a unique umbrella governance and accountability statute. Crown entities are legal entities in their own right. A decision to assign a government activity or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's board directs the entity's day-to-day operations. A monitoring department is responsible to a portfolio Minister for monitoring Crown entities within that portfolio on the Minister's behalf. In the Guardians' case the monitoring department is the New Zealand Treasury and the portfolio Minister is the Minister of Finance. See 'Double arm's-length', below.
Derivative	A derivative is a financial instrument which derives its value from the value of underlying entities such as an asset, index, or interest rate – it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in value of the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.
Direct	A direct activity is a financial market transaction undertaken by the Fund's management.
Diversification	The potential improvement in a portfolio's Sharpe Ratio which arises from introducing assets into the portfolio that behave differently to the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains.
Double arm's-length	The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and Management of the Guardians. See 'Crown entity' above and the diagram on page 14 for more information.
Economic risk exposures	The handful of basic economic drivers that determine the risk and return of all securities, investments and asset classes. Generally unavoidable and undiversifiable. These economic drivers are real growth, inflation, agency risks and 'other'.
Endowment	A characteristic of the Fund that provides the Fund with a natural advantage or edge over the typical investor.
Equilibrium	The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns.
Escrow	Money held by a third party on behalf of transacting parties.
ESG	Environmental, Social and Governance.
Excess return	See risk premium, below.
Expansion capital	Also called growth capital, expansion capital is a type of private equity investment, most often a minority investment, in relatively mature companies that are looking for capital to expand without a change of control of the business.
Externally managed	An investment managed by an appointed external manager.
Financial market transaction	A public market transaction relating to individual securities, foreign exchange and derivatives.
Fixed income	Assets providing income to investors via a fixed coupon payment. In the context of the Reference Portfolio, fixed income is a very well diversified set of exposures including sovereign bonds, investment grade credit, agency debt, high-yield bonds and emerging market debt. Inflation-linked securities are also included, though an element of the income is variable because it is linked to future inflation outturns.

Glossary (continued)

FMA	Financial Markets Authority.
Foreign exchange	The Fund's exposure to non-NZD cash rates. In our Reference Portfolio there is no foreign exchange exposure as all non-NZD denominated assets (i.e. foreign-funded assets) are hedged back to NZD. Hedging back to NZD essentially replaces foreign cash returns with NZD cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
FSSP	Forecast Statement of Service Performance.
Futures	A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
FX	Foreign Exchange.
GNZS	Guardians of New Zealand Superannuation.
Growth assets	In the Reference Portfolio, growth assets comprise equities and REITs (see below). Some private market assets are also growth assets, e.g. private equity.
Hedge	Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.
Hurdle	The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of the investment.
IGCC	Investor Group on Climate Change (www.igcc.org.au).
Illiquidity	The inability to buy or sell an investment in a timely manner with minimal transaction costs. Usually inherent in private market investments but can also be evident in public market investments. Illiquidity is a risk and, like all risks, the investor must be compensated for taking the risk on. In the case of illiquidity, the compensation is a higher expected return from an illiquid investment compared to a comparable liquid investment.
Internal Investment Mandate (IIM)	The policy governing the management of an internal mandate falling under an active strategy.
Investment	An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by the Fund's internal management under an Internal Investment Mandate (IIM).
IPO	Initial Public Offering.
IRR	Internal Rate of Return.
KT	Kaingaroa Timberlands Partnership.
Market risk	Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class.
Mark-to-market	A measure of the fair value of accounts that can change over time, such as assets and liabilities. Mark-to-market aims to provide a realistic appraisal of an institution's or company's current financial situation. The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.
Margining rules for non-cleared derivatives	The rules that determine how much margin (cash and securities) investors have to provide upfront when transacting non-cleared derivative transactions.
NAV	Net Asset Value.
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.

NZS	New Zealand Superannuation.
NZSF	New Zealand Superannuation Fund.
Opportunity	A feature of the investment environment that is conducive to generating positive risk-adjusted active returns.
OTC	A security traded in some context other than on a formal exchange such as the NYSE, TSX, AMEX, etc. The phrase 'over-the-counter' (OTC) can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.
Passive management	Passive management, or 'index tracking', is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision. See 'active management', above.
PE	Private Equity.
PERE	Private Equity Real Estate.
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio construction	The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies as well as the specific allocations of risk capital to individual investments.
Private equity	A private equity investment involves investing directly into private (non-listed) companies, e.g. buying out the original owner.
Private equity real estate	An asset class consisting of equity and debt investments in property, e.g. a property development. Investments are typically actively managed.
Private markets active strategies	Private market value adding strategies.
Public market	Public market investments comprise: 1) exchange listed securities; or 2) over-the-counter financial contracts linked to listed securities and/or widely-followed indices or benchmarks. Public market investments are generally (but not always) liquid and generally (but not always) have regular and transparent pricing. We prefer to use the term 'listed' rather than 'public market', although OTC instruments are, by definition, not listed.
Public market active return strategy	Generating active returns through a strategy that focuses on listed securities. This used to be a separate business unit but now comes under the Investments group. An increasingly artificial distinction between the private markets active strategy. Abbreviated to PMAR.
Reference Portfolio	A low cost, passively managed and well diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZD) plus a set of risk premiums or excess returns that also sum to 100%. See pages 38-39 for more information.
REIT	Real Estate Investment Trust.
Return	The return on an investment after manager fees and taxes.
RI	Responsible Investment.
Risk	The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions.

Glossary (continued)

Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.
Sharpe Ratio (SR)	A characterisation of how well the return of an investment compensates the investor for the risk taken. Portfolio total return minus cash divided by total risk. Usually applied at the portfolio level, in which case it is the total portfolio return over cash (which is the sum of excess returns and active returns) divided by total risk. Can also be applied to individual investments and strategies. All of our added-value investment aims to improve the Sharpe Ratio of the Fund.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Skill	Active investment expertise. The ability to provide active returns.
SME	Small-Medium Enterprise.
SOI	Statement of Intent.
Sovereign wealth fund	Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens.
SSP	Statement of Service Performance.
Strategies	Abbreviation of value-adding strategies or active strategies.
Swap	A derivative in which two parties agree to exchange one stream of cash flows against another.
Swap execution facilities	A swap execution facility is a trading platform in which multiple participants can trade OTC swaps.
Synthetic	Obtaining exposures using derivatives.
Theme	Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment.
Tilt	Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than those through drift or the proxies). Note that while we generally exclude the differences between market exposures inherent in private market assets (after proxy adjustment) from our definition of a tilt, in effect these private market positions may have elements of a tilt to them. Tilting is a value-add strategy. See pages 42-43 for more information.
Total Return Swap (TRS)	A swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index, loans, or bonds. This is owned by the party receiving the set rate payment. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it.
Total risk	Generally referring to the Fund's total or absolute risk.
UNPRI	United Nations Principles for Responsible Investment.
Value add	See active return. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures.
Value-adding strategies	Board-approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

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