REACHING RETIREMENT IS ONE OF **THEIR GOALS**

ANNUAL REPORT 2015

NZSUPERFUND

Te Kaitiaki Tāhua Penihana Kaumatua ō Aotearoa

HELPING FUND IT IS OUR ONLY GOAL

For generations, New Zealanders have worked hard knowing that when they reach retirement age, they'll receive a level of publicly funded retirement income such as National Superannuation.

Meet Lulu.

Lulu is four years old. Retirement is the furthest thing from her mind. But her retirement is top of mind for us. By the time Lulu retires, it is predicted that over 27% of our population will be of retirement age.

By investing wisely today we are developing a nest egg that can be used to help Lulu, and everyone else of her generation, retire with government support.

PERFORMANCE SUMMARY

For the year

OUR MISSION:

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

2014/15 ACHIEVEMENTS:

- REFERENCE PORTFOLIO REVIEW COMPLETED
- RISK BUDGET INVESTMENT APPROACH IMPLEMENTED
- NEW ONLINE PERFORMANCE REVIEW SYSTEM IMPLEMENTED
- NEW WEBSITE LAUNCHED AUGUST 2014
- NEW BUSINESS SYSTEMS TO SUPPORT IMPROVED BUSINESS CONTINUITY CAPABILITIES IMPLEMENTED

PRIORITIES FOR 2015/16:

- IMPLEMENT REFERENCE PORTFOLIO REVIEW RECOMMENDATIONS AND ANY AGREED SYSTEMATIC PREMIA (SEE PAGE 214) STRATEGIES
- UNDERTAKE POST-IMPLEMENTATION ASSESSMENT OF NEW PERFORMANCE REVIEW SYSTEM AND IMPLEMENT KEY LESSONS
- EMBED NEW RISK REPORTING, UNDERTAKE RISK SYSTEMS RESEARCH AND BUILD CAPABILITY AND CAPACITY

FUND RETURNS*

As at 30 June 2015	One year	Five years	Since inception**
Actual Fund Return (before tax, after costs)	14.64%	16.85%	10.11%
Value added by Guardians (compared to passive Reference Portfolio benchmark)	4.45%	3.65%	1.31%
Net Return (returns over and above the Treasury Bill return – the Government's marginal cost of debt)	11.16%	14.09%	5.53%

* See page 50 and pages 52–54 for explanations of our benchmarks.
** The first capital contributions were invested in September 2003.

PERFORMANCE SUMMARY

For the year

FUND SIZE

$29.54B

RETURN

14.64%

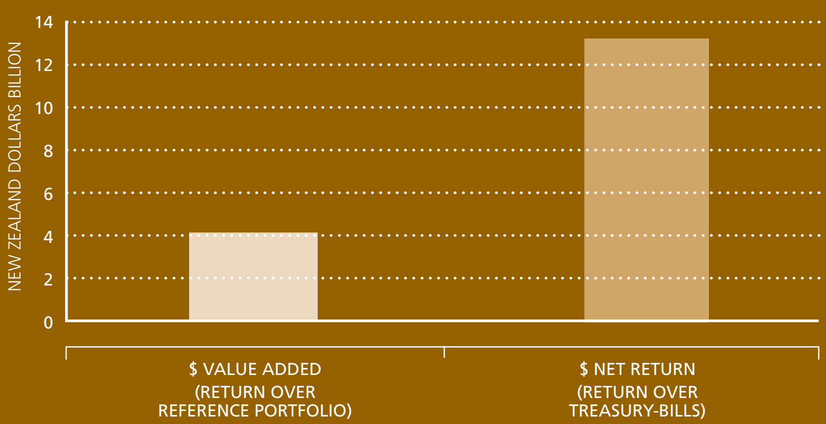
INCREASE OF FUND (BEFORE TAX)

$3.10B

VALUE ADD

$1.15B (4.45%)

FUND RETURNS 30 SEPT 2003 (INCEPTION) – 30 JUNE 2015



VALUE ADDED

$4.10B

SINCE INCEPTION

NET RETURN

$13.17B

SINCE INCEPTION

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HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) G4 Core option. It describes the performance of the New Zealand Superannuation Fund (the 'Fund') and the Guardians of New Zealand Superannuation (the 'Guardians'), the Crown entity that manages the Fund, over the 2014/15 financial year. Previous Annual Reports, including the last Report (2013/14), are available on www.nzsuperfund.co.nz/publications/annual-reports. There have been no restatements or aspect boundary changes for non-financial information within this report. Note: GRI disclosures are currently not externally assured.

The Overview of The Guardians and The Fund section provides the basics: a performance summary; who we are and what we do; key achievements; and future priorities.

If you want more depth, the remainder of the Report details three important aspects of the Guardians and Fund: governance; investment performance; and an overview of operations during the year.

The Report includes two sets of financial statements – one for the Fund, and one for the Guardians. The Fund's statements comply with the International Financial Reporting Standards. The Guardians' statements comply with the New Zealand Public Benefit Entity Accounting Standards.

An overview of the Report and supplementary information are available on www.nzsuperfund.co.nz and www.ar2015.nzsuperfund.co.nz. The overview includes video interviews with our Chair, Chief Executive Officer and Chief Investment Officer. The supplementary information includes a detailed explanation of 'How We Invest'; a GRI Index; and a list of the Fund's global equity holdings as at 30 June 2015.

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

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SECTION 1:

Overview of the Guardians and the Fund

This is Tamara.

Tamara is a working mum, one of five people working for every person in retirement today. Some of Tamara's taxes go towards providing National Super for today's retirees. Tamara has started thinking about her own retirement.

By the time Tamara retires, there will be only four working people to every person in retirement. This means a higher tax burden for those working to keep providing a base level of retirement income. Through the NZ Super Fund, money is being invested today so that the Government can provide her, and Lulu, with a retirement benefit, just as they did for her parents and grandparents.





These are our future-generation retirees.



The NZ Super Fund exists to help pay for the future cost of providing a Government-funded retirement income for all New Zealanders.

It operates by investing taxpayer contributions, and all returns achieved, in New Zealand and internationally to grow the size of the Fund over the long term. Around 2031, the Government is expected to start using money from the NZ Super Fund to help support all New Zealanders in their retirement.

Investing Today… So We Can Retire Tomorrow

The Fund is a sovereign wealth fund – a government-owned investment fund – designed 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 are eligible to receive New Zealand Superannuation payments (also known as the pension, National Super or Super). These payments are paid for by today's taxpayers.

Over the next few decades, however, the New Zealand population will age significantly. Proportionally, there will be fewer taxpayers 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 New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

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

Between 2003 and 2009, the Government contributed NZD14.88 billion to the Fund. Contributions are scheduled to restart once core Crown net debt is 20% of GDP, currently forecast to occur in 2020/21. From around 2031/32, the Government is expected to begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund is expected to peak 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. The Fund is a growth-oriented and highly diversified global portfolio of investments. 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

The Fund is investing today to help pre-fund future retirement benefits and reduce the cost of New Zealand Superannuation for 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.

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 BENCHMARKS

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

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

VALUES

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

Innovation: We encourage initiative taking, continuous learning and smart decision-making.

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

NEW ZEALAND GOVERNMENT

GUARDIANS OF NEW ZEALAND SUPERANNUATION
('DOUBLE-ARM'S-LENGTH' CROWN ENTITY. SEE PAGE 20)

The Guardians is the Auckland-based manager of the Fund.

NEW ZEALAND SUPERANNUATION FUND
(LONG-TERM SAVINGS VEHICLE)

The Fund is a pool of assets on the Crown balance sheet.

Chair's Statement

Continuing a string of excellent returns

The New Zealand Superannuation Fund recorded another very good year in 2014/15, with a total return of 14.64% (before tax, after costs). This was 4.45% ($1.15 billion) ahead of the Fund's passive benchmark, the Reference Portfolio return.

PERFORMANCE DURING 2014/15

The main reason for the Fund's very good performance over 2014/15 was the continuing rally in global equity markets. The Reference Portfolio, as a proxy for the overall market, returned 10.19% during the year.

The factors that led to the Fund's 4.45% outperformance of the Reference Portfolio included:

- an uplift in the value of infrastructure assets, such as Z Energy;
- gains from currency tilting (as positions on the New Zealand dollar paid off); and
- overweight equity/underweight fixed-income tilting positions.

These factors are discussed on page 55.

PERFORMANCE SINCE INCEPTION

The 2014/15 year has continued a string of excellent returns posted by the Fund since the Global Financial Crisis. Over the last three years, the Fund has returned 19.86% p.a.; over the last five, 16.85% p.a.

Looking at these results, it's all too easy to forget that the Fund has also experienced some tough times since it was set up – it recorded a –22.14% return in 2008/09.

As the Fund is a long-term one, with a multi-decade purpose, it is important not to get too caught up in the highs and lows of annual or even medium-term rates of return. This has been an exceptional period, well above our expected rate of return. On average and over the long-term (rolling 20-year periods), we expect the Fund to earn 8.7% p.a.

Gavin Walker – Chair

So let us focus on the Fund's performance since investing began nearly 12 years ago. Since then, the Fund has returned 10.11% p.a., and it continues to track well ahead of its two performance benchmarks:

- 1.31% p.a. (NZD4 billion) ahead of the Reference Portfolio return, which measures the value the Guardians has added over and above a passive 'market' return; and
- 5.53% p.a. (NZD13 billion) ahead of the Treasury Bill return, a measure of the cost to the Government in contributing to the Fund instead of paying down debt.

These benchmarks are explained in detail on pages 48–57.

While we are very satisfied with the performance of the Fund to date, it is important that stakeholders understand future Fund returns may be lower than those enjoyed in recent years. Given the weighting in the Fund to growth assets, negative returns can be expected from time to time.

REFERENCE PORTFOLIO REVIEW

The Guardians conducted a five-yearly review of the Reference Portfolio during the year. Setting the Reference Portfolio is one of the most important decisions we make as a Board, and this review was a significant focus for us.

In particular, we gave careful consideration to the level of risk it is appropriate for the Fund to take. We concluded that, given the Fund's 20-year-plus investment horizon, the 2010 Reference Portfolio's mix of 80% equity ownership and 20% fixed income assets continues to be appropriate. The Fund's long timeframe and certain cash flow mean it can take on more equity exposure than many other investors.

The review of the Reference Portfolio is discussed in more detail on pages 52-54.

SEE GAVIN TALK ABOUT THE YEAR THAT HAS BEEN AT WWW.AR2015.NZSUPERFUND.CO.NZ/YEAR-REVIEW

"The Fund's long timeframe and certain cash flow mean it can take on more equity exposure than many other investors."

INDEPENDENT PERFORMANCE REVIEW

An independent review of how effectively and efficiently the Guardians manages the Fund was carried out by Promontory Financial Group during the year. The review is required on a five-yearly basis by our legislation.

Overall, the independent assessment was very positive. In particular, we were pleased to receive confirmation that the Guardians' overall investment approach was consistent with best practice by international sovereign wealth funds. We were also pleased with the independent finding that the Guardians had made significant improvements and progress since the last independent review in 2009.

The review is discussed in more detail on page 43.

RESPONSIBLE INVESTMENT

The full UNPRI report is available on our website at: www.nzsuperfund.co.nz/performance/esg-management

The Guardians has a long-standing commitment to responsible investment and was a founding signatory of the United Nations Principles for Responsible Investment (UNPRI) in 2006. Since then, many other investors have joined the UNPRI and its signatories now manage more than half of the world's invested capital. Responsible investment is becoming mainstream.

This year, we were pleased to receive an A+ rating for the Guardians' overall approach to responsible investment, in the UNPRI's first publicly released benchmarking exercise since 2011. We remain focused on integrating responsible investment into all aspects of our investment management, with key priorities for the coming year including ongoing work to develop our response to climate change risk. The UNPRI rating and other responsible investment initiatives are discussed in more detail on pages 67-75.

OAK FINANCE

On pages 82–83 we discuss in some detail the background to our decision in early 2015 to take legal action against the Bank of Portugal and Novo Banco.

Our decision to take this action has not been made lightly, as we are aware it will be a lengthy process, and we will most likely incur substantial costs. Not every investment the Fund makes will be successful, and bond failures are not uncommon. This situation is an unusual one, however, and we firmly believe that we have been treated wrongly and unequally.

The Board has been closely involved in guiding the Guardians' response to the issue, which included a proactive, transparent approach to communications with stakeholders. We also oversaw a full review of the investment, finding that the circumstances leading up to its failure were unprecedented and unforeseeable.

In February, we made a conservative decision to write down the USD150 million investment in full. The –0.65% impact of this on the Fund's performance is reflected in the figures in this Report.

STAKEHOLDER SURVEY

I would also like to draw readers' attention to the results of the Guardians' first stakeholder research exercise, which was undertaken in 2014/15. We understand that effective two-way relationships with our business partners and stakeholders are critical to our success. The research gave stakeholders an opportunity to provide feedback on how to improve our relationships and communications. While the overall results were pleasing, there were many useful suggestions for us to take forward into 2015/16. See pages 36-37 for more information.

A+

RATING FOR OVERALL APPROACH TO RESPONSIBLE INVESTMENT IN THE UNPRI BENCH MARKING EXERCISE.

CONCLUSION

I would like to thank my fellow Board members, and the Guardians' team, for their efforts during the year and in particular their professionalism during a very intense few months dealing with the Oak Finance issue.

In June, we were delighted to see the Fund named as the world's leading sovereign wealth fund by JP Morgan. While the five-year timeframe in the report was short by the standards of this Fund, the finding was nonetheless a welcome recognition for a team which aims high.

GAVIN WALKER, CHAIR

Chief Executive's Statement
Closing the retirement income gap

ACHIEVING OUR PURPOSE – MAKING FUTURE RETIREMENT INCOME MORE AFFORDABLE

After nearly 12 years of investing, the Fund is well on the way to meeting its purpose of reducing the tax burden of superannuation payments on future New Zealanders. That is, by investing now, the Fund has reduced the policy risk that this future liability could not be met. In doing so the Fund has also generated considerable wealth over and above the alternative of reducing gross public debt.

However, it is only a start on the long-term challenge ahead, with the Fund projected to grow for many decades to come. Even now though, at NZD29 billion, the Fund constitutes a sizable proportion of the Crown's assets. In this regard, the Fund has reduced the public policy risk of failing to meet future superannuation liabilities by taking on investment risks that will reward us over time.

The financial risks introduced into the Crown balance sheet include equity market volatility, and counterparty, credit, valuation and liquidity risks to name a few. Our task is to ensure New Zealanders are being rewarded sufficiently for accepting these risks, and that they are managed and mitigated appropriately. There is no free lunch when it comes to generating future wealth. The risks presented by these investments make sense only when put against the context of the future liability they are intended to offset. While the future retirement income liability continues to dwarf the Fund at present, we are very gradually closing this gap. I would like to draw readers' attention to our Investment Report at pages 48–75, where we discuss our investment approach.

Adrian Orr – Chief Executive Officer

INVESTING IN UNCERTAIN TIMES

One of the largest challenges to investing is uncertainty about the state of risk and return today, tomorrow, and for years to come. This year has seen, to name just a few issues, Greece at the precipice of collapse, commodity price crashes, Chinese stock market gyrations, global monetary authorities signalling an end to unprecedented low interest rates, and almost countless significant geopolitical risks emerging.

As a long-term investor, however, it has been just another year. The truth is that the world is always uncertain: at any time, more things can happen than actually will. Uncertainty is a perennial feature of our position in the markets. So how do we, as long-term investors, manage? Over recent years we have developed a deliberate culture and investment framework to best manage through uncertainty and maximise our chance of being successful as investors.

First, we have clearly defined the endowments that we can leverage to our advantage (our long-term horizon, commercial independence, sovereign status and tolerance for illiquidity). We only invest when the investment opportunity is anchored to these endowments – that is, the investment risks are well suited to our management strengths.

Second, we have clearly articulated the investment beliefs to which we stick in good times and bad. This allows our team to take action often when it feels least comfortable – such as when we act as a contrarian investor. In this way, we have preconditioned ourselves as best we can to overcome the usual human foibles of running with the herd or over-emphasising recent news and the short-term horizon.

Third, we only invest when we are clear about the drivers of investment returns, and we are disciplined in our capital allocation and follow through. We don't shy away from the opportunities.

Together, our endowments, beliefs, and discipline guide our investment selection and sizing. We recognise that 'news' never really makes the future more certain. Our pre-agreed, long-term frameworks, strategies and processes instead guide us through cycles and shocks for the long-term.

FUND SIZE

$29.54B

Finally, and very importantly, we are conscious of the dangers of over-confidence and hubris. This is especially important at times like now, following several years of exceptional value-add investment performance. To remain focused we continue to ensure our workplace culture is collaborative and constructive, and that people feel able to speak up – to debate and provide different perspectives. I am especially pleased with the progress we have made in this area over recent years, and draw readers' attention to the discussion of our workplace culture on pages 84–85.

LOOKING AHEAD IN THE SHORT-TERM

Growth prospects remain solid, if not spectacular, across the United States and increasingly in Europe. This is a positive outcome as we return to more 'normal' times in the developed economies. Part of this normalisation, however, will be the United States Federal Reserve returning its interest rate setting to something that better reflects reasonable growth and low inflation. This means the very low interest rates of recent years are unlikely to last in the United States, although they will linger for a while yet in Europe.

I am pleased to see this return to normality if it reflects improved economic fundamentals and prosperity. If the market is, however, dominated by investors constantly relying on Central Bank 'pump priming' for ever, then beware. Higher nominal interest rates reflect better underlying economic fundamentals. But it is the path to getting there that can create the jitters. These short-term concerns are exactly why we focus on multiple years ahead when setting our strategy.

The other major driver of uncertainty in global markets is China's ability and the time it will take to transition from its traditional manufacturing- and investment-based economy into one that is underpinned by domestic spending. This is a necessary step for China to make to avoid the 'middle income trap' into which most emerging economies fall. The world will watch, assist, and benefit over time without doubt.

INCLUSIVE CAPITALISM

Over the last year I have been privileged to be part of the Inclusive Capitalism and Focusing Capital on the Long-Term initiatives. What has been interesting to observe is the almost visible tipping point in global thinking that economic welfare is inseparable from environmental health, social cohesion, and sound governance. Literally trillions of dollars of investable capital is now being represented at global forums asking the same questions: how do we ensure that this virtuous circle is promoted, and how do we avoid the inherent short-termism that dominates decision making?

What is IFSWF?

IFSWF provides a forum for sovereign wealth funds to exchange views on issues of common interest. It also aims to facilitate an understanding of the Santiago Principles – a code of good practice for sovereign wealth funds covering concepts such as governance and transparency. IFSWF currently has 30 members, with USD4 trillion in assets under management. For more information, see www.ifswf.org

I am proud the Fund is held up as an example of long-term investing in many of these forums, given our governance and responsible investment practices. Long-term investing will be the new norm, with concerned and empowered investors dominating markets.

INTERNATIONAL FORUM OF SOVEREIGN WEALTH FUNDS

It is also a feather in the Fund's cap that New Zealand has been chosen to host the 2016 International Forum of Sovereign Wealth Funds (IFSWF) Annual Meeting.

We look forward to hosting around 200 attendees from other sovereign wealth funds, multilateral organisations like the International Monetary Fund and the European Bank for Reconstruction and Development, and international journalists. A project team has been established at the Guardians to manage the logistics of the event, which will be held in Auckland in late 2016.

A GREAT TEAM

The above heading is part of our vision statement "a great team building the best portfolio". While the statement will forever be aspirational, I believe we are a long way toward achieving it.

I'd personally like to thank the Board and Staff of the Guardians for their efforts during 2014/15. I have felt incredibly privileged and supported – making the year a very satisfying one. Fund performance and value-add were strong, as outlined in the Chairman's report, and we successfully completed a number of major transactions, including sizeable new investments in RetireAustralia (see pages 94-95) and LanzaTech (page 29). The year also had some very challenging moments, including problems with the Oak Finance investment that we discuss in more detail on pages 82–83.

It is especially during times of stress that a great team shows its strength. I'd like to thank all involved for their professionalism, hard work and collegiality. We look forward to another stimulating and successful year in 2015/16.

ADRIAN ORR,
CHIEF EXECUTIVE OFFICER

SEE ADRIAN TALK ABOUT THE FUND'S PERFORMANCE IN 2014/15 AT WWW.AR2015.NZSUPERFUND.CO.NZ/YEAR-REVIEW

Progress against our Strategic Plan

Here we provide an overview of progress made during 2014/15 against the medium-term objectives in our 2014–2019 Strategic Plan.

For more information, see our 2014–2019 Statement of Intent and 2014–2015 Statement of Performance Expectations, available at www.nzsuperfund.co.nz/publications/statement-intent.

The financial year 2014/15 was the fifth year in a five-year Strategic Plan. A new five-year Strategic Plan is being developed for 2016–2021.

OBJECTIVE: BEST PORTFOLIO

WHAT DOES SUCCESS LOOK LIKE IN 2019?

- Single top-down view across a wide range of opportunities
- Greater internal capabilities in identifying opportunities
- Structured and consistent opportunistic investing
- Broad assessment of access points
- Systematic monitoring of strategies and managers
- Best practice across governance, enterprise risk management and information technology

Outputs of the above are fully implemented investment strategies that:

- add value (net of costs) to the Reference Portfolio;
- improve the 'Sharpe Ratio' of the Fund; and
- maximise cost efficiency.

ACHIEVEMENTS DURING 2014/15:

- Implementation of the Risk Budget investment approach and supporting infrastructure
- Two new Portfolio Completion investment opportunities developed; four considered but not pursued; one still being researched
- Larger number of direct deals considered; new direct investments in LanzaTech and RetireAustralia; additional stake in Kaingaroa Timberlands
- Strategic tilting programme broadened across emerging market equities and currencies
- Reference Portfolio review completed
- Cost allocation reporting tool improved

PRIORITIES FOR 2015/16:

- Implement Reference Portfolio review recommendations and any agreed systematic premia strategies
- Increase the efficiency of our implementation
- Cost Effective Measurement (CEM) Benchmarking – progress initiatives to capture the full costs of private equity investment

OBJECTIVE: STRONG EXTERNAL RELATIONSHIPS[1]

WHAT DOES SUCCESS LOOK LIKE IN 2019?

- Systematic programme of co-investments, collaboration and comparison
- Regular exchange of best practice and wider benchmarking
- Active membership of influential global forums

ACHIEVEMENTS DURING 2014/15:

- Stakeholder research completed
- Rights secured to host International Forum of Sovereign Wealth Funds (IFSWF) Annual Meeting in Auckland in 2016
- Appointed Secretariat to, and Chair of, the New Zealand Corporate Governance Forum

PRIORITIES FOR 2015/16:

- Manage a network of external relationships (including Treasury, peers and co-investment partners), including implementing stakeholder research lessons
- Plan successfully for IFSWF 2016

1. Titled 'Collaborate with Peers' in the 2014–2019 Strategic Plan, as detailed in our 2015–2016 Statement of Performance Expectation, this has changed to 'Strong External Relationships' in the 2015–2020 Strategic Plan.

1

2

1 Our new website was launched to a positive reception in August 2014.

2 Innovation week encouraged staff to put up fresh ideas and challenge assumptions.

OBJECTIVE:

BUILDING AND MAINTAINING A GREAT TEAM

WHAT DOES SUCCESS LOOK LIKE IN 2019?

- Strong leadership, strong culture and values, focus on talent development and retention

ACHIEVEMENTS DURING 2014/15:

- New online performance review system implemented
- Roll-out of Life Styles Inventory (LSI) development programme continued
- Formal learning and development programme implemented

PRIORITIES FOR 2015/16:

- Implement Culture Survey recommendations
- Assess new performance review system and implement key lessons
- Refresh diversity and inclusion policy and hiring practices to ensure compliance and consistency; establish internal training to support diversity

OBJECTIVE:

EFFICIENCY, SCALABILITY AND INNOVATION

WHAT DOES SUCCESS LOOK LIKE IN 2019?

- Frameworks and processes which are embedded and guide efficient operations by managing uncertainties and simplifying decisions
- These frameworks and processes also being scalable and flexible to accommodate new initiatives and products

ACHIEVEMENTS DURING 2014/15:

- New website launched August 2014
- New systems to improve business continuity capabilities implemented
- Research into portfolio management system options substantially progressed
- Ongoing development of the Guardians' intranet including creation of the new Human Resources and Responsible Investment sites, four new education modules; and increased process management
- Innovation Week held to identify and prioritise great ideas; reporting dashboards improved

PRIORITIES FOR 2015/16:

- Embed new risk reporting, undertake risk systems research and build capability and capacity
- Improve cyber-security defence, knowledge and preparations
- Implement the recommendations of the Portfolio Management System Project
- Develop and execute implementation plans for the ideas prioritised by the 2015 Innovation Week

Identifying our Material Issues

Decisions about the information we include in our Annual Report are based on:

- legislative reporting requirements for New Zealand Crown entities and for the Fund
- best practice disclosure guidelines for sovereign wealth funds and financial institutions, including the:
  - New Zealand Financial Markets Authority's Corporate Governance Principles
  - New Zealand Corporate Governance Forum's Best Practice Guidelines
  - New Zealand Human Rights Commission's Good Employer Obligations
  - International Forum of Sovereign Wealth Fund's Santiago Principles
  - United Nations Principles for Responsible Investment
  - Global Reporting Initiative.

As well as consulting Guardians staff on topics to address in the Report, we also seek and factor in specific feedback from stakeholders. In 2014/15 this process included specific questions about our Annual Report in the stakeholder survey discussed on pages 37 and 68; seeking and responding to feedback from The Treasury; and an assessment of the most material issues raised with us during the year.

During the year, we also ran a series of staff workshops aiming to identify material risks to the Guardians and the Fund. The nine risks identified have been highlighted and our risk-management framework is discussed in more detail at pages 38–41.

This year we shared the list of top risks with The Treasury. In future years we plan to engage with a wider group of stakeholders to understand whether their perceptions of material risks and issues are consistent with ours.

The Annual Report is aligned closely to our Statement of Intent (which is based on our 5-year Strategic Plan) and our Statement of Performance Expectations. In the Statement of Performance at pages 100–103, we report against the 1 and 5 year performance measures set out in the 2010–2015 Statement of Intent, as well as on our achievement of the priority Strategic Plan activities for 2014–2015.

Rufus.
Rufus is already 65 in dog years. Unfortunately for him, the Fund doesn't cover dogs.

SECTION 2:
Governance

Overview

The Guardians has been vested with the powers and responsibilities to allow it to perform its investment mandate. In turn, sound governance and quality public reporting, with a high degree of transparency, are critical to maintaining stakeholder confidence in the Guardians and the 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
- 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 but is not an entity in its own right.

New Zealand Government
Appoints members to the independent Nominating Committee

Independent Nominating Committee
Identifies candidates for the Guardians' Board

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

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

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

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

HOW WE IMPLEMENT GOVERNANCE

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

Great Team – Our Policies
Communications
Human Resources
Procurement & Outsourcing
Risk Management
Travel & Sensitive Expenditure

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

Delegations
Statement of Investment Policies, Standards and Procedures (SIPSP)

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

Board Code of Conduct

The Board Code of Conduct (the 'Code') sets out the standards for appropriate ethical and professional conduct for members of the Guardians Board. It reflects the Crown Entities Act.

The Board Chair is responsible for monitoring compliance with the Code.

Under the Code, it is the collective responsibility of the Board to ensure that the Guardians:

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

Each Board member's individual duties include:

- exercising the care, diligence and skill that a reasonable person would exercise in the same circumstances taking into account the nature of the Guardians, the nature of the action, the position of the member and the nature of their responsibilities; and
- not disclosing information obtained in their capacity as a Board member, with some limited exceptions.

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

The Board Code of Conduct was fully complied with in 2014/15.

Staff Code of Conduct and Securities Trading Procedure

Our Human Resources Policy, available at www.nzsuperfund.co.nz/publications/policies, includes our employee Code of Conduct. Among other provisions, the Code of Conduct requires all staff members and contractors to:

- keep all non-public information confidential;
- not benefit from the possession of confidential information for personal gain;
- disclose conflicts or possible conflicts of interest; and
- comply with the law.

The Human Resources Policy includes a detailed Securities Trading Procedure that aims to reduce the risk of the Guardians as an organisation, staff or contractors breaching the Financial Markets Conduct Act, or similar legislation. It does this by providing guidance on the law and the consequences of breaching it; setting rules about information flows; and setting rules about trading. Staff members are required to attest quarterly to disclose any personal trading they have undertaken, and to seek permission in advance before trading securities and the New Zealand dollar currency (over a threshold). For further information on our Human Resources Policy, including on health and safety matters, see pages 84–90.

The Staff Code of Conduct was fully complied with in 2014/15.

ACHIEVEMENTS DURING 2014/15

The Risk Budget investment approach implemented

New ideas for business innovation identified and the most promising targeted for further development

Resource capabilities benchmarked against comparable organisations

Suite of policies reviewed; new Derivatives Policy and Investment Valuation Policy introduced; enhanced documentation of key internal processes

THE YEAR AHEAD – 2015/16

Refresh our diversity and inclusion policy and hiring practices to ensure compliance and consistency; establish internal training to support diversity

Embed new risk reporting (risk record replacement – see page 39), undertake risk systems research (illiquidity, counterparty, risk reporting); build capability and capacity (credit, performance, compliance, enterprise risk)

Improve cyber-security defence, knowledge and preparations

Continue to examine and incubate new ideas for business innovation; strengthen the capabilities and processes supporting innovation

Board Members

GAVIN WALKER
CHAIR BCA

Gavin Walker was appointed to the Board of the Guardians of New Zealand Superannuation in July 2010, to the position of Deputy Chair in May 2012 and as Chair in September 2012. His current term expires in June 2018. Gavin is currently the Chair of ASB Bank, Sovereign Insurance, Commonwealth Securities Limited and the Kirin International Advisory Board. He has been a Director of Lion Pty Limited since 2000. Gavin has extensive experience in the funds management industry, including as Chief Executive Officer of Bankers Trust Investment Bank 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

CATHERINE SAVAGE
DEPUTY CHAIR BCA, CA

Catherine Savage was appointed to the Board of the Guardians of New Zealand Superannuation in November 2009 and as Deputy Chair in September 2012. Her final term of office expires on 30 September 2019. Catherine is Chair of the National Provident Fund, an independent Director of Kiwibank, Todd Family Office Limited, and CAANZ, as well as 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) Limited 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

STEPHEN MOIR

Stephen Moir was appointed to the Board of the Guardians of New Zealand Superannuation in November 2009. His final term of office expires on 30 September 2019. Stephen is Chair of BNZ Life Insurance and a non-executive director of the Bank of New Zealand. 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, Citibank in Singapore, Bangkok and Sydney.

COMMITTEE MEMBERSHIP:
Employee Policy and Remuneration

MARK TUME
BBS, Dip. Banking Studies

Mark Tume was appointed to the Board of the Guardians of New Zealand Superannuation in April 2006. His final term of office expires on 30 April 2016. Over his 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 RetireAustralia, and the Chairmanship of Infratil Limited. Mark is a past recipient of the Victoria University of Wellington Hunter Fellowship.

COMMITTEE MEMBERSHIP:
Chair, Audit

CRAIG ANSLEY

BSc (Hons), PhD

Craig Ansley was appointed to the Board of the Guardians of New Zealand Superannuation in June 2011. His current term of office expires on 30 June 2016. Craig is a board member of the Government Superannuation Fund Authority and a member of the BNZ Wealth & Private Banking Investment Review Committee. 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 in 2010-11 and has been a director of the Mortgage Corporation of New Zealand Limited and 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

PIP DUNPHY

BHort Science, CFA

Pip Dunphy was appointed to the Board of the Guardians of New Zealand Superannuation in May 2012. Her current term of office expires on 30 April 2017. A former member of the Nominating Committee for the Guardians, Pip has work experience and knowledge in capital markets, banking, finance and investment management. Her previous governance experience includes being a board member of Auckland Transport, NZ Post, the Earthquake Commission, ACC, Solid Energy and Crown Health Financing. Current appointments include directorships at Abano Healthcare, Fonterra Shareholders' Fund and Transpower.

COMMITTEE MEMBERSHIP:
Audit

LINDSAY WRIGHT

BCom

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

Lindsay is Regional Head Institutional, Alternatives and Investment Solutions Business, Asia-Pacific, with Invesco Hong Kong Limited. Prior to joining Invesco Lindsay was Chief Executive Officer of Harvest Alternatives Investment Group and Co-Chief Executive Officer of Harvest Capital Management Limited. Lindsay is also an independent director of Kiwibank.

During a 24-year career with Deutsche Asset Management and Deutsche Bank, Lindsay held roles including: Managing Director and Global Head of Strategy and Business Development for Deutsche Asset Management based in New York; Head of Strategy and Business Development for Deutsche Asset Management, Asia-Pacific and Middle East region, based in Singapore; Chief Operating Officer of 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

Leadership Team

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 New Zealand Treasury and the OECD based in Paris. Adrian is the Deputy Chair of the International Forum of Sovereign Wealth Funds, Vice Chair of the Pacific Pensions Institute and a member of the Expert Advisory Group for the World Bank's Treasury. He is also a Board member of the Center for Alternative Investments at Emory University, Atlanta, Georgia.

AREAS OF RESPONSIBILITY:
General management of the Guardians under delegation from the Board

MATT WHINERAY
CHIEF INVESTMENT OFFICER BCom, LLB (Hons)

Matt joined the Guardians in May 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 Vice President at Credit Suisse First Boston (New York). Matt began his career as a Barrister and Solicitor with Russell McVeagh. Matt is a member of the Future of Investing Council for the World Economic Forum.

AREAS OF RESPONSIBILITY:
Appointment of investment managers, asset allocation, investment analysis including macroeconomic strategy and responsible investment, New Zealand and international direct investments, public and private market investments

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, administration

STEWART BROOKS
GENERAL MANAGER FINANCE & RISK
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 United Kingdom.

AREAS OF RESPONSIBILITY:
Chair, Risk Committee; enterprise risk (including records management); external audit process, financial control, financial reporting, portfolio risk and compliance, tax

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

SARAH OWEN
GENERAL MANAGER CORPORATE STRATEGY AND 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.

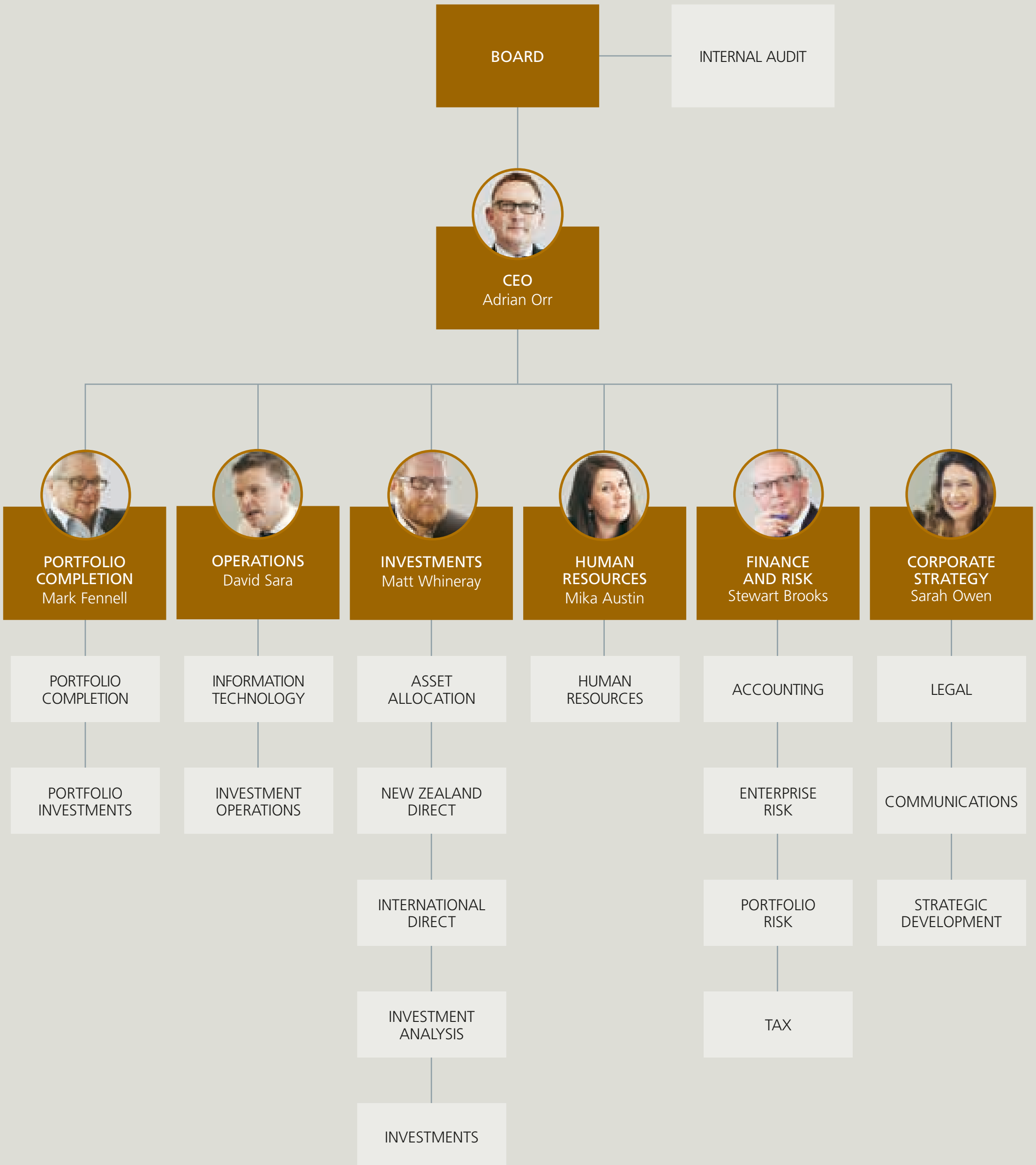
AREAS OF RESPONSIBILITY:
Board Secretariat, communications, legal, strategic development

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 United Kingdom-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:
Chair, Funding Treasury Group; information technology; investment operations

GUARDIANS OF NZ SUPERANNUATION – ORGANISATIONAL CHART



Investing in Early-stage Companies

CASE STUDY

In recent years the Fund has made a number of investments in early-stage companies that have great potential. These investments are part of a strategy to invest a small proportion of the Fund in 'expansion capital'.

Also called growth capital, expansion capital is a type of investment at the intersection of venture capital and private equity. Investors provide capital to relatively developed companies with significant growth potential, but which are not well suited to public markets due to the lack of established track record and predictability of future performance.

While expansion capital can be higher risk than many other investments, and not every investment will be successful, it also offers high potential returns. It is therefore suited – as a small part of a diversified portfolio – to long-term, growth-oriented investors such as the Fund with the perseverance to see through short-term volatility for long term benefit.

In total, around 1% of the Fund is invested in expansion capital.

In New Zealand, because of the small size and capital requirements of local companies, we invest in expansion capital through external managers Pencarrow Private Equity, Pioneer Capital Partners and Waterman Capital. In turn, they invest in small and medium-sized New Zealand businesses.

Internationally, while we work with other parties to identify suitable investment opportunities, we prefer to invest directly, targeting minority stakes in companies with strong growth potential.

Our international portfolio includes investments in wind turbine manufacturer Ogin Inc., fuel cell manufacturer Bloom Energy, gas fermentation company LanzaTech and dynamic glass manufacturer View Inc. These investments are managed by our in-house team.

In 2014/15 the Fund, together with other existing investors, participated in a pro-rata funding round to support Ogin's operating expenses. The Fund's pro-rata investment was USD1.9m.

VIEW

Due diligence on a USD75 million investment in Silicon-Valley based View Inc. (www.viewglass.com) was a focus during the second half of the 2014/15 year. View is a leading manufacturer of dynamic glass, a new generation of architectural glass that intelligently transitions through multiple tint states to control the sun's energy, providing an enhanced occupant experience and optimum natural light and thermal comfort. The transaction settled in August 2015; we will cover the investment in more detail in our 2015/16 Annual Report.

LANZATECH

In December 2014, the Fund made a USD60 million investment in LanzaTech (www.lanzatech.com). In June 2015 we invested a further USD15 million, bringing the Fund's total stake to USD75 million.

Founded in New Zealand in 2005 and now headquartered in Chicago, LanzaTech converts waste gas from steel mills into ethanol and other high value fuels and chemicals.

The follow-on investment reflected recent progress made by LanzaTech, including securing a major commercial partner in China Steel Corporation.

FOCUS ON ALTERNATIVE ENERGY

As discussed on pages 74–75, we are executing a strategy to diversify the Fund into alternative and non-conventional energy, alongside traditional energy investments. As well as fitting with the expansion capital strategy, investments in Ogin, Inc., Bloom Energy, LanzaTech and View Inc. provide access to alternative energy. LanzaTech, for example, provides exposure to the waste-for-energy sector.

During the year, the Fund also notionally committed USD350 million to invest via a United States-based collaborative investment platform targeting clean energy investments over the next five years. The 'aligned intermediary' initiative has been designed to help long-term investors identify, screen, assess, and invest in high-potential companies that are producing the most impactful and financially attractive solutions to climate change. The platform was one of a number of clean energy investment initiatives, with an estimated value of more than USD4 billion, announced by the United States Government in June 2015.

For the Guardians, the platform provides access to a proprietary deal flow and a set of aligned partners that value the strengths and characteristics we bring as an investor. It also fits with our strategy to increase the Fund's exposure to alternative energy. The USD350 million is purely an expectation of the sort of scale of investment we would like to make; we retain full investment discretion in assessing each potential investment.

LanzaTech's Demonstration Facility in China with Baosteel.

Principles

This section reports on the Guardians' governance framework in relation to each of the Financial Markets Authority's corporate governance principles in the year to 30 June 2015.

1

ETHICAL STANDARDS

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

Both the Board and employees have codes of conduct clearly setting out the ethical standards expected at the Guardians. The codes, which are discussed further on page 22, address:

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

Board members and employees must at all times act honestly and in good faith, and in the best interests of the Guardians. As part of the employee Code of Conduct, the Guardians has adopted a policy for employees to report instances of suspected breaches of laws or wrongdoing by the Guardians and/or any of its employees without fear of adverse consequences and for such reporting to be properly investigated (whistleblowing).

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

For Board members, actual or potential conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation.

The codes of conduct are reviewed regularly as part of the Guardians' Legislative Compliance Framework. To access a copy:

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

2

BOARD COMPOSITION AND PERFORMANCE

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

The skills and attributes required for a person 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 collective mix of complementary skills.

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

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

The first Board members were appointed in August 2002. The Board composition at 30 June 2015, with details of individual Board members' backgrounds set out on pages 24–25.

The Guardians' governing legislation and the Board Charter define Board responsibilities, responsibilities of individual Board members, matters reserved for the Board and matters delegated to management. The Board is responsible for:

- supervising the management of the Guardians and the investment of the Fund;
- establishing the Guardians' objectives, corporate strategy for achieving those objectives and the overall policy framework within which the business of the Guardians is conducted, and monitoring management's performance with respect to these matters;
- ensuring the Fund's assets and the Guardians' assets are maintained under effective stewardship; and
- ensuring that decision-making authorities within the Guardians are clearly defined, that all applicable laws are complied with, and that the Guardians is well managed.

While the Board has responsibility for the affairs and activities of the Guardians, in practice the Board operates through delegation to the Chief Executive Officer and other executives who are charged with the day to day leadership and management of the Guardians. The Board maintains a formal set of delegated authorities, which clearly define the responsibilities that are delegated to management and those which are retained by the Board. There are some 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 performance of the Committees, Board and individual members is evaluated at regular intervals. Evaluation of the Committees is undertaken on a self-assessment basis at least once every two years and of the Board at least every other year. The Board and Committees undertake either self-evaluation or utilise an outside specialist to assist.

There is a formal induction programme for new Board members, including education sessions at the Guardians' offices, one-on-one sessions with the Leadership Team and a comprehensive suite of induction papers. The Guardians has a formal ongoing education programme for Board members to ensure they have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board education programme are approved by the Board. The Board 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.

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

Board Skills

The following table identifies the skills needed and possessed by the Guardians' Board. These skills reflect the purpose and mandate of the Guardians and the Fund. Not all Board members will or should possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. Refer to the Board biographies on pages 24–25 for details on individual experiences.

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

Core Values and Endowments

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

- Innovation, Inclusiveness, Integrity
- Courage
- Constructive Culture
- Diversity of perspective

Board Diversity

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

- **Professional Experience:** Academia, Consulting, Banking, Funds Management, Operational
- **Academic Disciplines:** Actuarial, Accounting, Economics, Finance, Industrial Relations, Marketing, Mathematics and Science
- **Country Experience:** Australia, China, Hong Kong, Japan, Singapore, Thailand and United States of America
- **Gender:** Three women and four men
- **Age Range:** 40s-60s
- **Ethnicity:** European, Māori

3

BOARD COMMITTEES

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

The Board had two standing committees during the 2014/15 financial year – the Audit Committee and the Employee Policy and Remuneration Committee (EPRC).

The objective of the Audit Committee is to assist the Board to meet its financial reporting obligations and provide independent assurance on financial reporting and the Guardians' risk, control and compliance framework.

The EPRC supports the Board on matters relating to staff and remuneration.

The roles and responsibilities, reporting requirements, composition, structure and membership requirements of each Board committee are set out in the respective committee's Terms of Reference. Copies of the Terms of Reference are contained within the Board Charter, available on our website at www.nzsuperfund.co.nz/nz-super-fund-explained-governance/board. Each Committee's Terms of Reference and performance are periodically reviewed by the Board.

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 other members of the management team are invited to attend committee meetings as necessary.

The Board met five times during 2014/15, including for a Strategy Day. The Audit Committee met four times and the Employee Policy and Remuneration Committee met four 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.

	BOARD	AUDIT COMMITTEE	EPRC
Number of meetings	**5**	**4**	**4**
Craig Ansley	4	2	n/a
Pip Dunphy	4	2	n/a
Stephen Moir	5	*1	4
Catherine Savage	5	*1	4
Mark Tume	5	4	n/a
Gavin Walker	5	4	4
Lindsay Wright	5	4	n/a

* The full Board joins the Audit Committee in its review of the annual financial statements.

Audit Committee

Matters considered by the Audit Committee during the year included:

- reviewing a new Investment Valuation Policy to cover the valuation of all of the Fund's investments;
- post-investment asset review of RetireAustralia investment;
- post-investment asset review of LanzaTech investment; and
- tax matters, including volatility in the Fund's effective tax rate; the G20/OECD Base Erosion and Profit Shifting initiative; and the use of collective investment vehicles in tax-neutral jurisdictions.

The Committee also considered the new disclosure standards issued by the New Zealand Accounting Standards Board. The Fund will adopt these in 2016.

4

REPORTING AND DISCLOSURE

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

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 table below summarises the Guardians' reporting requirements.

THREE-YEARLY	ANNUALLY	QUARTERLY TO MINISTER	MONTHLY	AS IT HAPPENS
Five-year Statement of Intent setting out key strategic objectives and performance measures	Annual Statement of Performance Expectations forecasting Fund performance and setting out priority activities for the year Annual Report summarising the year's performance against the Annual Statement of Performance Expectations Review by Parliamentary Select Committee with participation from the Office of the Auditor-General	Fund performance Important decisions made about the Fund Important developments at the Guardians	Fund performance Portfolio composition Major listed holdings	Anything necessary to comply with the expectation that we will operate on a 'no surprises' basis with the Minister of Finance Responses to questions from Parliament, media and via the Official Information Act 1982

Copies of our Statement of Intent and Statement of Performance Expectations are available at: www.nzsuperfund.co.nz/publications/statement-intent.

The latest Statement of Intent, which sets out strategic objectives and performance measures for the five years from 2014–2019, was published in July 2014. The Annual Statement of Performance Expectations sets out a detailed plan of work and financial forecasts for the coming financial year.

The Guardians' objectives for the 2014/15 financial year are reported against in the Statement of Performance at pages 100–103 of this Annual Report.

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and at www.nzsuperfund.co.nz/publications/annual-reports. 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 Chief Executive Officer and the General Manager Finance and Risk are required to state in writing to the Audit Committee that the Guardians' and the Fund's financial statements present a true and fair view, in all material respects, of the Guardians' and the Fund's financial conditions and operational results and are in accordance with relevant accounting standards. They are also required to sign off on the adequacy of the systems of internal control.

The Guardians also reports 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 appeared before the Commerce Select Committee in February 2015 and provided responses to a series of written questions from the Committee in March 2015.

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

The Guardians received six requests under the Official Information Act 1982 during 2014/15. This compares to eight in 2013/14.

Copies of the Guardians' responses to Official Information Act requests are available at: www.nzsuperfund.co.nz/publications-disclosures/oia.

5

REMUNERATION

The remuneration of Directors and Executives should be transparent, fair and reasonable.

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. Board members' remuneration is disclosed in Note 11 to the Guardians' financial statements.

The Guardians' Human Resources Policy, which is approved by the Board, includes its remuneration policy. The EPRC assists the Board in reviewing the remuneration policy and in setting the Chief Executive Officer's remuneration.

Comprehensive information regarding executive remuneration, including details of the Guardians' discretionary incentive scheme, is disclosed at pages 44–45 and at Notes 11 and 12 of the Guardians' financial statements.

In August 2014 an independent review of the Guardians and the Fund by Promontory Group recommended that Board members' remuneration be increased. The last increase in Board fees was made in January 2008. For more information on the independent review, see page 43.

6

RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business. 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 the Guardians' assets and interests, and to ensure the integrity of reporting. Further information on the Guardians' approach to risk management is contained on pages 38–41.

7

AUDITORS

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 without the approval of the Audit Committee.
The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Auditor-General. The Auditor-General has appointed Brent Penrose of Ernst & Young to carry out the external audit of the Guardians and the Fund on her behalf. A new external auditor, Graeme Bennett (also of Ernst & Young) has been appointed by the Auditor-General; his five-year term started in September 2015.

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

8

STAKEHOLDER RELATIONS

The Board should foster constructive relationships with stakeholders that encourage them to engage with the entity.

Parliament and the Minister of Finance

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 34. As noted on page 20, 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.

The Minister of Finance may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2014/15 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 64–66 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 9 March 2015. This letter and the Guardians' response are available at www.nzsuperfund.co.nz/publications/disclosures.

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

Stakeholder perception research

In 2014/15, the Guardians undertook, for the first time, research into stakeholder perceptions of, and relationships with, the Guardians and Fund. The purpose of the research was to understand the effectiveness of the Guardians' relationships and communications with stakeholders.

Independent research company Colmar Brunton was commissioned to undertake two pieces of research:

- a set of qualitative, 1:1 interviews with a small group of senior stakeholders (December 2014); and
- an online survey of a broad group of stakeholders (March 2015).

Stakeholder groups included in the research included current and former investment managers, counterparties, investee companies, advisors, industry representatives, government officials, political party representatives, non-government organisations and New Zealand and international news media.

Overall, the research results provided a very positive endorsement of the strength of the Guardians' stakeholder relationships, and the quality and comprehensiveness of communications activity. Specific metrics of interest include:

- 85% of stakeholders are satisfied with the Guardians' overall service quality; and
- 9 out of 10 stakeholders rate their relationship with the Guardians positively.

In general, international stakeholders were more satisfied and positive than New Zealand ones. Areas for improvement suggested by stakeholders included:

- better communicating the level of investment risk the Fund is taking and what this means;
- increasing the general public's knowledge and understanding of the Guardians and the Fund;
- better communicating our approach to investing in New Zealand, specifically why we don't invest more here; and
- doing more to share our investment knowledge and expertise.

The results of the research will influence our communications strategy and activities in 2015/16 and beyond. Colmar Brunton's research reports are available at: www.nzsuperfund.co.nz/publications/papers-reports-reviews.

See page 37 for more information on stakeholder engagement activities.

9

STAKEHOLDER INTERESTS

The Board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

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

This information includes:

- monthly performance and portfolio reports;
- detailed historical performance figures for the Fund since inception; and
- copies of media statements, speeches, publications and research papers.

The quantitative stakeholder survey undertaken during 2014/15, as discussed on page 68, canvassed stakeholders' views in regards to the Guardians' transparency, including satisfaction with the Annual Report and website. Results include the following:

- 96% agree the Guardians is transparent over performance returns;
- 89% agree the Guardians is transparent over investment approaches and strategies;
- 86% agree the Guardians is transparent about the Fund's portfolio holdings;
- 96% rated www.nzsuperfund.co.nz as good or very good; and
- 98% rated the Guardians' Annual Report as good or very good.

Industry Networks and Investment Groups

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, in particular the New Zealand Treasury.

We also put significant effort into managing our relationships with peer funds, investment managers and potential co-investors.

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

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

We also participate at all levels in the Rotman International Centre for Pension Management, International Pensions Conference, Association of Superannuation Investors, International Corporate Governance Network, United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

Stakeholder engagement and collaboration activities undertaken in 2014/15 included:

- chairing of, and provision of secretariat services to, the New Zealand Corporate Governance Forum (see page 74 for more information);
- facilitation of education sessions on the Guardians and Fund for Treasury relationship managers, on topics including strategic tilting, use of derivatives, responsible investment, performance reporting and liquidity management; and
- hosting an Asia Institute seminar – 'Country Deep Dive – New Zealand'.

Priorities for 2015/16 include:

- releasing the Corporate Governance Forum's best practice guidelines for New Zealand listed companies;
- communicating changes to the Fund's Reference Portfolio (see pages 52-54 for more information);
- preparing to host the International Forum of Sovereign Wealth Funds' 2016 Annual Meeting in Auckland; and
- continuing to collaborate with Treasury and the Reserve Bank of New Zealand on Crown balance sheet modelling.

We will also continue with our efforts to develop relationships across a range of potential interest groups to create additional co-investment opportunities.

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

The Asia Institute is a private membership forum for the open exchange of global best practice and thought leadership. Members include chief executives, senior management and heads of Asia from major global asset management firms. The seminar gave investors an opportunity to engage with local regulators and experts, and to focus on the most recent and important local trends and developments.

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.

Risk is a necessary part of doing business for any investment fund and we must take investment risk in order to achieve our mission. Risk 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. 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 Guardians has extensive risk-management policies, procedures and other internal controls for application by 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/publications/policies.

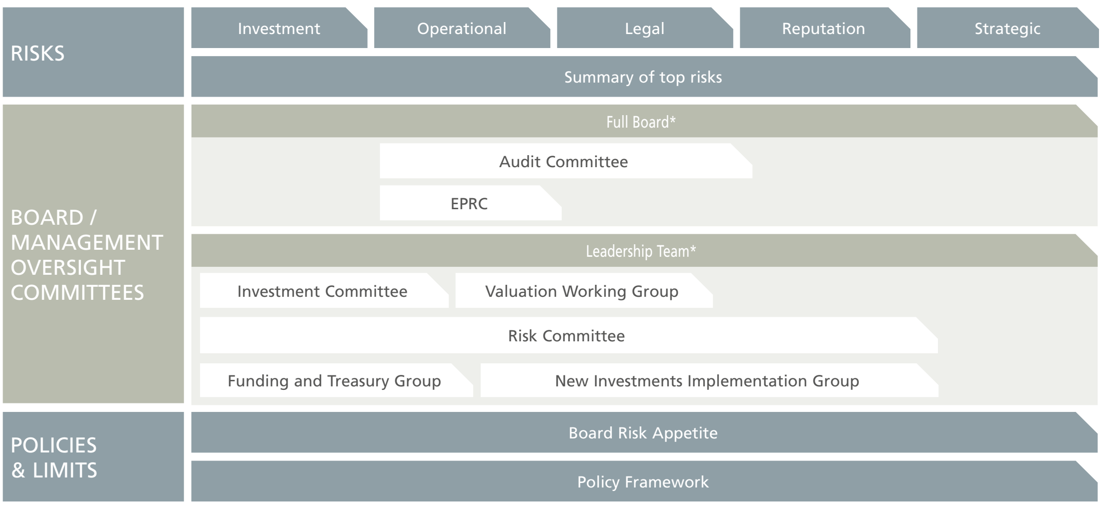
The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy.

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

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

Risk Management 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.

CHANGES TO RISK REPORTING FRAMEWORK

Changes to our risk reporting framework were implemented in 2014/15. A new reporting system replaces the previous use of 'Risk Records' with enterprise-risk dashboard-style reporting to the Board, combined with enhanced Business Unit Risk Registers.

Each business unit maintains a Risk Register that identifies the risks that could impact on its specific activities, and related mitigations.

The changes are consistent with Suggestion 4 of the Independent Review (see page 43), which advocated simplification of the Risk Record architecture and better linking to the major risk categories at the enterprise level.

The design principles for the changes were that they:

- must be forward looking;
- bring together cross-functional teams to enable different perspectives to be considered in rounding out understanding of how risks may affect different parts of the business;
- ensure regular conversation about risks across the key governance bodies within the Guardians i.e. Risk Committee, Investment Committee, Leadership Team and Board; and
- must be efficient and leverage existing processes e.g. Risk Registers.

The table below summarises the risk identification and assessment process:

ACTIVITY	PURPOSE	OUTPUTS	PARTICIPANTS
1. Environmental Assessment	Identify internal and external changes to the business. Forms an input into Business Unit Risk Register refresh.	Summary of main changes affecting the business	Risk Committee; Business units Heads
2. Business Unit Risk Register refresh	Assessment of existing and potential emerging risks.	Updated business risk registers	General Managers; Business units Heads; Business unit staff
3. Consolidated outputs of Business Unit Risk Register Reviews	Confirm or identify any new or changes to existing top risks. Assess emerging risks and identify those that should be escalated in reporting.	Draft summary of top risks & emerging risks	Risk Committee; Business unit Heads
4. Review of top risks by Leadership Team	Evaluate identified top risks and emerging risks. Evaluate adequacy of mitigation and remedial plans and consider whether further actions are required.	Refined draft summary of top risks & emerging risks	Leadership Team; Risk Committee representatives (if required)
5. Review of top risks by Board	Evaluate top risks and emerging risks identified. Evaluate adequacy of mitigation and remedial plans in place and consider whether further actions are required.	Finalised summary of top risks & emerging risks	Board; Leadership Team

TOP RISKS

As part of the changes to our risk-management framework, during the year we undertook an extensive internal consultation exercise to identify the organisation's top risks. The risks we identified, along with planned actions/ focus areas for the 2015/16 year, are set out below.

This risk assessment was also shared with The Treasury, as a key stakeholder.

TREND	RISK	CURRENT ACTIONS / FOCUS AREAS
← →	Change in key stakeholder (incl. Board) support	N/A
← →	Insufficient liquidity	Scheduled review of Liquidity Replenishment System
← →	Failure of systemically important supplier or counterparty	Review sub-custodian risks
↓	Significant breach of legislation or regulation	Prepare for central clearing
↑	Threat to stability of IT systems or infrastructure	Undertake external cyber risk threat assessment Plan to further enhance protection and response Establish plan for loss of Southern Cross cable
← →	Failure of investment philosophy	Implement Reference Portfolio Review recommendations
← →	Failure of strategy design	Review Risk Allocation Process design Undertake Investment Committee review of risk budgeting approach/ implementation
↓	Failure in execution of activities	Implement lessons from 2015 Team Culture Survey
← →	Exposure to fraudulent activity (incl. rogue traders, bribery, etc.)	Establish improved controls around Fund payables in order to reduce the chance of duplicate payments

RISK COMMITTEE

The Risk Committee, a management committee, is the Guardians' key risk oversight body. The Risk Committee focuses on:

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

The Risk Committee is chaired by Stewart Brooks, whose role as General Manager Finance was expanded to include Risk during the year. A new role of Head of Enterprise Risk was created. The Head of Enterprise Risk and the Head of Portfolio Risk both report to Mr Brooks. These changes were made following consideration by the Guardians of a recommendation in the 2014 Independent Review by Promontory Group that the Guardians appoint a Chief Risk Officer. See page 43 for more information on the Independent Review.

MONITORING

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

The following table sets out performance against key Fund risk measures relating to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), strategic tilting active risk, active manager risk limits and target levels of liquidity. It refers to potential rather than actual risk and is designed to encourage continuous disclosure and improvement (lessons learned).

PERFORMANCE AGAINST KEY FUND RISK MEASURES					
	TARGET	2014/15	2013/14	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	0	0
Breaches of relative risk limit (rebalancing limits) post-portfolio rebalancing	0	0	0	0	0
BREACHES OF ACTIVE MANAGER LIMIT	0	0	0	0	0
TILTING					
Breaches of strategic tilting active risk limit post-portfolio rebalancing	0	0	0	0	0
Breaches of strategic tilting absolute risk limit post-portfolio rebalancing	0	0	0	0	0
BREACHES OF TARGET LIQUIDITY LEVEL	0	0	0	0	0
BUSINESS RISK MEASURES					
Active breaches of compliance with investment mandates*	0	1	3	5	4
Loss of data/IT services of more than 30 minutes	0	1	0	0	0
Regulatory non-compliance	0	0	0	0	0
Reported instances of fraud	0	0	0	0	0
Restatement of Fund reporting	0	0	0	0	0
Operational incidents or errors rated as potentially high risk**	N/A	4	3	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 external and internal investment managers. In the case of serious incidents, a claims process may be available to the Fund.

** 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 follow a process/instruction correctly). 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.

CASE STUDY

Liquidity Management

Every single investment activity undertaken at the Fund affects our liquidity position. Ensuring we hold sufficient liquid assets to meet the Fund's liabilities in a timely manner is critical to our operations. It means that, at any given time, we have quick access to funds to manage the Fund's obligations and expenses, and allow for further investment.

The Fund's Liquidity Policy includes two frameworks:

- The ***Liquidity Management Framework*** ensures we hold sufficient liquidity, e.g. cash or treasury bills, to meet our cash flow obligations. Under this framework, liquid assets are defined as those that can be liquidated within two days at little or no cost. The amount of liquid assets needed is informed by the Minimum Liquidity Requirement (MLR), which focuses on short term liquidity and is measured in terms of extreme market volatility events.
- Events beyond two days are outside the scope of the MLR and are modelled by the ***Liquidity Replenishment System***. This system is focused on the longer term liquidity of the Fund and manages the Fund-wide investment in illiquidity premia. It is set up to ensure we can maximise returns while being able to meet all financial commitments under all reasonable scenarios.

The management of the Fund's liquidity is undertaken by the Portfolio Completion team. The team runs two internal investment mandates to invest the pool of liquidity required to meet the MLR. These are:

- *Cash Mandate*: This is a passive mandate investing in short-dated, cash or cash equivalent instruments such as bank securities and sovereign risk denominated in New Zealand dollars.
- *Active Collateral Mandate*: This value-add mandate has a risk budget (see page 57) and is managed within the constraints of the decreased liquidity and the increased credit exposure we subject the Fund to.

A white paper: Managing Investment Risk and Liquidity is available on our website at:
www.nzsuperfund.co.nz/publications/papers-reports-reviews

"The Fund completes part of our Reference Portfolio through the use of derivatives and, in doing so, we create a collection of readily realisable assets. The Portfolio Completion team manages these assets to ensure we hold sufficient liquid assets to meet the Fund's liabilities as they fall due."

Brad Dunstan
Head of Portfolio Completion

The Minimum Liquidity Requirement (MLR) is the amount of liquid assets the Fund must hold to meet our cash flow obligations and weather periods of market volatility.

GOVERNANCE

Independent Review

An independent review of how effectively and efficiently the Guardians is performing its functions is carried out every five years, as required by the New Zealand Superannuation and Retirement Income Act 2001.

The third such independent review was undertaken during the 2014/15 year by Promontory Financial Group Australasia (www.promontory.com).

The independent review encompassed the Guardians' Investment Framework, including its performance benchmarks and value-adding strategies, and approach to in-sourcing. It also covered the Guardians' approach to investment and non-investment risk management; performance analysis and reporting; governance; and operational matters including investment and compliance monitoring.

The terms of reference for the review were set by the Minister of Finance. The Minister of Finance also appointed Promontory to undertake the review.

Overall, the report was very positive, describing many of the Guardians' operations as 'best in class'.

The full report and a summary of the Guardians' actions in response to it are available at: www.nzsuperfund.co.nz/news-media/guardians-new-zealand-superannuation-welcome-independent-review-report.

Promontory made a number of recommendations in areas where it believed we could strengthen the Guardians' operations. These recommendations focused on organisational evolution, the use of derivatives and remuneration. At the time of the review report, we had already identified – and were working on – many of these recommendations. All actions resulting from the report were completed by 30 June 2015.

"It is pleasing to receive independent confirmation that the Guardians' overall investment approach is consistent with best practice by international sovereign wealth funds."

Gavin Walker, Guardians Chair

Extract from the summary of findings

"Promontory's overall assessment is that the Guardians run a very professional operation. The Board is strong and the quality of professional staff is impressive, especially for a small market such as New Zealand. The Guardians' approach to investing the Fund is intellectually sophisticated, consistent, and disciplined.

The Guardians have implemented appropriate investment strategies, as well as sound systems and controls to manage risk and reduce costs. Perhaps most importantly, the Guardians have added substantial value above their benchmark to the Fund. The Guardians have joined a minority of global professional fund managers who have delivered returns in excess of widely-used benchmarks over a sustained period of time.

In our view, the Guardians have raised the overall standard of their investment activities and governance materially since the previous review by Mercer in 2009."

Remuneration and Discretionary Incentive Scheme

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 met by the Fund and not by parliamentary appropriation. 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. Remuneration is benchmarked against the New Zealand finance sector. As is normal practice in the finance sector, the Guardians' remuneration framework includes base remuneration and a discretionary incentive scheme.

BASE REMUNERATION

Every employee has a pay range associated with their position. Pay ranges are determined by positions being evaluated by remuneration specialists using market evaluation systems, and are authorised by the Chief Executive Officer and General Manager Human Resources.

Employee remuneration levels are based on:

- independently determined job sizes;
- employees' competence in roles; and
- current, independent remuneration market data.

The Employee Policy and Remuneration Committee reviews the Chief Executive Officer's remuneration and makes recommendations to the Board. The Chief Executive Officer's remuneration is determined in consultation with the State Services Commission and, where relevant, the Minister of Finance. The final decision, however, is made by the Board.

The remuneration of the Chief Executive Officer's direct reports is overseen by the Employee Policy and Remuneration Committee.

Refer to the Guardians' Human Resources Policy, available on www.nzsuperfund.co.nz/publications/policies **for more information.**

DISCRETIONARY INCENTIVE SCHEME

Discretionary incentive payments are linked to individual objectives and staff member behaviour compared to the Guardians' desired workplace culture. Some staff are also eligible for payments based on long-term, whole-of-Fund financial performance.

All bonus payments are at the discretion of the Board.

The Chief Executive Officer, Leadership Team and staff members in the Investments and Portfolio Completion teams (54 out of a total of 113 staff members as at 30 June 2015) are eligible for the financial performance component of the incentive scheme.

These payments are calculated 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).

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

The incorporation of behavioural measures into the bonus scheme was made effective 1 July 2014. This change was made to reinforce the Guardians' commitment to a positive, constructive workplace culture. For more information on our focus on culture see page 84.

OTHER BENEFITS

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

	MAXIMUM POTENTIAL BONUS AS A PERCENTAGE OF BASE REMUNERATION		
BONUS SCHEME STRUCTURE	CORPORATE STAFF	INVESTMENTS AND PORTFOLIO COMPLETION STAFF	CEO AND REMAINING MEMBERS OF THE LEADERSHIP TEAM
Achievement of individual objectives and individual performance	20%	30%	20%
Financial performance vs Treasury Bills (four-year moving average)	N/A	10%	6.67%
Financial performance vs Reference Portfolio (four-year moving average)	N/A	20%	13.33%

INCENTIVE ACHIEVEMENT IN 2014/15

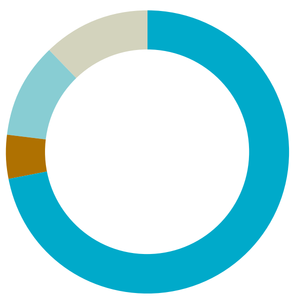
- Total incentives to be paid: NZD6.8 million (NZD5.2 million in 2013/14)
- Average bonus achievement of 74% (79% in 2013/14)
- Fund exceeded the Treasury Bill return by 11.16% in 2014/15 (12.5% p.a. over last four years). Actual bonus payments reached their maximum at 4% above Treasury Bill return
- Fund exceeded the Reference Portfolio return by 4.45% in 2014/15 (exceeded by 3.3% p.a. over last four years). Actual bonus payments reach their maximum at 0.75% above Reference Portfolio return

2014/15 INCENTIVE PAYMENTS	TOTAL PAYMENTS $000	AVERAGE PAYMENT $000
Corporate staff (including CEO)	$1,713	$26
Investments and Portfolio Completion staff	$5,071	$103
Total	**$6,784**	**$59**

CHIEF EXECUTIVE OFFICER REMUNERATION

The Chief Executive Officer's remuneration for the 2014/15 year, including base remuneration and accrued incentive entitlements, was NZD830,925, compared to NZD791,462 in 2013/14. These pie charts illustrate the components of the CEO's remuneration.

CEO REMUNERATION 2014/15



Base **72%**

Bonus – Fund performance vs Treasury Bills **5%**

Bonus – Fund performance vs Reference Portfolio **11%**

Bonus – individual objectives and individual performance **12%**

CEO BONUS PAYMENT ($234,847) BREAKDOWN 2014/15

Individual objectives and individual performance **43%**

Fund financial performance – current year **30%**

Fund financial performance – prior years **27%**


Dean.
Meet Dean. He has been working a while and is investing to save for retirement.
He has also set up retirement savings for Lulu, although Lulu's retirement is a long time away.
Dean knows retirement is expensive and is glad that the Government has set up the NZ Super Fund to help ease the pressure on Lulu when she has joined the workforce.

SECTION 3:

Investment Report

Performance Report

14.6%
TOTAL RETURN 2014/15

FUND SIZE UP BY
$3.1B NZD
BEFORE TAX

THE YEAR IN SUMMARY

The Fund enjoyed another strong year in 2014/15, with value add of 4.45% (the third-highest year to date) adding NZD1.15 billion on top of a strong Reference Portfolio return, driven by rallying global equity markets, of 10.19%.

The Fund finished the year at NZD29.54 billion before New Zealand tax, an increase of NZD3.10 billion.

On an after-tax basis, the overall Fund size grew to NZD29.54 billion (NZD25.82 billion in 2013/14). The Fund incurred New Zealand tax of NZD122.65 million (NZD1.09 billion in 2013/14) during the year. Actual New Zealand tax paid during the year (includes one 2013/14 and two 2014/15 instalments) amounted to NZD718 million (NZD903 million in 2013/14).*

As detailed by the Chairman on page 12, gains from strategic tilting and infrastructure assets such as Z Energy were the main reason for the Fund's 4.45% outperformance of the Reference Portfolio.

Return drivers

Around 70% of the Fund is invested passively, in line with the Reference Portfolio. Therefore, the composition of the Reference Portfolio is the biggest single influence on Fund returns. The following table shows how the components of the Reference Portfolio performed during the year.

REFERENCE PORTFOLIO	WEIGHT	2013/14 RETURN	2014/15 RETURN
Global Equity	70%	23.8%	11.4%
Global Property	5%	15.3%	10.9%
New Zealand Equity	5%	15.8%	11.4%
Global Fixed Income	20%	8.4%	6.7%

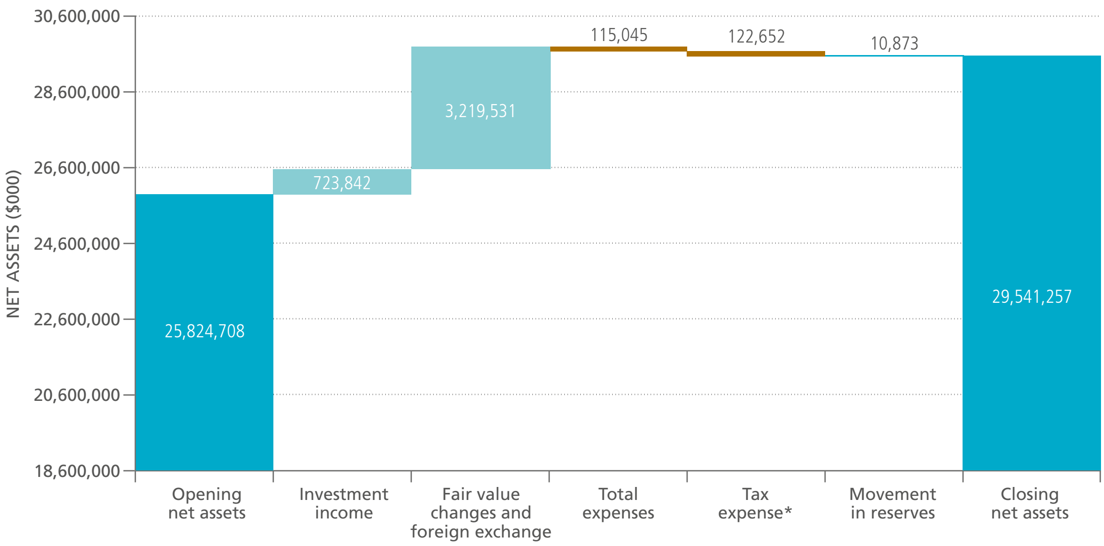
For more information on how our value-adding investment strategies performed compared to the Reference Portfolio, see page 55.

For more information about changes to the Reference Portfolio that became effective on 1 July 2015, see the case study on pages 52–54.

WATCH A VIDEO OF OUR CHIEF INVESTMENT OFFICER, MATT WHINERAY, TALK ABOUT THIS YEAR'S PERFORMANCE AT WWW.AR2015.NZSUPERFUND.CO.NZ/INVESTMENT-PERFORMANCE

*The effective tax rate for the year was 3.18% compared to 25.18% in 2014. This is primarily due to how investment income is taxed. The Fund made significant gains on its physically-held equity investments as a result of the appreciation in global equity markets during the year; these gains are not subject to tax. Physical equity holdings are taxed based on the fair dividend regime i.e. a deemed dividend of 5% of the market value of these stocks. Amplifying the effect, the Guardians also increased the Fund's exposure to physically-held equities and correspondingly decreased its use of derivatives (which are taxed on a mark-to-market basis) during the year. In addition tax deductible losses from currency hedging due to the downward movement in the New Zealand dollar were also a significant contributor. We note that in 2012 the Fund's effective tax rate was 80.97% (in this case the opposite situation occurred – global equity markets were falling with no tax deduction available for these losses, but the Fund was experiencing taxable gains from currency hedging as the New Zealand dollar strengthened).

MOVEMENT IN NET ASSETS (POST-TAX) FOR YEAR ENDED 30 JUNE 2015



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 2014 of NZD25.82 billion after tax, the Fund ended the year at NZD29.54 billion after tax. Income from Fund investments[1] added NZD0.72 billion over the year; fair value changes[2] and foreign exchange movements contributed a further NZD3.22 billion. Expenses[3] detracted NZD0.12 billion.

PERFORMANCE SUMMARY

FUND PERFORMANCE AS AT 30 JUNE 2015	FUND SIZE: NZD29.54 BILLION BEFORE TAX				
	ONE YEAR	THREE YEARS	FIVE YEARS	10 YEARS	SINCE INCEPTION (SEPT 2003)
Actual Fund Returns (before NZ tax, after costs)	14.64%	19.86% p.a.	16.85% p.a.	9.78% p.a.	10.11% p.a.
Reference Portfolio Return	10.19%	15.97% p.a.	13.20% p.a.	8.23% p.a.	8.81% p.a.
Value-Added (Actual Return – Reference Portfolio Return)	4.45%	3.89%	3.65%	1.55%	1.31%
Estimated $ earned relative to Reference Portfolio	$1,154m	$2,870m	$4,549m	$4,081m	$4,060m
New Zealand income tax paid	$718m	$2,484m	$3,239m	$4,423m	$4,667m
New Zealand Treasury Bill (T-Bill) Return	3.48%	2.81% p.a.	2.75% p.a.	4.38% p.a.	4.58% p.a.
Net Return (Actual Return – T-Bill Return)	11.16%	17.04% p.a.	14.09% p.a.	5.40% p.a.	5.53% p.a.
Estimated $ earned relative to T-Bills	$2,906m	$11,302m	$14,612m	$12,396m	$13,171m
$ change in net asset position*	$3,103m	$10,544m	$13,915m	$22,926m	$29,542m

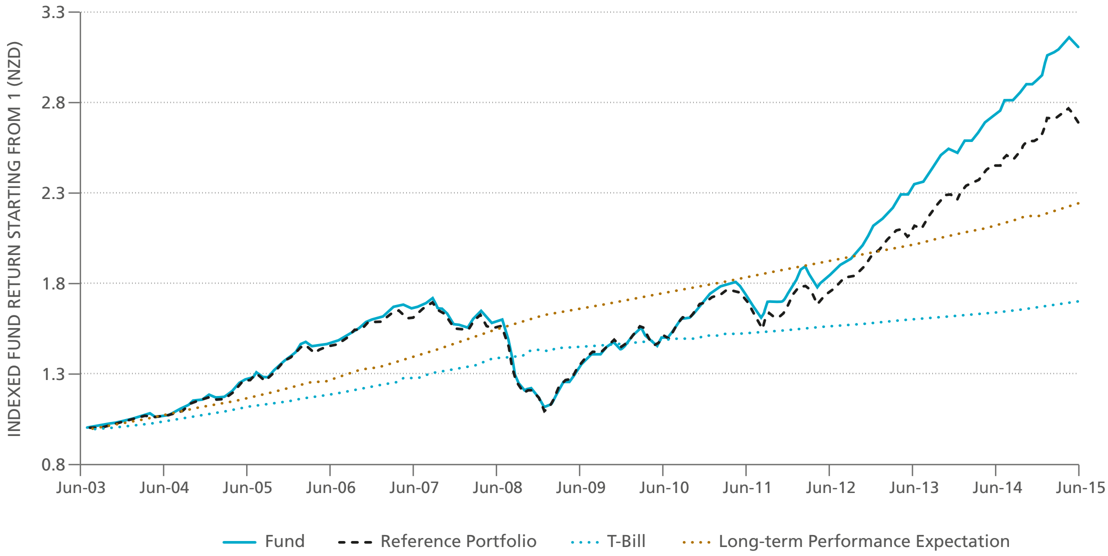
* Excludes provisions for New Zealand tax.

1. Investment income primarily comprises dividends and interest received, along with income from timber, milk and livestock sales.
2. Fair value changes in our investments represent the revaluation of our investment holdings to their market values.
3. 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 NZD33.8 million (NZD30.1 million in 2013/14).

PERFORMANCE SINCE INCEPTION

As detailed in the Chair's Statement on pages 12–13, the Fund is well ahead of its performance benchmarks since inception.

Fund performance since inception



This graph shows the cumulative NZD Fund return since inception, relative to its key benchmarks:

- The **Reference Portfolio** return (see page 52 for more information)
- **Treasury Bills** – a measure of the 'opportunity cost' to the Government of contributing capital to the Fund, instead of using the money to retire debt
- Long-term Reference Portfolio **Performance Expectation** (to 30 June 2015, Treasury Bill Return + 2.5%)

The gap between the Reference Portfolio return and the actual Fund return, as at 30 June 2015, illustrates the value the Fund's active investment strategies have added since inception (NZD4.1 billion or 1.31% p.a.).

The gap between the Treasury Bill return and the Fund return shows the return earned in excess of the Government's marginal cost of debt (NZD13.2 billion or 4.38% p.a.).

Note: the Reference Portfolio was introduced in July 2010. Figures prior to then are based on the Strategic Asset Allocation model of the time. As discussed on page 54, from 1 July 2015, the long-term performance expectation will change from Treasury Bills + 2.5% to Treasury Bills + 2.7%.

For more information on the Reference Portfolio benchmark, see pages 52–54.
Further detail is available on our website at:
www.nzsuperfund.co.nz/performance

Five year Financial Summary

This table provides a high-level overview of how the finances of the Fund have changed over the last five years.

		2015	2014	2013* (RESTATED)	2012* (RESTATED)	2011
		NZD000	NZD000	NZD000	NZD000	NZD000
	Income Statement					
Interest and dividend income, both of which vary in line with the amount invested and market returns.	Investment income	723,842	731,929	602,714	549,825	533,157
Changes in the value of our investments – fluctuates in line with market movements.	Investment gains and losses	3,219,531	3,748,874	4,394,553	(212,590)	3,504,044
Our biggest expense is external manager and performance fees. These costs vary from year to year in line with investment returns.	Expenses	(115,045)	(134,352)	(168,264)	(110,676)	(134,904)
	Profit before tax	**3,828,328**	**4,346,451**	**4,829,003**	**226,559**	**3,902,297**
The Fund makes returns to the Crown in the form of tax payments. See pages 91–92 for further discussion.	Tax (expense)/credit	(122,652)	(1,094,556)	(1,006,280)	(183,342)	(906,837)
	Profit after tax	**3,705,676**	**3,251,895**	**3,822,723**	**43,217**	**2,995,460**
	Balance Sheet					
Cash and cash equivalents decreased – largely due to our decreasing level of derivative exposure during the year.	Cash and cash equivalents	1,355,384	3,352,901	6,141,822	3,056,111	2,903,094
	Investments	27,998,775	23,487,130	17,349,231	15,848,063	16,050,241
	Other assets	791,447	392,527	229,265	293,945	256,896
	Other liabilities	(603,685)	(795,446)	(728,683)	(183,151)	(178,009)
	NAV excluding tax	**29,541,921**	**26,437,112**	**22,991,635**	**19,014,968**	**19,032,222**
	Current tax	278,223	(409,162)	(248,741)	(133,326)	(250,831)
	Deferred tax	(278,887)	(203,242)	(179,733)	(159,954)	(129,877)
	NAV including tax	**29,541,257**	**25,824,708**	**22,563,161**	**18,721,688**	**18,651,514**
Crown contributions to the Fund – suspended in 2009.	Contributed capital	14,882,079	14,882,079	14,882,079	14,882,079	14,882,079
Predominantly cumulative net profit after New Zealand tax.	Other reserves	14,659,178	10,942,629	7,681,082	3,839,609	3,769,435
		29,541,257	**25,824,708**	**22,563,161**	**18,721,688**	**18,651,514**

* Restatements are the result of the adoption of New Zealand International Financial Reporting Standards changes. There have been no past misstatements.

CASE STUDY

The Reference Portfolio

The Reference Portfolio is a portfolio of low-cost, listed investments suited to the Fund's long-term investment horizon and risk profile. It is a passive portfolio – investments are chosen in line with their representation in selected market indices.

We use the Reference Portfolio 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.

As an active investor, we aim to add value to the Fund, after all costs, versus an investment approach based entirely on the Reference Portfolio.

Therefore, at any one time, the Fund's Actual Portfolio deviates from the Reference Portfolio based on what additional investments we believe will add value. This reflects our recognition that investment opportunities come and go. To benefit from this fluctuation, the Actual Portfolio is more dynamic than the Reference Portfolio.

We only invest outside the Reference Portfolio when we have a high level of confidence that doing so will bring a higher expected return for the same level of risk, and/or offer diversification benefits for the Fund.

The Reference Portfolio makes up the bulk of the Fund – currently, around 70% of the Fund is invested in line with it. The composition of the Reference Portfolio is therefore the single biggest driver of Fund returns.

The Guardians introduced the Reference Portfolio approach to managing the Fund in 2010. Over its first five years, the Reference Portfolio returned 13.2% compared to an expected 8.5%. The risk (as measured by annual volatility) of the Reference Portfolio over this period was 8.4% compared to an expected 13.2%. The actual Fund generated an additional 3.65% p.a. ($4.55 billion) over the five-year period through active investment decisions made by the Guardians.

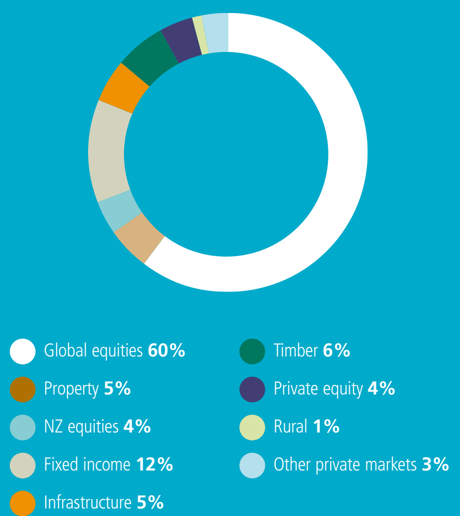
In 2014/15, the Fund exceeded the Reference Portfolio by 4.45% or NZD1.15 billion. Further information on the drivers of the out-performance is available on page 55.

Note: the Reference Portfolio has been our core performance benchmark since July 2010. Prior to that date, the Guardians used a passive equivalent of the Strategic Asset Allocation to measure the value the Guardians were adding through active investment. Comparisons prior to July 2010 are based on the passive equivalent.

ACTUAL FUND PORTFOLIO

The following chart illustrates the allocation of assets within the Fund's actual investment portfolio as at 30 June 2015 (excluding the impact of any Strategic Tilting positions). It shows the diversification of the Actual Portfolio away from the Reference Portfolio into active investments.

FUND EXPOSURES



REFERENCE PORTFOLIO REVIEW

The Reference Portfolio is reviewed by the Guardians on a five-yearly basis, with the most recent review being concluded in the second half of the 2014/15 financial year.

The review found the Reference Portfolio's existing mix of 80% equity ownership and 20% fixed income assets continued to be appropriate, given the Fund's 20 year-plus investment horizon.

"Growth assets are volatile over short periods and not every individual investment will be successful. Over time, we expect growth assets to deliver a higher return than a lower-risk, less volatile investment strategy, as they are intrinsically linked to economic growth."

Matt Whineray, Guardians Chief Investment Officer

"The setting of the Reference Portfolio is one of the most significant investment decisions for the Fund."

Gavin Walker, Guardians Chair

The Guardians introduced the Reference Portfolio approach to managing the Fund in 2010. Over its first five years we've seen the following:

The Reference Portfolio returned

↑ **13.2%**

compared to an expected

8.5%

The risk (as measured by annual volatility) of the Reference Portfolio over this period was

↓ **8.4%**

compared to an expected

13.2%

The actual Fund generated an additional

↑ **3.65%**
per annum
($4.55 billion)

over the period through active investment decisions made by the Guardians.

CASE STUDY

The Reference Portfolio (continued)

SUMMARY OF CHANGES

OLD REFERENCE PORTFOLIO			NEW REFERENCE PORTFOLIO, EFFECTIVE 1 JULY 2015			NOTES
ASSET CLASS	% OF RP	BENCHMARK	ASSET CLASS	% OF RP	BENCHMARK	
Global equities	70%	MSCI ACWI IMI Index	Global equities – developed markets	65%	MSCI World IMI Index	
–	–	–	Global equities – emerging markets	10%	MSCI EM IMI Index	The inclusion of a 10% weighting to emerging markets is a technical change – we are correcting for their under-representation in 'all-world' indices
New Zealand equities	5%	Customised NZX 50 'Capped' Index	NZ equities	5%	NZX 50 Index	
Global listed property	5%		–	–	–	The 5% allocation to global listed property has been dropped as we believe the Fund has sufficient exposure to listed real estate through its global equity exposure
Total Growth	**80%**		**Total Growth**	**80%**		
Fixed Income	20%	Customised blend of Barclays Capital indices	Fixed Income	20%	Barclays Capital Global Aggregate Index	
Total	**100%**		**Total**	**100%**		
Foreign currency exposure	0%		Foreign currency exposure	0%		

Note: from 1 July 2015, our long-term expectation for the 2015 Reference Portfolio return is that it will generate the Treasury Bill return + 2.7% p.a. Previously, the estimate was + 2.5% p.a. This difference relates to rounding, a slightly lower estimate of costs and, to a lesser extent, the inclusion of emerging market equities into the Reference Portfolio. It is not a significant change.

This long-term expectation is not a target that we aim to hit – rather, it is a long-term performance expectation based on the amount of investment risk we have decided to take, in line with our mandate to maximise returns without undue risk to the Fund as a whole.

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

The Reference Portfolio will be reviewed again in 2020.

The full Reference Portfolio Review document and an associated White Paper are available at www.nzsuperfund.co.nz/publications/papers-reports-reviews.

INVESTMENT REPORT

Value-add in 2014/15

In this section, we break down some of 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.

The Fund outperformed the Reference Portfolio by 4.45% (NZD1.15 billion) over the year. This compares to a slight (– 0.11%) underperformance in 2013/14.

In the following table, we set out the top contributors (whether positive or negative) to the value added by our investment activities during 2014/15, compared to the previous year.

What is strategic tilting?

Tilting is a long-term strategy designed to play out over a full market cycle. During 2014/15 positions on the New Zealand dollar paid off as the dollar dropped and global equity markets rose. Since the strategy commenced in April 2009, it has generated a total of NZD1.6 billion in value add.

PORTFOLIO COMPLETION

The negative performance in 2014/15 was largely the result of the full write-down of the Oak Finance investment. See page 82–83 for more information.

– 0.46% | 0.54%

TIMBER

Our global timber holdings, including Kaingaroa Timberlands. Lower log prices impacted returns in the 2015 financial year vs the timber proxy benchmark (a combination of global equities and fixed income sold to fund the timber investments).

– 0.10% | 0.47%

ACTIVE NZ EQUITY

Our New Zealand equity holdings. These are managed by a combination of our internal NZ active equities team and external investment managers. Our active NZ equity managers continued to outperform the benchmark NZX 50 index, contributing to overall Fund value add.

0.05% | 0.16%

DIRECT INVESTMENT

Our direct investments in New Zealand and globally. This includes our investments in Datacom, Metlifecare, Scales, Bloom Energy and Ogin (but not Z Energy). Our New Zealand assets performed well, with positive returns from Datacom, Metlifecare and Scales, following its IPO. Most of our international direct investments are at an early stage and were held at cost, which means they underperformed their Reference Portfolio proxies, offsetting the outperformance of the NZ assets.

– 0.04% | 0.15%

GLOBAL MACRO

Strong performance from our global macro strategy fund managers, Bridgewater and D.E. Shaw.

0.26% | 0.12%

DIRECT ARBITRAGE STRATEGY

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.

0.15% | – 0.06%

STRATEGIC TILTING

Strategic Tilting is our strategy of making occasional shifts towards or away from asset classes when we think that the market has substantially over-reacted up or down compared with our long-term assessment of relative value.

3.23% | – 1.39%

INFRASTRUCTURE

Infrastructure holdings, including Z Energy, performed strongly. Z Energy, in particular, added significant value above the Reference Portfolio following the announcement of the agreement to purchase the New Zealand operations of Chevron.

0.67% | 0.08%

VALUE ADDED COMPARED TO REFERENCE PORTFOLIO IN 2014/15

VALUE ADDED COMPARED TO REFERENCE PORTFOLIO IN 2013/14

WATCH A VIDEO OF OUR CHIEF INVESTMENT OFFICER, MATT WHINERAY, TALK ABOUT THIS YEAR'S PERFORMANCE AT WWW.AR2015.NZSUPERFUND.CO.NZ/INVESTMENT-PERFORMANCE

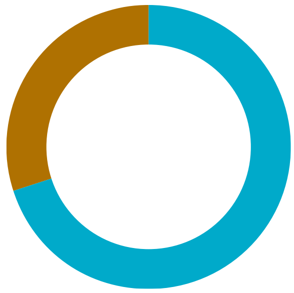
How We Invest

Just over two-thirds of the Fund is invested passively, in line with global market indices. We undertake active investment only 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 following 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 ongoing basis?
- 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'.

ACTIVE VS PASSIVE FUND INVESTMENTS AS AT 30 JUNE 2015*



*Approximate figures.

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 strategies.

The Investment Committee, chaired by Head of Investments, Fiona Mackenzie, ensures that the portfolio is best placed to meet the Fund's objectives. It is responsible for investment risk, including monitoring and reviewing all investment activities.

STAFF PROFILE

DAVID IVERSON

HEAD OF ASSET ALLOCATION

David Iverson, the Guardians' Head of Asset Allocation, and author of *Strategic Risk Management – A Practical Guide to Portfolio Risk Management* (Wiley-Finance, 2014), joined the Guardians in 2009.

David's previous experience includes roles as Director of Institutional Investment Services and Quantitative Research at Goldman Sachs JB Were; Head of Consulting at Russell Investment Group's Institutional Investment Services division in New Zealand; Regional Risk Manager with ING Investment Management (Asia-Pacific) and Equity and

INVESTMENT REPORT

Risk Allocation Process

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

We 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.

The purpose of this 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 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 an orderly exit.

RISK BUDGETS

As part of the Risk Allocation Process, we use risk budgets to help ensure that we allocate active investment risk consistently over baskets of investment opportunities. This is the best means to ensure a single-portfolio focus for the whole team, rather than simply meeting an asset-class quota.

Within a Board-approved overall active risk budget for the Fund, various investment opportunities with similar underlying drivers are grouped together into baskets by the Guardians' Investment Committee. The investment opportunities in each basket have similar risk characteristics: e.g. diversifiers, market mispricing or asset mispricing.

The overall risk budget is allocated by the Investment Committee across these baskets.

Teams of investment professionals then monitor investment opportunities within each basket, making risk allocation recommendations to the Chief Investment Officer and General Manager Portfolio Completion.

These risk allocation recommendations inform our investment and divestment activities.

This process helps us assign capital judiciously, allowing investment professionals who are deeply familiar with investment opportunities to be closely involved in decision-making.

Implementation of the Risk Budget process was completed in 2014/15.

Quantitative Strategist at ABN Amro New Zealand.

At the Guardians, David is the head of the team that supports the Fund's Reference Portfolio and oversees the strategic tilting programme. The team is also responsible for the risk capital allocation (risk budgeting) across the Fund's other value-add activities.

David is proudest of the strategic tilting allocation framework and his team's contribution to the way the Guardians view and allocate risk through risk budgeting. He enjoys the challenge of developing innovative and robust investment frameworks and building a team of talented investment professionals to implement them.

"The willingness to start from scratch and engage in challenging projects is the Guardians' biggest strength. I get a great deal of satisfaction from knowing that other funds are now starting to focus on and gain insights from what we are doing at the Fund."

David Iverson

Investment Activity Report – Global

The Fund is highly diversified, with investments in a range of markets and sectors all around the world. More than 80% of the Fund is invested offshore, in both developed and emerging markets. This diversification is in keeping with the Guardians' mandate to manage the Fund in line with best practice portfolio management, and to invest it on a prudent, commercial basis.

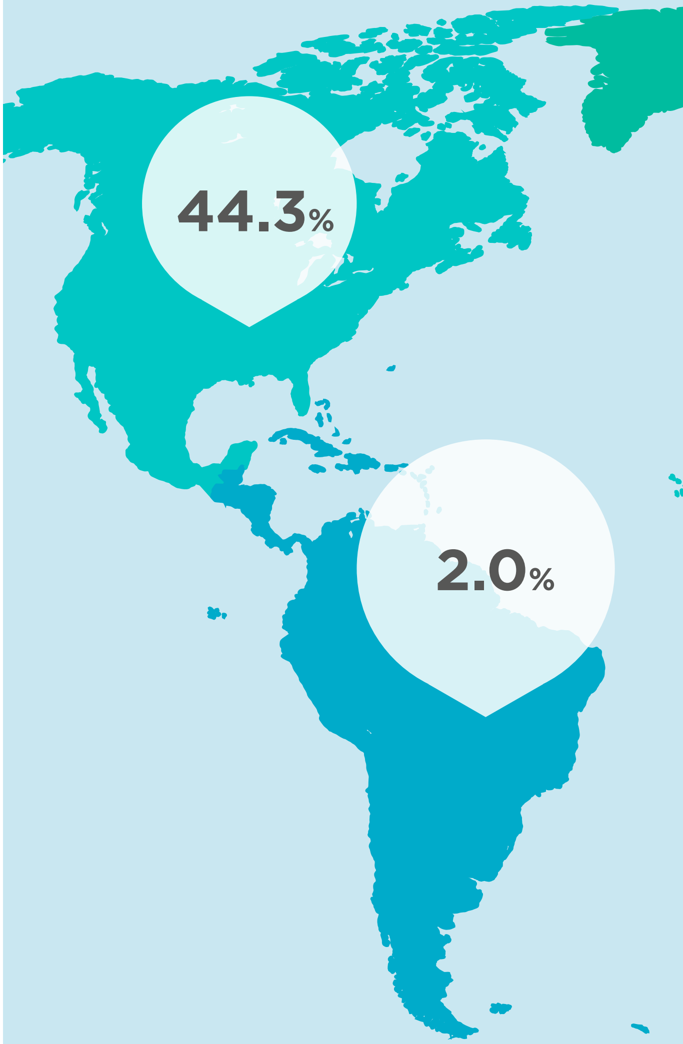
The majority of the Fund's global investments are held passively. These holdings give us cost-effective, diversified exposure to global share markets. We also invest globally in a range of active investment opportunities, including timber, agriculture, private equity, real estate, insurance-linked securities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

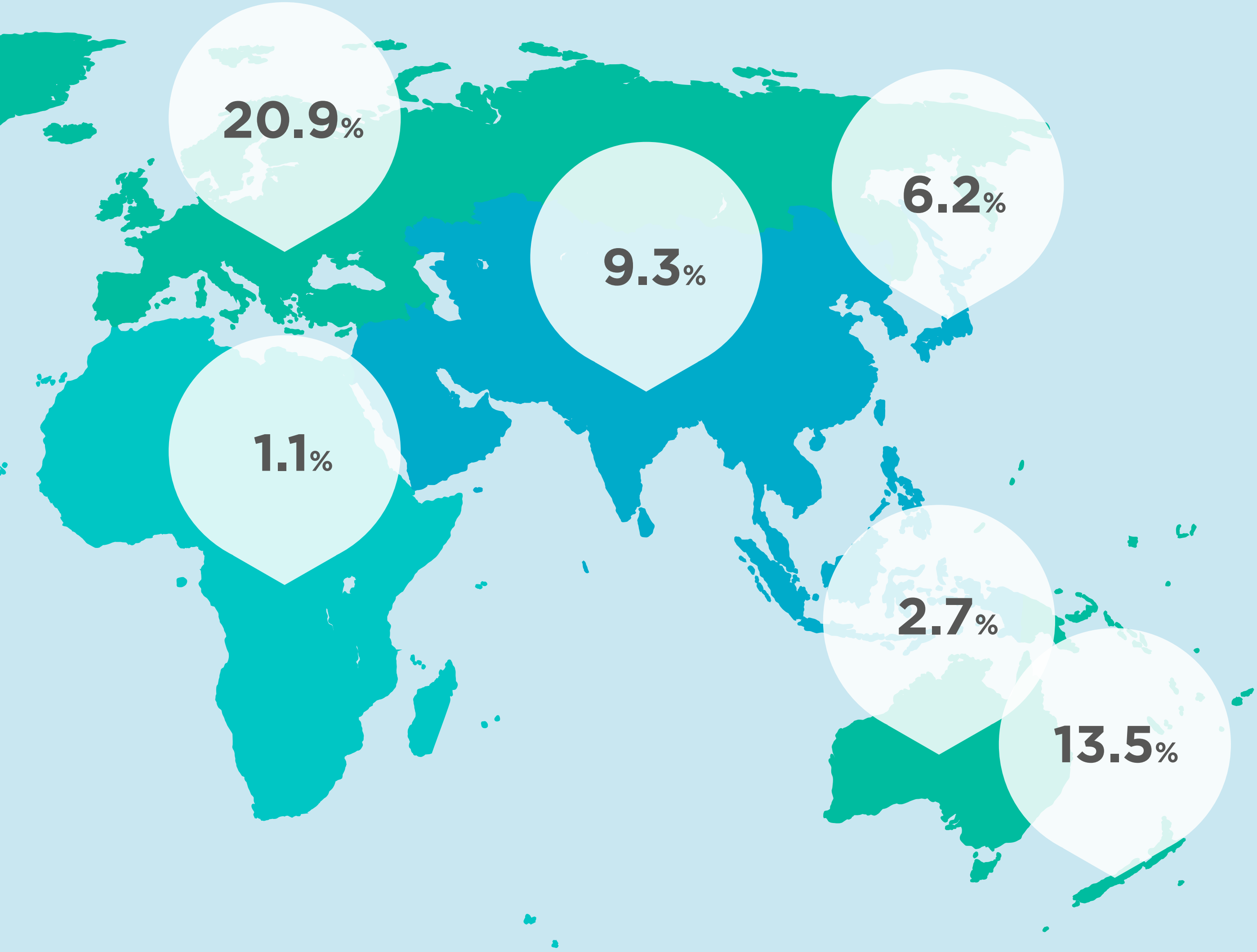
WHERE WE INVEST

The following table outlines the proportion of our investments by exposure to each geographical area. This analyses the Fund as a whole by economic exposure and excludes: hedging instruments, as well as cash; collateral held to back derivative positions; and any 'market neutral' investments (e.g. arbitrage trades or hedge funds).

We discuss our New Zealand investments further in the New Zealand Investment Activity Report on pages 64–66.

EXPOSURE	30 JUNE 2015	30 JUNE 2014	30 JUNE 2013
New Zealand	13.5%	13.8%	14.2%
Australia	2.7%	2.5%	1.7%
Africa	1.1%	0.7%	0.7%
Europe	20.9%	24.5%	24.5%
Asia (excl. Japan)	9.3%	6.0%	5.7%
Japan	6.2%	6.5%	5.8%
North America	44.3%	44.6%	46.0%
South America	2.0%	1.4%	1.4%





70%
of our investments world wide are passive

around
$367.9M
invested in 17 companies in the expansion capital sector worldwide.

$237.2M
invested in retirement villages across Australia, housing 3,780 residents.

$1.4B
invested in Kaingaroa Timberlands a 190,000ha plantation, with an annual harvest of circa 4 million cubic metres of timber in New Zealand. Our largest single investment by far.

NEW INVESTMENTS AND PORTFOLIO ACTIVITIES DURING 2014/15

New direct investments

New direct investments were made in LanzaTech and RetireAustralia, along with a follow-on investment in Ogin Inc. See the case study on expansion capital on page 29 for more information.

MANDATE ACTIVITY

Existing passive manager Northern Trust was appointed to a new Barclays Global Aggregate fixed income mandate.

QS Investors' global-listed equities mandate was terminated.

Sale of DRIVe

Our infrastructure investment manager CP2 sold its interest in DRIVe (an unlisted fund that owns toll roads in the United States) during the year for USD145 million. The purchaser was TransUrban. The Fund's share in the proceeds was USD34.34 million.

Investing in US real estate

In May 2015 Savanna, a United States Real Estate Fund Manager, announced the sale of 100 Wall Street, one of the assets in Savanna Real Estate Fund II LP. 100 Wall Street is a 1960s-era, 29 storeyed glass tower near the East River and is bounded by Wall, Front, Water and Pine Streets.

Savanna originally acquired a defaulted mezzanine loan on 100 Wall Street in March 2011 and foreclosed on the equity to take ownership in May 2011. Since taking control, Savanna has implemented various capital improvements, launched a successful prebuilt programme, and signed more than 355,000 square feet of leases, bringing occupancy from 78% shortly after acquisition to 97% today.

The sale to Cornerstone Advisors represents one of the highest prices per square foot paid for a downtown building east of Broadway.

100 Wall Street achieved one of the highest prices per square foot paid for a downtown building east of Broadway.

Högkullen assisted living

In 2011 the Fund committed €30 million to European investment manager Sveafastigheter's Fund III. Over the course of 2012–2014 Sveafastigheter built a portfolio of properties including residential accommodation for individuals requiring lifelong support due to physical or cognitive conditions.

The provision of community-based residential accommodation and services for functionally impaired individuals has been a policy of the Swedish Government since the 1980s, when large institutions were replaced by more individually-suited housing and welfare, in order to improve individuals' living conditions and chances of participating in society.

Sveafastigheter's portfolio of 124 'Assisted Living' residences was acquired in 10 separate transactions spread over 52 municipalities throughout Sweden and the assets were pooled to create what is now Sweden's largest portfolio of such properties. A total of 85% of the rental income for the properties comes from local municipalities and county councils.

The assisted-living portfolio was sold successfully to a group of Swedish investors in May 2015.

Investing in New Zealand

Q&A with the Chief Investment Officer

The Fund has $4.41 billion invested in New Zealand. In this Q&A, Chief Investment Officer Matt Whineray talks about our approach to investing in New Zealand, the challenges involved and future risks and opportunities in the New Zealand market.

Q WHAT ADVANTAGES DOES THE FUND HAVE AS AN INVESTOR IN NEW ZEALAND BUSINESSES?

A We have some great home town advantages when investing locally. In New Zealand terms, we are relatively large and able to move quickly, without the need for approvals (e.g. Overseas Investment Office) that other investors might be required to obtain. From time to time, investments come up here – Z Energy would be a good example – where there are few other buyers able to write the size of cheque within the timeframes required by some vendors.

Our long investment horizon is another advantage – it allows us to look through various price cycles when assessing investments. It also allows us to make shareholder decisions which maximise long term value, without concern for the impact on short-term profits and cash flows.

Being local and Crown-owned also means that often we can add value to the investee company's brand.

Q WHAT RESTRICTIONS ARE YOU SUBJECT TO?

A One important restriction, which is set by our legislation, is that the Fund can't control an operating company. Our approach is therefore to partner with compatible co-investors.

Q WHAT ATTRIBUTES DO YOU LOOK FOR IN CO-INVESTORS?

A We like to work with similar investors – peer funds with long investment horizons and strong liquidity, high governance standards, a commitment to strong management of environmental and social factors, a disciplined approach to capital investment and a similar approach to debt – we don't like to overly gear up our investments.

Q WHAT OTHER BARRIERS ARE THERE TO INVESTING MORE OF THE FUND IN NEW ZEALAND?

A Diversification is an important consideration. New Zealand is a very small market in a global context and it is important the Fund is diversified appropriately across many geographies and asset classes. The high proportion of assets locked up in collective ownership, e.g. by local and central Government, iwi and in specific rural sectors, is also a factor. In addition, given the Fund's size relative to the New Zealand market, and the ownership restrictions outlined above, finding investments of suitable scale (NZD100+ million) can be challenging.

That said, we have made a number of large investments. We continue to work hard to develop close relationships with potential partners and to find opportunities that leverage our hometown advantages.

Q IN WHICH AREAS DO YOU SEE THE BEST INVESTMENT OPPORTUNITIES LOCALLY?

A All our investments are made on a commercial basis – each one has to measure up against the many global investment opportunities available to the Fund.

New Zealand is not that different to the global markets at present – there are limited truly attractive opportunities, compared to the past few years. We like to find opportunities where we are invited to participate because of our characteristics as an investor, and tend to avoid competitive processes where it becomes a cost-of-capital shoot-out.

In terms of direct, opportunistic investments made by our in-house team, we target investments of NZD100+ million, with stakes of 20% to 50% in the companies concerned. Given the size of the New Zealand market, opportunities of this size are quite rare. We are interested in companies with good governance, strong management teams, favourable industry dynamics and sensible buy prices. We are also looking for companies where we can bring additional value to the table as a shareholder.

Q THERE HAVE BEEN CALLS BY SOME STAKEHOLDERS FOR THE FUND TO INVEST MORE IN SMALL AND MEDIUM-SIZED ENTERPRISES IN NEW ZEALAND. WHAT IS YOUR RESPONSE?

A The Fund is already invested in many small and medium-sized businesses in New Zealand, in both listed and unlisted markets, with total commitments to external managers targeting the unlisted sector totalling nearly NZD200 million since 2005. Most recently we made a cornerstone investment of NZD40 million in Pioneer Capital's II Fund, a commitment which was important to that Fund's establishment and which assisted in bringing other investors on board.

While there are practical constraints to how much we can invest in the sector, it remains an area of interest for the Fund, subject to our ongoing view of expansion capital's attractiveness compared to other opportunities globally, and our ability to negotiate flexible external mandates that complement our operating model.

13.5% of the Fund is invested in New Zealand, compared to a 0.09% weight for New Zealand in the MSCI All Countries IMI Index.

Q HOW DO YOU DECIDE WHETHER TO INVEST DIRECTLY OR WORK THROUGH AN EXTERNAL MANAGER?

A To invest directly, you have to have the resources to add value and to manage the investment actively – through monitoring the company, industry themes and trends, and providing input into strategy and governance. So we're very careful about what we choose to manage internally. We manage our timber and large direct investments internally. We use external managers to access smaller transactions in private equity, private equity real estate, rural investments and expansion capital. For listed equities, we like the flexibility that you gain from having a mixture of external managers and an in-house team.

Q WHAT IS YOUR VIEW OF THE STATE OF NEW ZEALAND'S CAPITAL MARKETS?

A The capital markets here are still relatively small, dominated by a few large companies and with a large number of small companies. The lack of depth is a concern. There are positive long-term drivers, however, such as the growth in KiwiSaver. We are actively promoting improvement in corporate governance standards in the New Zealand listed markets, recently helping to found the New Zealand Corporate Governance Forum and producing an inaugural set of guidelines with that group.

Q WHAT IS YOUR MEDIUM-TERM VIEW OF THE NEW ZEALAND ECONOMY?

A It's positive. Over the medium term, we believe the economy will be underpinned by good demand for New Zealand's exports and tourism – especially from Asian markets. Increased wealth in these countries, and their transformation from investment-based to consumption-based economies, will be positive for New Zealand's primary export products. The domestic economy will also be supported by the need for ongoing infrastructure spend to support New Zealand's growing and ageing population.

Investment Activity Report – New Zealand

The Guardians explored 41 deals over the 2014/15 financial year (26 in 2013/14) with eight proceeding to due diligence.

VALUE OF NEW ZEALAND INVESTMENTS

The graph below illustrates the growth in the value of the Fund's New Zealand investments since 2009, when we received a direction on New Zealand investment from the Minister of Finance.

In the six years since 30 June 2009, the value of the Fund's New Zealand investments has risen from NZD2.4 billion to NZD4.4 billion.

PROPORTION OF NEW ZEALAND INVESTMENTS

In the six years since 30 June 2009, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 14.8%.

In contrast to the exposure analysis provided in the 'Where We Invest' section on page 58, this figure is calculated based on the value of our New Zealand investments, as a proportion of the value of our 'investments' figure in our financial statements.

This calculation includes investments in rural and forest land, but excludes foreign exchange hedging instruments such as FX contracts and cross-currency swaps.

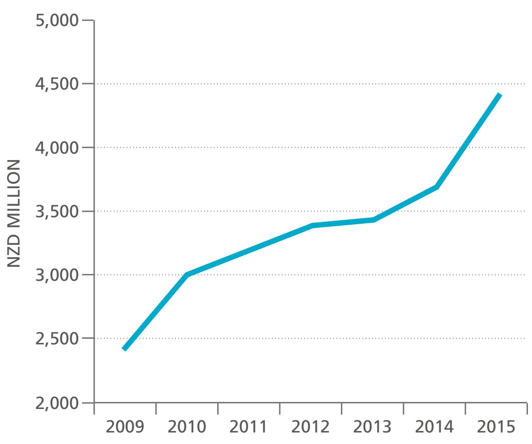
The proportional drop reflects the strong performance of global equities since the Global Financial Crisis. In recent years we have also taken advantage of favourable market conditions in New Zealand to reduce our holdings in Auckland Airport, Z Energy, timber and property.

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.

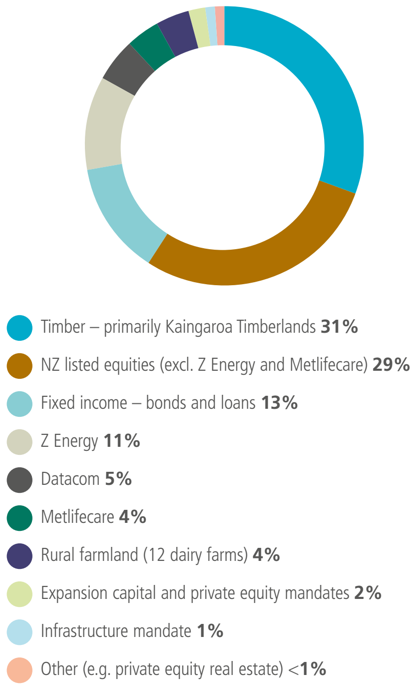
This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58 of the Act, and the above paragraph is subject to that duty."

VALUE OF NEW ZEALAND INVESTMENTS



The value of the Fund's New Zealand investments increased from NZD3.7 billion to NZD4.4 billion over the year.

NEW ZEALAND INVESTMENTS



OWNERSHIP CHANGES AT KAINGAROA TIMBERLANDS

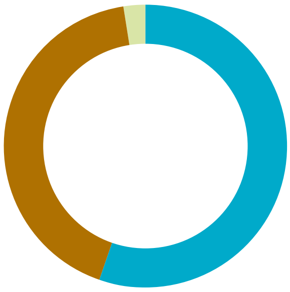
In late 2014 the Fund purchased an additional 3.25% share in Kaingaroa Timberlands, a major North Island forestry business, bringing the Fund's total stake to 42%.

The transaction was part of the sale of Harvard Management Company's stake in Kaingaroa to the Canadian Public Sector Pension Investment Board (PSP), an existing shareholder. The third shareholder is local iwi group Kakano Investments Limited.

We are very pleased to be working with PSP and Kakano. Both investors have long-term investment horizons and a similar commitment to the effective management of environmental, social and governance factors.

The asset is managed by a strong local management team and continues to meet our return expectations.

KAINGAROA TIMBERLANDS OWNERSHIP



Neil Woods, Guardians Portfolio Manager and Chairman of Kaingaroa Timberlands, Antoine Bisson-McLernon of PSP and Vanessa Eparaima, Chair of Kakano Investments Limited.

MANDATE ACTIVITY

We terminated AMP Capital's New Zealand active equities mandate and sold our interest in the AMP Property Portfolio (APP), an unlisted New Zealand property portfolio for institutional investors, during the year. The sale of APP to PSP, our co-investor in Kaingaroa Timberlands, took advantage of favourable market conditions.

Milford Asset Management's New Zealand active equities mandate was suspended following the announcement of a Financial Markets Authority investigation into certain trading activity at the company. Milford reached a settlement with the Financial Markets Authority in June 2015, but proceedings have been initiated against a portfolio manager at the firm. As at 30 June 2015, the mandate remained suspended (reduced to zero) until further notice. The funds formerly in the Milford mandate are now being managed by the Guardians in-house.

Mint Asset Management was appointed to a NZD150 million New Zealand active equities mandate effective 1 July 2015. The appointment followed a comprehensive selection process.

Our internal active New Zealand equities team has made good progress, completing the transition of the mandate to active management. The team takes a long-term view of company prospects, with a preference for strong business fundamentals and good corporate governance. The team aims to have a concentrated portfolio – that is, a portfolio holding a small number of different companies in which we have a high level of confidence. Such a portfolio can experience more volatility than an approach that seeks a higher level of diversification, but is expected to deliver a higher return over time.

During the year, we also reactivated an internally-operated passive New Zealand equity mandate. The mandate will help buffer our active managers (internal and external) from changes to the Fund's exposure to New Zealand equities that are driven by other portfolio movements, such as the sell-down of passive equity holdings to fund the purchase of new active investments and vice versa.

Clyde Quay Wharf is a landmark development on the Wellington waterfront. It comprises of 76 premium apartments and 2,200 square metres of wharf level retail and office space.

Scales IPO

In July 2012, the Fund purchased a 33% stake in Scales Corporation through a 27% direct co-investment (alongside ACC, Direct Capital IV and Pohutukawa II Funds) and a 6% stake through Direct Capital's IV Fund. Founded in 1897, Scales is a large diverse and growing New Zealand agribusiness group involved in key primary sectors through its three operating divisions – horticulture, storage and logistics and food ingredients. Direct Capital successfully listed Scales on the New Zealand Stock Exchange in July 2014. We retain a 7.7% effective stake in the company.

For more information on how we appoint and monitor our investment managers, including discussion papers on selecting managers and investment manager skill, see: www.nzsuperfund.co.nz/how-we-invest/investment-managers.

INVESTING IN NEW ZEALAND PROPERTY

The Fund is invested, via manager Willis Bond, in Clyde Quay Wharf – a landmark development on the Wellington waterfront. It comprises 76 premium apartments and 2,200 square metres of wharf-level retail and office space. Previously known as the Overseas Passenger Terminal, the building was formerly owned by the Wellington City Council and was no longer fit for purpose. As well as not meeting the needs of modern ocean liners, it was in severe need of re-strengthening. Technical challenges included driving 200 new piles into the seabed by as much as 40 metres, and the construction of an under-wharf, concrete car park which is below sea level at high tide. Adding to the challenges faced by the developer was the commercial risk in that the project was the first Wellington apartment project of scale launched after the Global Financial Crisis.

The development has been highly successful, delivering strong returns to the Willis Bond funds that invested in the project. It has also won numerous awards including New Zealand Property Council's Supreme Award (2015), the New Zealand Master Builders' Association Supreme Award (2015) and the New Zealand Institute of Architects' Wellington Supreme Award (2015).

For more information on our approach to investing in New Zealand, see: www.nzsuperfund.co.nz/investing-nz.

Responsible Investment Report

The Guardians has a long-standing commitment to Responsible Investment (RI). We believe that environmental, social and governance (ESG) factors are material to long-term returns.

Our governing legislation also requires us to have an ethical policy and to avoid prejudice to New Zealand's reputation in the world community.

Therefore, as part of good governance of the Fund, we aim to actively manage ESG considerations now and into the future.

INTEGRATION

ESG considerations are integrated into all of the Fund's investment activities, with the degree of integration varying according to the nature of each investment. For example, ESG factors are considered when we identify investment opportunities, assess investment risk, undertake due diligence and engage with companies. We work closely with our investment managers to use our voting rights to promote best-practice corporate behaviour both in New Zealand and overseas.

We also participate in relevant international and local investor groups where we believe working collaboratively will help deliver better ESG outcomes. These groups include the following:

- United Nations Principles for Responsible Investment (UNPRI);
- Carbon Disclosure Project;
- Investor Group on Climate Change Australia/New Zealand;
- International Corporate Governance Network;
- Responsible Investment Association of Australasia;
- Australian Council of Superannuation Investors; and
- New Zealand Corporate Governance Forum.

Our key priorities this year have been to strengthen our corporate engagement programme, work to improve corporate governance in New Zealand and to review the impact of climate change on our portfolio.

ESG screens are applied across 100% of our equity portfolio by MSCI. Of the 6,152 companies within our equity portfolio, we had a deeper level of engagement with 133, as shown on page 69. In addition, the Fund engaged with 100% of the equity portfolio on climate change.

ACHIEVEMENTS AND PRIORITIES

Achievements during 2014/15:

Our achievements for 2014/15 have been reported against the UNPRI Principles on pages 70–72.

Priorities for 2015/16:

- Complete Climate Change and Investment Strategy project
- Explore opportunities in climate-resilient infrastructure
- Continue to execute the alternative energy investment strategy
- Continue to integrate ESG into investment strategies
- Increase focus on our engagement programme
- Participate as secretariat to Crown Financial Institutions and New Zealand Corporate Governance Forum
- Review voting policy
- Contribute to regional and international best practice through Responsible Investment Association Australia (RIAA) Board and UNPRI Policy and Research Committee

Responsible Investment Report (continued)

BENCHMARKING

International standards and initiatives against which we are measured include:

- International Forum of Sovereign Wealth Funds' Santiago Principles (see page 101);
- Sovereign Wealth Fund Institute Transparency Index (see page 101); and
- United Nations Principles for Responsible Investment (UNPRI).

The UNPRI (www.unpri.org), of which the Guardians is a founding signatory, has grown rapidly since 2006. It now includes more than 1,400 signatories from around the world, who collectively manage USD59 trillion – just over half of the world's institutional assets – a 29% year-on-year increase.

The UNPRI is the internationally accepted benchmark for how institutional investors should manage environmental, social and governance issues, and our RI work programme is aligned closely to its principles and priorities. On pages 70–72 we provide a report of our activities against the six UNPRI Principles during 2014/15, and on page 73 we outline the Fund's performance in the UNPRI's recently redesigned reporting and assessment process.

Signatory of:

PRI Principles for Responsible Investment

GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) sustainability reporting guidelines have been developed to assist organisations around the world to report economic, governance, environmental and social performance in a consistent and comparable manner.

This is the fourth year in which we have reported against the GRI framework. We publish a GRI Index on our website at www.nzsuperfund.co.nz and our annual report website www.ar2015.nzsuperfund.co.nz, including indicators for the financial services sector. Given the nature of the Guardians and the Fund, some disclosures are not applicable (for example, we do not undertake marketing). Other disclosures we have reported against, partially or in full; in some areas, we have yet to begin reporting.

This year, for the first time, we are reporting against GRI's G4 Guidelines.

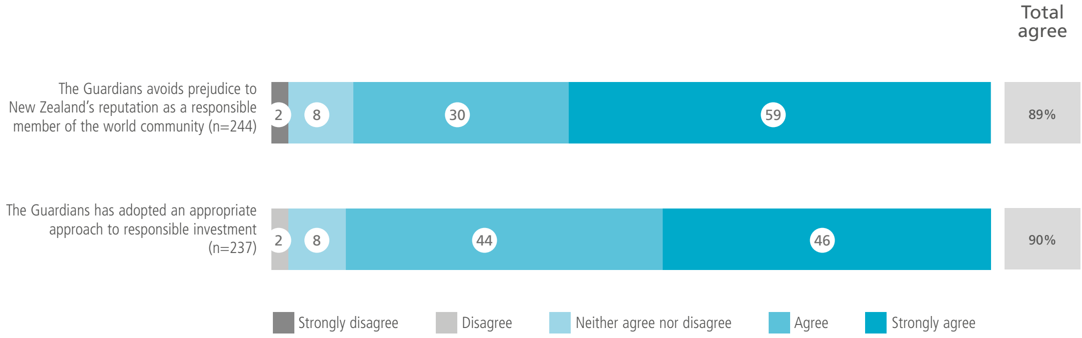
More information about the GRI framework and guidelines can be found at www.globalreporting.org.

STAKEHOLDER SURVEY

The 2015 Stakeholder survey sought feedback on the Guardians' Responsible Investment approach.

Positive feedback was received. The details of the feedback are illustrated below.

2015 STAKEHOLDER SURVEY RESULTS – RESPONSIBLE INVESTMENT



BREAKDOWN OF THE FUND'S ENGAGEMENT ACTIVITIES DURING 2014/15				
ESG issues	**Objective**	**Number of focus companies**		**Outcomes and achievements**
		Direct	**Collaborative**	
HUMAN RIGHTS & SAFETY				
Oil & Gas and Utilities	Improve the management of environmental and health and safety risks including emergency response and disaster recovery systems, following serious incidents	2		Engagement is ongoing
Food production	Address risk of human rights abuse in industry supply chain	1		Company is taking further steps including industry initiatives with customers and suppliers to address human rights risks. Monitoring is ongoing
Private detention facilities	Promote protection of human rights of detainees at detention facilities, following serious incidents	2		Engagement is ongoing
Mining	Promote protection of human rights and improved management of local community relations/impacts, following serious incidents	1		Engagement is ongoing
SEVERE ENVIRONMENTAL DAMAGE				
Palm oil	Improve and promote sustainable certification of palm oil, with a focus on both palm oil producers and buyers		20	Consultation and barrier-analysis phase is completed. Targeted engagement phase is ongoing
Fracking	Better understand companies' ability to identify and manage risks related to fracking operations and encourage them to improve practices and disclosure		56	Engagement is ongoing with exploration and production and oilfield services companies. Focus is on governance, water use and quality, air emissions and community impact and consent
BRIBERY & CORRUPTION				
Anti-bribery	Engage with firms across a wide range of sectors and countries to better understand their ability to manage and reduce corruption-related risks and their capacity to improve practices and transparency		43	Engaged with 33 of the 43 companies targeted. Engagement concluded in July 2015 and the UNPRI is now evaluating the project
NZ ENGAGEMENT				
ESG management	Promote good practice in corporate governance and environmental and social management	8		Engagement ongoing
REPORTING				
Sustainability reporting	As a signatory to the Carbon Disclosure Project's investor climate change program, increase the number of companies reporting on climate change emissions and risk management		6,961	2559 companies responded under Carbon Disclosure Project investor climate change program, out of 6961 questionnaires sent, in 2014. Majority of responses made public. 233 new respondents compared to 2013. But overall, slight decrease in the number of companies that responded compared to 2013 (2563 respondents)
Total: 133 companies in 2014/15 (not including the Carbon Disclosure Project)				

BMO ENGAGEMENT PROGRAMME	Appointing BMO Global Asset Management (see page 75) in May 2015 has expanded our engagement reach. On behalf of its clients, BMO is conducting in-depth engagement with 69 companies (including many from our own identified priority list) on a range of ESG issues over 2015. It is also carrying out 10 thematic engagement projects involving multiple companies on a range of topics spanning labour standards, human rights, public health, climate change, natural resources and corporate governance.

Responsible Investment Report (continued)

REPORT AGAINST UNPRI PRINCIPLES

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

INTEGRATION

Principle 1

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

What we do – overview:

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 investment managers, and the companies in which we invest

Consider investments which provide environmental and social benefits in addition to the required financial return

Carry out investment manager due diligence, monitoring and conviction

Highlights/key achievements for 2014/15:

- Undertook ESG due diligence on five new investment opportunities
- Ongoing research and strategy development to support our response to climate change investment risk including co-sponsoring the Mercer Climate Change Scenarios Research project
- Investment teams took greater responsibility for reviewing manager RI capabilities, managed ESG issues within direct investments and undertook appropriate ESG due diligence for new investments
- Ongoing RI training and education for investment personnel and new employees
- Integration of RI into the Risk Allocation Process (see page 57) and Portfolio Analysis
- Integration of ESG analysis into our newly-established internal active New Zealand equities team's research, conviction and engagement processes

OWNERSHIP

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 and monitor our portfolio to ensure compliance

Maintain a robust analytical, engagement and monitoring process in responding to investee companies breaching our RI standards

Exercise our voting rights on securities in which we invest

Actively promote and engage on good practice corporate governance and management of social and environmental issues (especially in NZ)

Highlights/key achievements for 2014/15:

- Participated in collaborative engagements with 119 companies and direct engagements with 14 companies during the year (see page 69)
- Made the joint appointment of BMO Global Asset Management to provide responsible investment engagement with companies globally on behalf of the Fund, Accident Compensation Corporation (ACC) and Government Superannuation Fund Authority (GSF)
- Undertook a global Proxy Voting review into voting barriers in other markets
- Chaired and provided secretariat services to the New Zealand Corporate Governance Forum, which has developed guidelines on NZ corporate governance best practice (see page 74)

DISCLOSURE

Principle 3

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

What we do – overview:

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

Encourage good-practice reporting by New Zealand companies

Highlights/key achievements for 2014/15:

- Engaged with three companies on ESG reporting at their request
- Participated in Carbon Disclosure Project
- Presented on best practice Annual Reports and disclosure at NZ accounting conferences in Auckland, Wellington and Christchurch
- Sponsored the 'Best Annual Report' award at the 2014 WriteMark New Zealand Plain English Awards, for the second year

BEST PRACTICE AND COLLABORATION

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

What we do – overview:

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 and the Responsible Investment Association Australasia)

Engage with regulators and advisors

Collaborate with Crown Financial Institutions and global peers

Develop asset and investment guidelines

Highlights/key achievements for 2014/15:

- Completed UNPRI benchmarking assessment, achieving A+ rating for overall approach and an A rating for other areas (see page 73)
- Continued to manage the RI secretariat for Crown Financial Institutions Accident Compensation Corporation (ACC), Government Superannuation Fund (GSF) and the National Provident Fund
- Member of the UNPRI Policy and Research Committee
- Participated in UN Global Compact event on businesses operating in conflict-affected countries
- Participant in international Women in Governance event
- Sponsored RIAA Benchmarking Report, for the second year
- Sponsored and presented at RIAA NZ Seminar
- Presented at UNPRI in Person conference
- Guardians' staff member re-elected to the Board of the Responsible Investment Association Australasia

Responsible Investment Report (continued)

COMMUNICATION

Principle 6

We will each report on our activities and progress towards implementing Principles

What we do – overview:

Report publicly on our RI policy, activities and performance

Publish six-monthly voting reports

Carry out internal reporting – annual RI Board report

Engage with stakeholders

Highlights/key achievements for 2014/15:

- Completed and published 2015 UNPRI Transparency and Benchmarking Reports (see page 73)
- Held RI education session with Treasury stakeholders
- Six-monthly Responsible Investment dashboard to the Investment Committee
- Fourth Annual Report against GRI criteria; prepared for GRI G4 reporting in 2014/15
- Won Gold award – 2015 Australasian Reporting Awards
- Won Gold award – 2015 ARC awards
- Finalist – 2015 Global RI Reporting Awards
- Stakeholder research undertaken in 2015 (see pages 37-38 and 68)

ISRAEL/PALESTINE

During the year, the Guardians was lobbied to divest from a range of companies by individuals and activist groups including the Aotearoa Boycott, Divestment and Sanctions movement (BDS), Justice for Palestine, Justice for Palestinian Matters, Palestine Solidarity Network, People Against Israel Apartheid, and the Wellington Palestine Group. Activists sent postcards, letters and requests for information and meetings, and one group held a protest at our office.

Divestment requests varied, ranging from the exclusion of Israeli companies and suppliers of services to the Israeli government more generally, to the exclusion of specific companies operating in the Occupied Palestinian Territories. We also received communications from individuals who opposed such grounds for divestment of these companies.

Our position on divestment remains unchanged. Decisions about exclusions from the Fund for breaches of our responsible investment standards are evidence-based and guided by our Responsible Investment Framework (www.nzsuperfund.co.nz/how-we-invest/responsible-investment). International conventions, New Zealand law, Crown actions, companies' involvement and activities, and effectiveness of engagement are key factors in our decision-making process.

Further details of our response to the divestment calls are available at:
www.nzsuperfund.co.nz/news-media/nz-super-fund-statement-israelpalestine
www.nzsuperfund.co.nz/news-media/nz-super-fund-investment-israel-chemicals

A list of companies excluded from the Fund is maintained at:
www.nzsuperfund.co.nz/how-we-invest-responsible-investment/exclusions.

UNPRI BENCHMARKING REPORT

The UNPRI supports signatories' efforts in their implementation of the Principles for Responsible Investment through an annual reporting and assessment process. Reporting is mandatory for all asset owners such as the Fund.

Over the last three years, the UNPRI has been developing a new assessment approach. As a result, this is the first time since 2011 that we have been able to report on our performance in its benchmarking process – one of the key performance measures in our Statement of Intent. The UNPRI framework provides a set of standardised indicators with separate pathways for direct and indirect investors, and specific asset class modules.

We were pleased to receive an A+ rating from the UNPRI for our overall approach to RI, and an increase on our 2014 rating of A. We also received A ratings for the two other modules applicable to the Fund: Indirect Listed Equity and Listed Equity Active Ownership.

MODULE	2014 LEVEL	2015 LEVEL	CHANGE	NOTES
Overarching Approach	A	A+	↑	30/30 from 10 indicators. The performance increase can be attributed to our RI training, work on New Zealand corporate governance and our climate change work.
Indirect Listed Equity	A	A	← →	17/18 from six indicators
Listed Equity Active Ownership	A	A	← →	25/27 from nine indicators

We aim to maintain these overarching ratings, and improve our ratings on the underlying indicators, in future years. We also aim to expand the voluntary reporting areas under the framework.

Under the previous UNPRI reporting methodology, the Fund also performed well, rating in the top quartile of a group of 198 asset owners across all six UNPRI principles (2011).

Copies of the UNPRI Benchmarking and Transparency reports for the Guardians are available at: www.nzsuperfund.co.nz/performance/esg-management.

The Benchmarking report includes distribution charts showing the Fund's scores compared to those of relevant peer groups.

The UNPRI's '*2015 Report on Progress*', which discusses the progress and activities of the signatory base as a whole, will be available later in the year at: www.unpri.org.

STAFF PROFILE

JUSTINE SEFTON
SENIOR ANALYST

Justine Sefton joined the Fund as a Senior Analyst in the Responsible Investment team in 2014. A former United Nations Framework Convention on Climate Change negotiator for New Zealand, Justine has previously worked on a range of projects to leverage private sector capital into low-carbon investments, mainstreaming climate considerations into public and private financial institutions and tracking low-carbon investment flows. Justine, who began her career as an environmental lawyer, has also worked for New Zealand's Ministry for the Environment and BP Alternative Energy. She holds a MSc (Environmental Technology) from the Imperial College London and a LLB (Hons)/BA from The University of Auckland.

Responsible Investment Initiatives

KAINGAROA – FALCON

A native New Zealand falcon (kārearea) hatched from one of three rescued eggs from Kaingaroa Forest, a central North Island timber forest in which the Fund is a significant investor, was released in March 2015.

'Bindy' has been released back into Kaingaroa, in a harvested area where she will have plenty of options for finding prey. Bindy was cared for at the Rotorua-based Wingspan National Birds of Prey Centre, New Zealand's leading conservation, education and research organisation for birds of prey. Being part of New Zealand's unique natural heritage, falcons are a taonga (treasured) species to tangata whenua (Māori, people of the land).

Wingspan, which is sponsored by Kaingaroa Timberlands, supports wild populations directly by releasing captive bred falcons and rehabilitating injured wild birds. Through research and advocacy, Wingspan also supports long-term sustainable conservation action by identifying the reasons for the decline in wild populations and promoting action to reverse this.

Bindy was one of three rescued eggs, she was released back into Kaingaroa in March 2015.

NZ CORPORATE GOVERNANCE FORUM

The establishment of the New Zealand Corporate Governance Forum, and the development of best practice guidelines for New Zealand listed companies, was a central focus for the year. The Forum is chaired by Anne-Maree O'Connor, the Fund's Responsible Investment Manager.

The Forum consists of institutional fund managers who individually invest over $100 million in New Zealand listed equities and collectively manage a significant portion of New Zealand's equity market.

The Forum is committed to promoting good governance in New Zealand companies for the long-term health of the capital market. The Forum's Guidelines are based on global best practice and are a reference for shareholders and companies on corporate governance issues particularly pertinent to the listed market.

Further details on the Forum, including its Terms of Reference and a copy of the Guidelines, are available at www.nzcgf.org.nz.

CLIMATE CHANGE RESPONSE

In recent years, we have undertaken significant work to understand the investment risks and opportunities associated with climate change and implications for our portfolio. These risks and opportunities stem from physical and resource impacts and regulatory action.

During 2010, we convened a climate change project working group across our investment teams to consider the investment implications of climate change more broadly for the portfolio and from the New Zealand Emissions Trading Scheme (ETS) specifically.

In 2011, we conducted analysis on climate change as a theme and produced a macro-thematic strategy paper on climate change.

In 2012, we integrated climate change into investment opportunity analysis in the energy industry, in particular the alternative energy sector. Our analysis also looked at the role of gas, particularly in the United States, with implications for replacing coal in electricity generation.

During 2013/14, we focused on our alternative energy opportunity, and committed to a long-term strategy to increase the Fund's exposure to low-carbon and renewable energy. Investments made in line with this strategy include our direct stakes in Bloom Energy, Ogin Inc. and LanzaTech (see page 29 for more information).

Over the last few years, we have continued to engage on climate change issues with listed companies, particularly through our support of the Carbon Disclosure Project, Investor Group on Climate Change and UNPRI.

Building on this foundation, our main focus for 2015/16 is on a significant project to develop a Fund-wide climate change strategy.

An important element of this has been our participation during the year in the Mercer's research project – 'Investing in a Time of Climate Change' (see www.mercer.com for more information). Collaborating with other investors is a cost-effective way for us to access research of this sort. Mercer's research and scenario modelling, which was completed in June 2015, will inform our future thinking on, and strategies to respond to, climate change risk.

This year, we signed the Climate-resilient Infrastructure investment pledge led by peer funds AIMCo, CalPERS and PGGM. The aim for us is to identify and evaluate climate-resilient investments, with competitive return characteristics, which satisfy our portfolio objectives and constraints.

The Guardians also agreed to participate in the Aligned Intermediary clean tech investment initiative, discussed further on page 29.

"Alongside other priorities, we are putting a major effort into understanding climate change risk and how to respond to it across our entire portfolio."

Gavin Walker,
Guardians Chair

Fossil fuel divestment

During the year, fossil fuel divestment calls from activist groups and the Green Party of Aotearoa New Zealand continued. We met with the Green Party in early 2015 to hear its views and outline our thinking and work plans. We note that there are a number of tools available to help asset owners respond to climate change risk, of which divestment is only one. We are considering all the options at our disposal while continuing to engage on the issues in conjunction with other investors.

In 2015/16, we will focus on our broader climate change strategy development work, our alternative energy strategy, climate-resilient infrastructure opportunities, and engagement with companies on climate change.

CASE STUDY

STRENGTHENING OUR COMPANY ENGAGEMENT PROGRAMME

In 2015, we, along with fellow New Zealand Crown Financial Institutions ACC and GSF, appointed BMO Global Asset Management to provide responsible investment engagement services globally.

The additional resource provided by BMO will increase the reach and effectiveness of our global engagement programme.

Our in-house investment team will increase its focus on New Zealand company engagements and other priorities, while retaining oversight of international engagements.

Globally, our engagement priorities are focused on three areas:

- human rights (child and slave labour; worker safety; operations in weak states);
- bribery and corruption; and
- severe environmental damage.

Quarterly reports by BMO outlining its engagement activities on our behalf are available on our website at: www.nzsuperfund.co.nz/performance-esg-management/engagement-reports. BMO's use of constructive dialogue based on the collective assets under management of its clients, aims to drive behavioural change in companies to address serious breaches of corporate standards and enable them to be better positioned to deal with future risks and opportunities relating to environmental, social and governance factors.

The joint appointment with ACC and GSF – together we manage in excess of NZD60 billion – is cost effective and adds weight to BMO's engagements on our behalf.

SECTION 4:
Operational Report

Highlights

In this section we outline operational achievements and highlights from the Guardians' 2014/15 year.

OPERATIONAL EFFICIENCIES

The Guardians' operations team is responsible for the day-to-day running of the Fund's internal investment mandates. The team is involved in the full life cycle of a trade, ensuring trade bookings are accurate both in-house and at the Fund's custodian, Northern Trust. The team also ensures that all collateral* and settlement obligations are met. Efficiencies within this team, therefore, have a significant flow-on effect within the Guardians.

Over the past year the team has introduced various initiatives to help make efficiencies and streamline processes. One example is the building of live task lists on the Guardians' intranet, covering the entire workflow of the team's activities. This helps the team manage, allocate and reallocate tasks based the availability of individual staff members, and provides better oversight of workflows.

The intranet is also used as a means of quick access to key transactional documents. The team is now 'paperless' after a significant initiative to store instructions and transactions electronically. The benefits include a quicker document retrieval process and no need for physical filing.

*What is collateral?

In lending agreements, collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan.

IMPROVED BUSINESS CONTINUITY SYSTEMS

As a business that is heavily reliant on IT systems, loss of these systems is a major risk. Business continuity planning is therefore a key risk management objective for the Guardians. We implemented new solutions to protect system access in 2014/15. These included installing a secondary backup site in Hamilton. This site continuously replicates the Guardians' primary data centre, which is based on Auckland's North Shore. This capability, based on Datacom's Recovery as a Service (RaaS), enables the Fund to be back online with all critical systems within 30 minutes of a failure at the primary data centre. The use of the secondary data centre was successfully tested this year.

PORTFOLIO MANAGEMENT AND RISK SYSTEMS REVIEW

A Portfolio Management Research project was initiated in 2014 to support the Guardians' strategic objective of 'efficiency, scalability and innovation'. The project considers the best way of supporting the Fund's current and future requirements for portfolio and risk management. Having identified and assessed a range of options, the project team recommended:

- a single, multi-asset portfolio management solution;
- a separate risk management platform;
- retention of the existing performance platform;
- a new data management platform;
- a solution for post-trade derivative management.

New projects have been set up to deliver these objectives in the 2015/16 year.

In June 2015, the Fund was named the best-performing sovereign wealth fund in the world by JP Morgan, following a global study on fund performance over a five-year period. Over the period analysed, the Fund had an annualised return of 17%.

FOCUS ON CYBER SECURITY

Protecting our data and systems from cyber-attacks is an ongoing effort at the Guardians. The four key elements to the Guardians' response to cyber risks are:

- independent assessments of our cyber security readiness;
- staff education on current cyber risks and how to protect themselves and the Fund;
- continued implementation of new security systems and regular upgrades of systems to ensure our capabilities match the increase in security requirements; and
- working with suppliers to ensure the security of our information and the entire transaction life cycle.

A number of initiatives with suppliers were put in place to improve security in 2014/15. The Guardians also implemented a number of new systems including a Mobile Device Management system, which allows us to protect any Guardians and Fund information that is stored on the mobile devices we use.

INDEPENDENT REVIEW

The Minister of Finance appointed Promontory Financial Group to conduct an Independent Review of the Guardians and Fund during the year. Its report was very positive and concluded that the Fund was being managed in line with global best practice.

More information on the Review is available on page 43.

SPONSORSHIPS

We undertake a limited number of sponsorships in New Zealand to support activities or events which are consistent with, and which positively raise awareness of, our role and responsibilities in managing the Fund.

Our sponsorship portfolio includes:

- Auckland Centre for Financial Research at AUT University – Auckland Finance Meeting;
- WriteMark Plain English Awards – Annual Report Award;
- Commission for Financial Capability Conference;
- 2014 RIAA Responsible Investment Briefing in Auckland; and
- 2015 RIAA Responsible Investment Benchmark Report.

New sponsorships in 2014/15 included: Auckland University New Zealand Superannuation Fund Accounting and Finance Final Year Prize 2014 & New Zealand Superannuation Fund Accounting and Finance Stage III Prize 2014.

NEW WEBSITE

As our primary external communications channel, the Guardians and Fund website at www.nzsuperfund.co.nz is of critical importance. A new website was implemented early in the 2014/15 financial year and has helped us provide our stakeholders with easy-to-access, clear, accurate and comprehensive information. The project included the development of a new content management system with additional security and efficiency benefits.

A quantitative survey of the Guardians stakeholders undertaken in 2015 provided us with positive feedback on the website. 66% of stakeholders had visited the website in the previous 12 months. Of these, 96% rated it as good or very good. This supported conclusions from qualitative research that stakeholders found the website informative and easy to read. Further details on the stakeholder research are available at page 37.

Regulatory update

As a global investor, the Fund is impacted by the laws and regulations of the many and diverse jurisdictions in which it invests. Ensuring that the Guardians and Fund comply with requirements in all of the jurisdictions in which the Fund invests is an important task.

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

INTERNATIONAL REGULATORY DEVELOPMENTS

OTC Derivatives Regulation

Currently, new rules relating to over-the-counter (OTC) derivatives are being implemented around the globe. The rules aim to increase transparency, mitigate systemic risk and protect against market abuse.

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 stage. For example, mandatory clearing of certain OTC derivative transactions is yet to be implemented in Europe. This is unlikely to apply to the Fund until 2018.

In addition, new rules will require the posting of initial and variation margins for non-cleared derivatives transactions. There will be a phased implementation of these margining requirements. For the Fund, the requirement to post variation margin will commence in 2017 and the requirement to post initial margin will commence in 2020.

We are monitoring these changes closely and are developing clearing, reporting and operational capability in order to comply with the global regulations within the required timeframes.

Capital Reforms

New capital requirements being implemented by regulators around the globe are having, and will continue to have, a big impact on the Fund's bank counterparties. These requirements present both challenges and opportunities for the Fund, as our counterparties adapt to the reforms and reshape their existing business lines.

NEW ZEALAND REGULATORY DEVELOPMENTS

Changes to the New Zealand Superannuation and Retirement Act 2001

The New Zealand Superannuation and Retirement Income Amendment Bill 2015 has passed the committee stage and is expected to be passed in late 2015.

The primary purpose of the changes made to the New Zealand Superannuation and Retirement Income Act 2001 under the Amendment Bill 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.

The ability to use Fund Investment Vehicles will improve the options available for accessing assets and structuring Fund investments in a way that delivers cost efficiencies and better risk management.

Like the Guardians, Fund Investment Vehicles are 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 Amendment Act also includes a number of other less material amendments to facilitate the efficient and effective investment and operation of the Fund.

Financial Markets Conduct Act

The FMCA was enacted on 13 September 2013 and was implemented in two phases. The regulations in the final phase came into force on 1 December 2014. Market participants may have up to 1 December 2016 to fully transition to the new requirements. The Act introduces a comprehensive overhaul of New Zealand's securities and financial markets law and implements a new 'one-stop shop' for securities law in New Zealand. It governs how financial products are created, promoted and sold and the ongoing responsibilities of those who offer, deal and trade them.

The Guardians has been ensuring that it understands the new legislation so that it is aware of the new regime applicable to securities and financial markets law in New Zealand.

Health and Safety Reform Bill

The Health and Safety at Work Act has been passed by Parliament and will come into effect on 4 April 2016. The Bill is described as the most significant reform in New Zealand health and safety in the past 20 years and will replace the existing occupational health and safety legislation, including the Health and Safety in Employment Act 1992.

The Guardians monitored the progress of the legislation through Parliament to ensure that it understands its obligations under the new reforms and that it is well placed to examine its external investment and asset managers' readiness for the new laws.

Companies Amendment Act 2014 and the Limited Partnerships Amendment Act 2014

The Companies Amendment Act 2014 ('CAA') was enacted on 24 June 2014 and the majority of its provisions came into force on 1 September 2014. The key features of the CAA are:

- the creation of new criminal offences for serious breaches of the director's duty to act in good faith and in the company's best interests and for dishonestly incurring debt while the company is insolvent or which will precipitate insolvency; and
- the requirement that at least one director of every company registered in New Zealand must live either in New Zealand or Australia. Existing companies have until 28 October 2015 to comply with this requirement.

The Limited Partnerships Amendment Act 2014 ('LPAA') was also enacted on 24 June 2014, as a piece of sister legislation to the CAA. The majority of the LPAA provisions also came into force on 1 September 2014. Similar to CAA, the LPAA states that every limited partnership must have one general partner live in either New Zealand or Australia.

Other

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

- Commerce (Cartels and Other Matters) Amendment Bill;
- Employment Relations Amendment Act 2014; and
- 2014 FMA Corporate Governance in New Zealand – Principles and Guidelines handbook.
- The review of the Financial adviser's regime.

CASE STUDY

Oak Finance Investment

In February 2015, the Guardians filed debt-recovery proceedings in the English courts against the Portuguese bridge bank Novo Banco. In April 2015, legal proceedings were also filed in the Portuguese courts. These proceedings seek to recover our loan, made through Oak Finance, to Banco Espírito Santo (BES), and challenge a December 2014 decision by Portugal's central bank, the Bank of Portugal, about the loan.

The Fund, which has a USD150 million exposure under the loan, is working with other Oak Finance investors in both actions.

Investment bank Goldman Sachs, which arranged the Oak Finance loan, has also filed legal proceedings in England and Portugal.

The legal process is expected to be a long one. Until the proceedings are resolved, we have taken a conservative stance and written down the loan to zero.

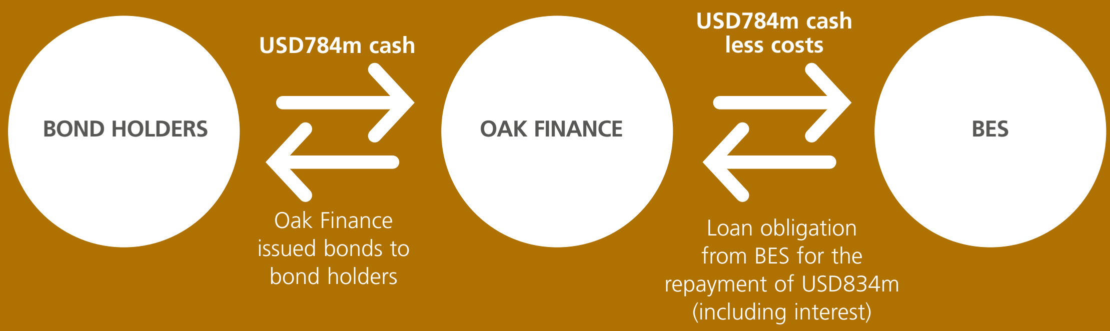
Background

Goldman Sachs arranged a loan by Oak Finance to Portugal's BES on 3 July 2014. Oak Finance financed the loan by issuing bonds to investors. The investors included a range of global institutional investors and pension funds. The USD784 million bonds issued to investors were secured against a USD834 million loan obligation from BES.

The structure of the transaction is summarised in the diagram below:

"The Bank of Portugal acted retrospectively and arbitrarily in treating Oak Finance's loan to BES unequally to other senior debt holders, causing the Fund's credit protection to be ineffective. We believe its actions are wrong and are based on a misunderstanding of the facts regarding Goldman Sachs' equity holding in BES and its relationship with Oak Finance".

Adrian Orr,
Guardians CEO



The NZ Super Fund simultaneously purchased credit protection to provide it with insurance against a default by BES.

BES was at the time of the loan Portugal's largest commercial listed bank and had successfully completed a EUR1 billion equity rights issue in June 2014.

In August 2014, the Bank of Portugal (the Portuguese central bank) announced that BES would be reorganised pursuant to Portuguese laws for the recovery and resolution of credit institutions.

The reorganisation involved most of BES's operations and assets, including all senior unsecured debt being transferred to a new state-supported 'good' bank called Novo Banco.

The major shareholder of BES was a family-controlled conglomerate with extensive intercompany linkages of debt and equity. The Bank of Portugal decided that the debt of any party or affiliate with such an interaction with BES would remain in BES and not get the benefit of the bailout and transfer to the state-supported Novo Banco. Portuguese law sets a threshold for being an affiliate as being those that held a two percent equity participation in BES in the two years preceding transfer of obligations to Novo Banco and a rule to this effect was passed on 1 August 2014 with retroactive effect.

On 22 December 2014 the Bank of Portugal announced that it had decided to clarify that the Oak Finance loan had not been transferred to Novo Banco from BES with retrospective effect. This decision, which was reaffirmed by the Bank of Portugal on 18 February 2015, was based on what is in our view a misunderstanding of both the nature of the Oak Finance loan and the application of the two percent equity participation rule.

In August 2015 the English Commercial Court confirmed in the first instance that our debt recovery case against Novo Banco can be heard in the English courts.

Further details are available at www.nzsuperfund.co.nz/publications-disclosures/oak-finance

PROCESS CHANGES

Our Board-supervised review of the Oak Finance investment found that the specific situation was unprecedented and unforeseeable. The review also concluded that the Guardians' internal policies and processes had been followed appropriately. We have also concluded, however, that it would be useful to introduce some additional processes to analyse jurisdictional risks. These changes have since been implemented.

CONTEXT

The Oak Finance investment was part of an internally-managed credit mandate that has been operating successfully at the Fund since 2009. Investment activities undertaken in the mandate include:

- funding conditions – profit opportunities that arise primarily, or solely, from illiquidity risks;
- regulatory vs. economic cost – opportunities that arise due to regulatory pressures faced by regulated entities such as banks and insurance companies;
- relative value – where, for example, debt of a single issuer, issued in different currencies, exhibits attractive price differences from time to time;
- new issue premium – where new issues which are offered to the Fund in size and at attractive prices; and
- opportunistic credit opportunities.

The credit mandate has added circa NZD900 million to the Fund, after factoring in the write down of the Oak Finance loan. The Fund has not had any other losses caused by credit events in this mandate.

What is a bridge bank?

A bridge bank is a bank authorised to hold the assets and liabilities of another bank, specifically an insolvent bank. A bridge bank is charged with continuing the operations of the insolvent bank until the bank becomes solvent through acquisition by another entity or through liquidation.

While the Oak Finance investment was a significant one in dollar terms, USD150 million, it represented a small proportion of the overall Fund – some 0.65% as at 28 February 2015.

Our People

In a highly competitive and global market, staff attraction, retention and development 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 improve 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.

ACHIEVEMENTS DURING 2014/15

- Introduced changes to the Guardians' discretionary incentive scheme, in order to improve staff alignment with the Guardians' strategic objectives and support our focus on workplace culture;
- Reviewed role sizing across the organisation;
- Simplified role descriptions; and
- Introduced a 360° online performance assessment system.

PRIORITIES FOR 2015/16

- Implement Culture Survey recommendations;
- Assess the new Performance Review System and implement key lessons; and
- Refresh diversity and inclusion policy and hiring practices to ensure compliance and consistency; establish internal training to support diversity.

OUR CULTURE

As the Guardians grows (111 FTE as at 30 June 2015), developing and strengthening our internal culture continues to be a key focus. We place a strong emphasis on creating a highly constructive environment and continue to coach staff about the behaviour and values we are looking for, to maintain a common culture.

CULTURE SURVEY

In March 2015, all permanent staff at the Guardians undertook the Organisational Culture Inventory™ (OCI) and Organisational Effectiveness Inventory (OEI) surveys. The surveys were last taken in June 2013.

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. Through our biennial process, we are able to explore and identify specific activities that allow us to continue to develop as a constructive, cooperative and transparent organisation in pursuit of a high standard of excellence.

OCI, the most widely used and thoroughly researched tool for measuring organisational culture in the world, examines staff experience of the operating culture. The OEI, measures staff experience of the organisation's structures, systems, technology and skills/qualities through day-to-day management practices. The OEI also measures key culture outcomes at the individual member, group and organisational levels. Together the tools provide insight into how close we are to our desired culture.

Results of the surveys showed strong positive gains since the OCI and OEI were last undertaken in 2013, with all four of our dominant behavioural styles now in the constructive cluster. The results showed a positive shift in several styles including a 34 percentile increase in Humanistic-Encouraging styles to the 84th percentile and a 40 percentile shift in Affiliative styles to put the Guardians in the 71st percentile. The 2015 survey results also showed a marked decrease in all passive-defensive and aggressive-defensive styles such as Oppositional and Avoidance, both of which saw a 22 and 32 percentile reduction respectively.

These are excellent results, which demonstrate a highly constructive business culture overall.

Continuing to develop and maintain our constructive culture gives us a significant point of difference in the market. Increased ability to attract, develop and retain key talent brings with it many benefits, ultimately improving the organisational effectiveness of the Fund.

The OCI/OEI surveys will be run again in 2017, and our interim engagement survey will be repeated in 2016. Given the excellent results achieved in 2015, going forward we intend to stretch ourselves further by testing our Culture Survey results against the benchmark for top organisations, rather than against the mean benchmark.

PERFORMANCE REVIEW

An online 360° performance review tool was launched in December 2014. The online tool replaces the old paper-based system for managing biannual performance reviews, and offers a number of significant improvements to help increase individual employee performance and consequently, lift the performance of the entire organisation.

Employees and managers now have improved access to their performance review forms and clarity on what the Guardians defines as important to performance. The tool also reduces administrative time for the Human Resources team, and provides Leadership Team members with complete visibility over their respective business unit's performance.

In terms of scalability, the tool is flexible and future-proofed for organisational growth or changes to the performance review framework. New staff can be added quickly and simply, and organisational reporting is available at the end of each performance review cycle.

INTERNAL PROMOTIONS

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

STAFF TRAINING AND SECONDMENTS

We continued to invest in the organisation-wide Personal Efficiency Programme in 2014/15, as part of our wider effort to maximise efficiency, increase productivity and reduce cost.

Eleven of our staff attended a tailored refresher in personal efficiency, with another six completing the standard Personal Efficiency Programme. A further seven staff members have commenced the programme and are due to complete it in September 2015.

In addition, tailored skills-based training in financial modelling was undertaken by nine staff and eight of our newly promoted managers began a training programme to aid them in their transition into people-management roles.

"The secondment provided a valuable opportunity for the two organisations to compare and contrast portfolio construction and investment governance frameworks, ahead of USS's impending change from its strategic asset allocation approach."

Joe Cheung,
Senior investment Strategist

We also continued to encourage secondments to improve staff capability and build stronger relationships with peers. There were two internal secondments in 2014/15. Four members of our team were also seconded to other organisations and we hosted one member from National Investment Corporation of National Bank of Kazakhstan.

David Rae, Head of Investment Analysis, had the opportunity to be seconded to the London-based Wellcome Trust, which manages £18.0 billion for charitable purposes.

Senior Investment Strategist Joe Cheung was seconded to The Universities Superannuation Scheme (USS) in the United Kingdom to share our experience on operating under the Reference Portfolio approach. The approach has since been adopted by USS.

Our Head of Investment Operations, Peter Bennie, was seconded to AP2 in Gothenburg to assist AP2 with a Request for Proposal for their custodian, and provide us with valuable insights into their operating model and systems. Analyst Ryan McCulloch was also seconded to AP2 for a short period, allowing for an exchange of ideas on operational due diligence.

SUMMER INTERN PROGRAMME

Continuing to build on the success of previous summer internships at the Guardians, we had seven interns join us in 2014/15. Our interns were drawn from a range of academic disciplines including finance, economics, law and accounting. The interns worked on a full-time basis for the Guardians over the university break, completing a range of practical projects and receiving a good overview of the activities of the Guardians and the Fund.

Long term, the programme is intended to support the development of our talent pipeline. The majority of permanent roles at the Guardians are for more experienced staff, however, four of those who have interned with us have joined us in permanent positions, and a further two from the 2014/15 programme extended their stays to fill contracting roles during 2015.

HEALTH AND SAFETY

Our Human Resources Policy, available on www.nzsuperfund.co.nz/publications/policies, sets out our commitment to providing a safe and healthy working environment for all employees and for everyone who visits our place of work. We strive to:

- reduce and, where possible, eliminate any hazards;
- educate employees on health and safety issues;
- prevent injury to people at work; and
- comply with the requirements of the Health and Safety in Employment Act 1992.

Under the Policy, responsibility for maintaining a safe and healthy work environment is the responsibility of all staff.

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

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

Once again, we achieved a 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.

In 2014/15, we included the provision of stand-up desks to staff as one aspect of the regular activities undertaken as part of our wellness programme. Other activities include:

- annual review of health and safety policy;
- subsidised health insurance;
- workstation assessments for all employees;
- advice on safe travel practices;
- international SOS services provided to travellers;
- first-aid training including CPR and defibrillator training;
- free influenza injections;
- free healthy heart checks;
- provision of emergency kits to comply with Civil Defence and Emergency Management recommendations;
- access to independent Employee Assistance Programme providers; 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 Māori, ethnic minorities, women and people with disabilities. Given the nature of roles at the Fund, 100% of our staff are employed on individual agreements. Staff members 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.

A key priority for 2015/16 is a project on diversity and inclusion. Training on the subject will be provided to all staff over the course of the year and incorporated into induction processes as new staff join the team.

GOOD EMPLOYER REPORTING

The Human Rights Commission rated the Guardians first out of 91 New Zealand Crown entities in a 2015 review of Annual Reports, giving the Guardians a compliance rating of 100% for its 'good employer' reporting.

The Human Rights Commission's report is available on
www.nzsuperfund.co.nz/transparency-reporting

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

ELEMENT	GUARDIANS ACTIVITY
Leadership, accountability and culture	Alignment between Strategic Plan objectives, individual objectives and performance measures
	Organisational Culture and Organisational Effectiveness Surveys completed in March 2015
Employee development, promotion and exit	Programme in place to identify and develop 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
	Benchmarking of remuneration against third-party New Zealand data
	Incentive programme in its fifth year
Flexibility and work design	IT systems which 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 which are available and endorsed at all times
	Performance management process which rewards positive and constructive behaviour
Safe and healthy environment	Strong focus on employee health, safety and well-being through provision of support services (see page 86)
	Primary-level standard in ACC's Workplace Safety Management Practices Programme

TEAM PROFILE

INVESTMENT ANALYSIS

The Investment Analysis team is made up of three units: Analysis, Economics and Responsible Investment. The Analysis unit assesses the relative attractiveness of all opportunities and asset classes, as well as searching for and reviewing new opportunities. The Economics unit makes sure that economic trends and risks are factored into the Fund's investment and asset allocation decisions. The Responsible Investment unit provides specialist expertise, leading the integration of environmental, social and governance factors into the investment process, and coaching and advising other investment professionals.

The three units are headed by David Rae, who joined the Guardians in 2007. David has held various positions both in New Zealand and overseas, including Head of the European Union/Ireland and Sweden/Denmark Country Desks at the OECD in Paris, and Economist at The National Bank of New Zealand and at the Reserve Bank of New Zealand.

The Analysis unit includes Roland Winn, Joey Wang, David Surridge, Lucy Tagg, Charles Hyde and Andrew Fisher. Roland, who leads this team, joined the Guardians in 2014, bringing with him 18 years' industry experience across infrastructure and global equities. He holds a BEc (Hons) PhD (Sydney) and Honorary Fellow (Macquarie University Applied Finance Centre).

Analyst Joey Wang holds a BCom (Hons) in Finance, BSc (Statistics). Prior to the Guardians, he worked at PwC, where he was involved with derivative valuations, treasury advisory and infrastructure modelling.

Senior Strategist David Surridge (MBA, BSc (Hons)) is involved in a wide range of projects related to new and existing investment opportunities as well as assisting in the implementation of new investment strategies.

Lucy Tagg holds a bachelor's degree in Mechanical Engineering (Hons) and a Graduate Diploma in Applied Finance and Investment. Prior to joining the Fund, Lucy was a Division Director in the Commodities Team at Macquarie Group, heading up the London Freight and Iron Ore Desk.

Charles Hyde joined the Guardians in 2015 bringing with him 14 years of industry experience preceded by a period in academia. He has worked at Metisq Capital, CBA and Deloitte, and held teaching and research positions at The University of British Columbia, University of Melbourne and the University of Sydney's Business School.

The newest member of the investment analysis unit, Andrew Fisher, recently joined the Guardians from Sunsuper where he worked as Portfolio Manager (Asset Allocation) and a member of the Investment Recommendation Approval Committee.

The Economics unit is headed by Mike Frith. It is Mike's role to provide the macroeconomic advice that underpins investment analysis and broader investment decisions. Prior to joining the Guardians, Mike held a number of roles during a lengthy tenure at the Reserve Bank of New Zealand, which included managing the bank's Auckland office and management roles within the bank's Prudential Supervision and Economic departments.

The Responsible Investment unit is led by Anne-Maree O'Connor. Anne-Maree moved back to New Zealand after 20 years in Europe, where she was Managing Director of CoreRatings, a leading European rating agency for analysis of corporate responsibility and governance risks. Prior to that she worked at Det Norske Veritas and held various positions in the field of responsible investment including 10 years in the investment management industry as Associate Director, RI at Morley Fund Management and Head of RI Research at Henderson Global Investors.

Also in the Responsible Investment team is Senior Analyst Justine Sefton, who is profiled on page 73.

Standing: David Rae, Joey Wang, Anne-Maree O'Connor, Andrew Fisher, Roland Winn, Charles Hyde, Justine Sefton. Seated (L-R): Mike Frith, David Surridge and Lucy Tagg.

WORKFORCE PROFILE

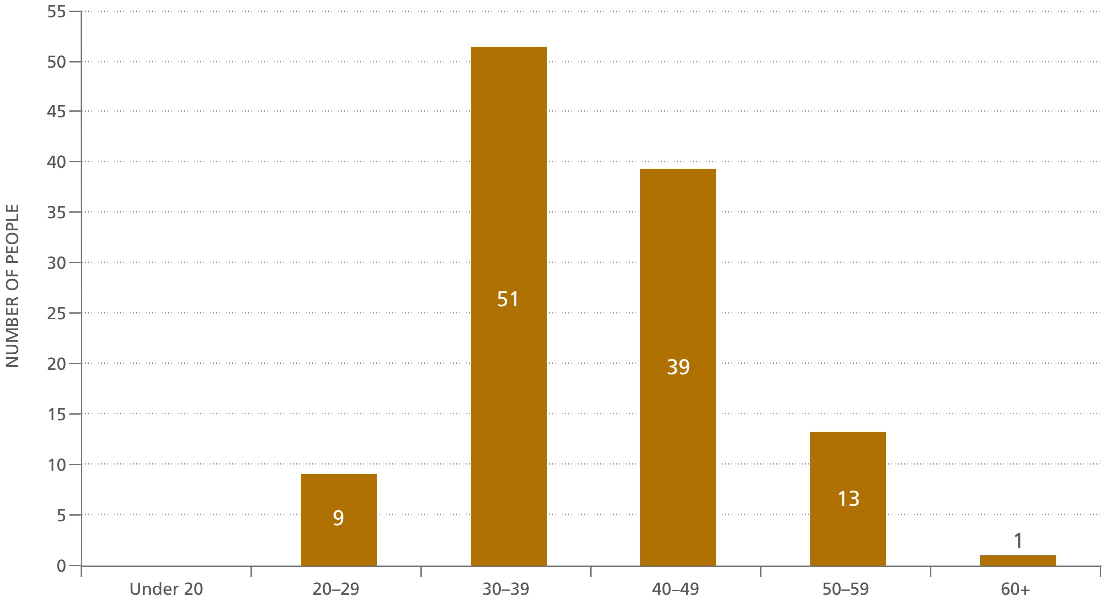
Understanding and providing transparency over the demographics of our workforce is an important part of our commitment to being a good employer.

Workforce statistics

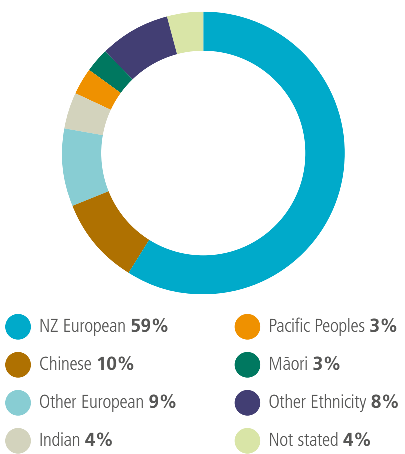
COMPONENTS	2015	2014	2013	2012	2011
Our Workforce					
Full time equivalent (FTE) employees	111.0	96.6	86.4	75.2	66
People	113	98	89	78	69
Full time (FTE)	94%	96%	92%	93%	92%
Part time (FTE)	6%	4%	8%	7%	8%
Staff members with disabilities	1%	1%	1%	0%	0%
Female Representation					
Female staff members	40 (35%)	32 (33%)	32 (36%)	26 (33%)	24 (36%)
Female Board members	3 (43%)	3 (43%)	3 (43%)	2 (28%)	1 (14%)
Female Leadership Team members and direct reports to CEO	2 (22%)	2 (22%)	2 (25%)	1 (14%)	1 (14%)
Female heads of teams	4 (25%)	4 (25%)	4 (26%)	5 (36%)	3 (20%)
Female investment professionals	11 (23%)	9 (22%)	8 (28%)	7 (22%)	6 (23%)
Turnover (FTE)					
Turnover – all staff	4.4%	5%*		Not reported*	
Turnover – male	2.7%	5.2%*		Not reported*	
Turnover – female	8.3%	4.6%*		Not reported*	
Educational Qualifications					
% of staff with postgraduate tertiary qualifications	53%	57%	52%	Not reported	Not reported
% of staff with undergraduate tertiary qualifications	92%	91%	91%	Not reported	Not reported
Staff training investment as a % of total Guardians operating expenditure	1.44%	1.38%	0.76%	1.02%	0.92%
Return to Work and Retention after Parental Leave (as primary care-giver)					
Return to work – male	None Taken	None taken	None taken	Not reported	Not reported
Return to work – female	100%	50%	100%	Not reported	Not reported
Retention as at 30 June 2015 after returning during the year – male	None Taken	None taken	None taken	Not reported	Not reported
Retention as at 30 June 2015 after returning during the year – female	100%	100%	100%	Not reported	Not reported
Health and safety					
Lost-time work injuries	0	0	0	0	0
Absenteeism as measured by days of sick leave per FTE	3.1	3.2	2.4	Not reported	Not reported

*In 2014/15, we moved from reporting turnover in terms of people to FTE.

WORKFORCE AGE 2015



ETHNIC PROFILE AS AT 30 JUNE 2015



GENDER BALANCE AS AT 30 JUNE 2015

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.

ACTIVITIES DURING 2014/15

During 2014/15, we undertook the following cost control initiatives:

- Introduced a project to restructure cost allocation reporting to assist with effective management of the business and in providing greater oversight to the Board
- Continued to shift judiciously between physical and derivative methods of accessing investments, in order to achieve the most cost-effective and flexible result
- Continued use of the Guardians intranet to streamline the induction of new staff, enhance accessibility of Human Resources and other information and facilitate process improvements in our Operations team
- Continued mapping of resource use and staff time against investment projects to ensure optimal focus of our efforts
- Continued with the implementation of a Personal Efficiency Programme
- Benchmarked our manager fees and fee structure

Cost control priorities in 2015/16:

- Increase focus on liquidity provision as a source of additional return, including for domestic equities; and
- Consider the outcomes of option-based rebalancing.

ANNUAL CEM COST-EFFECTIVENESS SURVEY

The annual CEM Cost-Effectiveness Survey provides international benchmarking information for sovereign wealth and pension funds. It covers both value-add and cost relative to global and peer medians.

The most recent survey, of 279 funds representing over US$10 trillion in assets, estimated the Fund's value-add for the five-years to 31 December 2014 to be 3.1%, comparing favourably to a peer median of 0.7% and a global median of 0.3%. The Fund's 5-year net total return of 14.7% was among the highest in its peer group and in the global universe of funds surveyed.

The Fund also performed well in the 2014 calendar year. CEM estimated the Fund's net value add as 1.5% compared to a peer median of 0.6%.

To assess whether the Fund's costs are high or low given its unique asset mix and size, CEM calculates a benchmark cost each year. This benchmark is an estimate of what it would cost to operate the Fund's asset mix using the median costs incurred by peers for similar services. The Fund's total cost of 37.8 basis points was below the benchmark cost of 43.2 basis points for 2014. CEM describes this as a "cost saving" of 5.4 basis points in 2014. For the past 5 years, the Fund had an average cost savings of 5.1 basis points.

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 decreased from the prior financial year; that reduction was driven, in part, by marginally lower performance fees payable to investment managers and,in part, by interest received from overpaid provisional tax payments (compared to a charge in the prior year). Excluding performance fees, the Fund's expenses reduced from 0.32% to 0.29% of funds under management – resulting from the growth in Fund size, coupled with a slight reduction in expenses from the prior year.

Base manager fees increased from $24.8 million to $26.9 million as a result of the increase in the value of funds under management and the creation of some additional investment mandates. The impact of these changes has been partly offset by cost savings arising from the removal of several investment managers over the prior and current years.

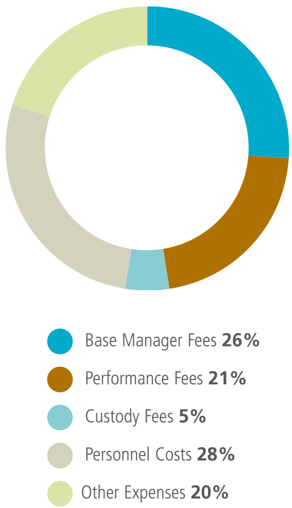
Custody fees increased from the prior year from $4.2 million to $5.2 million as a result of the ongoing expansion of the Fund, in terms of size, number of investment mandates and number of executed transactions.

Personnel costs increased from $25.5 million to $28.0 million owing to increases in 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 decreased from $24.7 million to $20.2 million (or 0.10% to 0.07% of funds under management). This is primarily due to use of money interest arising from the overpayment of provisional tax. Tax is paid in instalments in advance throughout the year based on estimates of the full year's performance. Differences between the Fund's estimated and actual tax liabilities may result in interest either payable or receivable depending on whether the provisional payments are too high or too low. Given the short-term volatility of the Fund's performance and the differing tax impacts applicable to returns from different types of investments, the production of an accurate forecast for the full year tax charge is impossible, resulting in some use of money interest either owing (or due) each year.

Tax expense itself decreased significantly from $1.1 billion in the prior year to $122.7 million as a result of the nature of the returns made. Further information is available on page 48.

FUND EXPENSES 2015

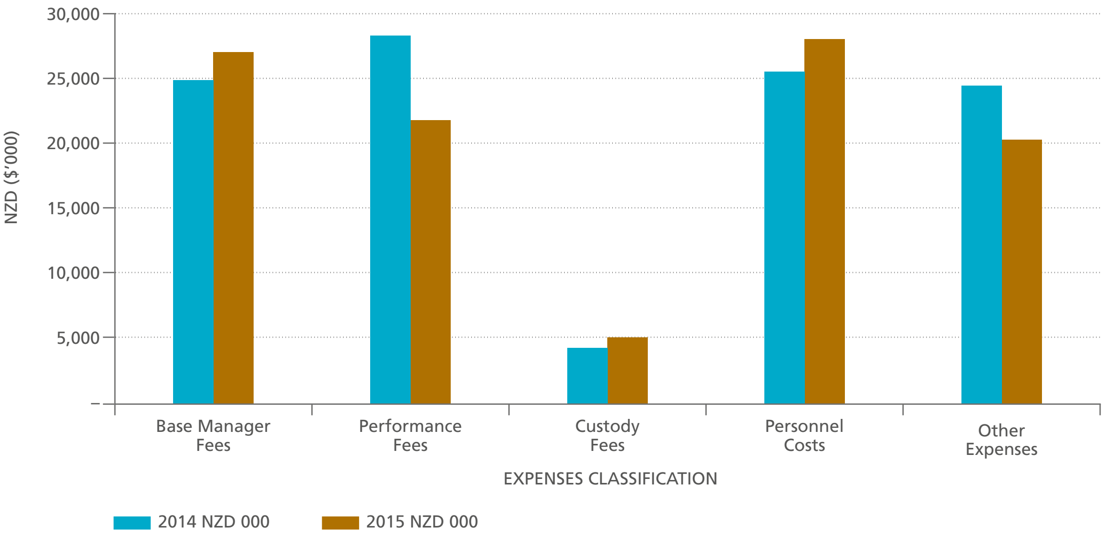


EXPLANATION OF EXPENSES

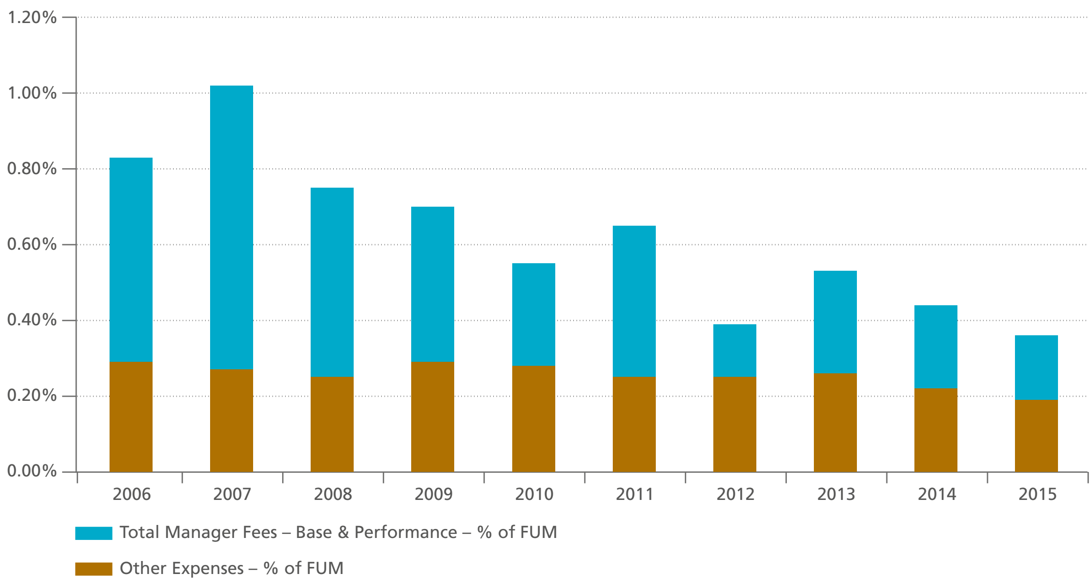
EXPENSE TYPE	WHAT IS IT?
Base manager fees	The amounts paid to investment managers for their time and expertise in managing specific investments on the Fund's behalf. Typically, these fees are based on a percentage of the value of the assets under their management
Performance fees	The incentive fees paid and payable to investment managers based on the performance of the assets under their management over and above an agreed benchmark
Custody fees	The fees paid to the Fund's custodian in return for the safekeeping and administration of investments
Personnel costs	Employee remuneration and benefits, and other associated costs
Other operating expenses	Primarily 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 due diligence on prospective investments)

EXPENSES ANALYSIS FOR THE YEAR ENDED 30 JUNE 2015

Total expenses 2015: $102.0m 36.5bps (excluding performance fees: $80.2m 28.7bps)
Total expenses 2014: $107.7m 43.6bps (excluding performance fees: $79.3m 32.1bps)



FUND EXPENDITURE AS A PERCENTAGE OF FUNDS UNDER MANAGEMENT



CASE STUDY

RetireAustralia

In December 2014, the Fund acquired a 50% shareholding in leading Australian retirement village operator RetireAustralia (www.retireaustralia.com.au), with consortium partner Infratil (www.infratil.co.nz) acquiring the other 50%. The acquisition price valued the company at about AUD650 million.

RetireAustralia is Australia's fourth-largest retirement village operator, with 28 villages across three states – New South Wales, South Australia and Queensland. The company currently operates more than 3,700 villas and apartments, and has an existing development pipeline to build another 550 units. The business is well placed to take advantage of further developments in the retirement sector in Australia and offers the opportunity for further investment from the shareholders.

This is the second time the Fund has teamed up with Infratil to purchase a major asset outright – we also put together a consortium to purchase the downstream assets of Shell New Zealand (now Z Energy) in 2010.

RetireAustralia is also the second major investment the Fund has made in the retirement sector, complementing a 20% stake in listed New Zealand company Metlifecare (www.metlifecare.co.nz).

RetireAustralia provides the Fund with a high-quality and well-priced access point into an attractive sector. Retirement village businesses benefit from favourable demographics that will create growing demand for retirement and aged care services, and are a good fit with the Fund's long-term investment horizon. There is also a low level of retirement village market penetration in Australia, compared to other markets such as the United States.

The Fund's investment in RetireAustralia is managed by external manager Morrison & Co and sits within the global investment mandate they have held since 2006. Morrison & Co. also manages Infratil's stake in RetireAustralia.

Quick Facts

- RetireAustralia's largest village has 440 units and a total market value of AUD220 million.
- The smallest has 13 units and a value of AUD8 million.
- The average unit value is AUD360,000 with a per-village average value range of between AUD115,000 and AUD680,000.
- The average village age is 19 years with a range of six years to 30 years.
- The average age of residents is 82 years.

"We are pleased to be increasing our exposure to the retirement village sector in Australia. The sector's attractive demographics and future growth opportunities make it a good fit for long-term investors such as the NZ Super Fund."

Matt Whineray, Guardians Chief Investment Officer

1

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Nigel Gormly is the Guardians' Head of International Direct Investment and represents the Fund on the board of RetireAustralia. Prior to joining the Guardians in 2013, Nigel spent 10 years with Fonterra, where he held a number of strategic development and commercial leadership roles, most recently as General Manager Commercial Ventures.

A chartered financial analyst, Nigel has a BSc/BCom and a Graduate Diploma in Finance from the University of Auckland. He is also on the boards of LanzaTech and View.

3

1 The Scarborough Mews Retirement Village.

2 Clubhouse at Tarragal Glen Retirement Village.

3 Facilities at the Glengara Retirement Village.

Environmental Performance

Our commitment to monitoring and minimising the environmental footprint of our growing organisation is highlighted in the Guardians' Environmental Policy.

The Guardians' Environmental Policy falls under the remit of our Health and Safety, Security and Environment Committee. The Committee meets quarterly and aims to improve staff awareness about the environmental impact of our activities and set achievable targets for minimising this impact.

As in previous years, we employed Enviro-Mark Solutions to verify our carbon emissions. The audit includes measuring our electricity usage, flights taken by staff, use of taxis and waste to landfill. In the 2013/14 year, we had concerns that the data from our waste collection company was inaccurate. This issue has been rectified and we now have a more accurate account of the waste we generate.

We have continued to implement our comprehensive waste recycling programme, in which food/organic waste, recyclable material such as cans, glass and plastic, and landfill rubbish, are separated. Each of these are weighed and a report sent on a monthly basis.

Although overall kilometres flown per FTE reduced marginally in 2014/15, short-haul aeroplane trips increased in number as a result of staff combining visits to various investments and opportunities within countries to make the most of their time away.

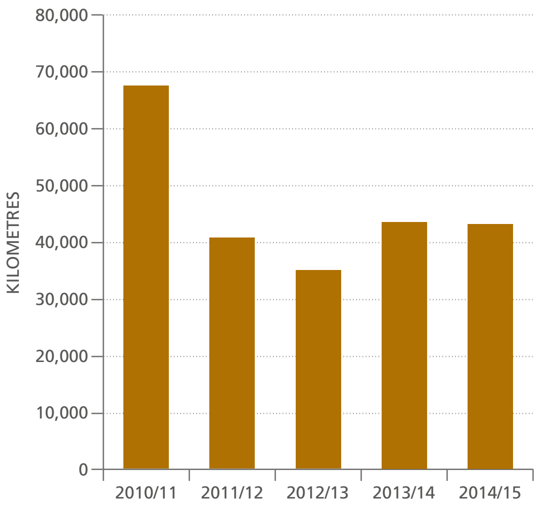
Electricity use went up marginally (by 1.61%) per FTE employee, due to an increase in office space in the Zurich House Building.

As a responsible investor, we strive to integrate environmental concerns into our wider activities as an investment manager and hold ourselves accountable to the same guidelines. The biggest potential impact we can make is on our investment portfolio, through our engagement with the organisations we invest in. See the Responsible Investment Report on pages 67–75 for more information.

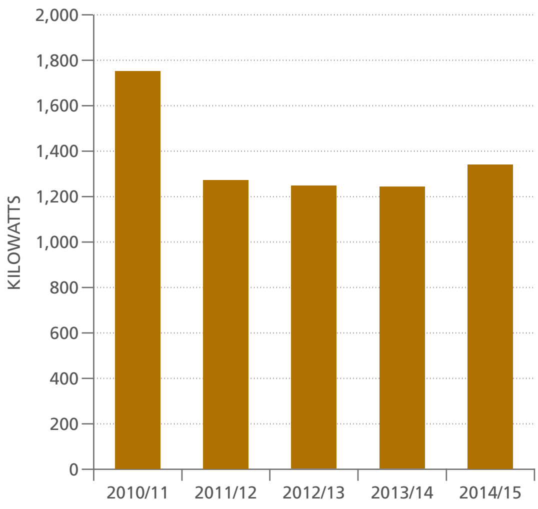
The measures detailed below are the greenhouse gas emissions for the corporate operations of The Guardians of New Zealand Superannuation. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 and have been verified by Enviro-Mark Solutions. The Assurance Statement is available at www.ar2015.nzsuperfund.co.nz/downloads.

		2014/2015		2013/2014		2012/2013	
ENERGY SOURCE	MEASURE	QUANTITY	CO_2	QUANTITY	CO_2	QUANTITY	CO_2
Electricity	kwh	147,845	20.47t	119,958	17.65t	104,456	16.09t
International Air Travel (long haul)	km	3,737,408	785.54t	3,275,761	742.05t	2,477,981	559.18t
International Air Travel (short haul)	km	911,188	151.45t	498,244	95.89t	533,637	105.24t
Domestic Air Travel	km	203,374	59.61t	457,474	149.42t	224,078	77.43t
Mileage (Medium Car) 1.6 – 2.0L	km	3,589	0.82t	2,591	0.61t	2,812	0.67t
Taxi – Cost	$	90,223	9.71t	74,826	8.55t	73,116	8.68t
Waste to landfill	kg	2,907	3.46t	15,453	16.31t	4,862	5.08t
TOTAL			**1031.07t**		**1,030.48t**		**772.37t**

ESTIMATED KMS FLOWN PER FTE



ELECTRICITY USE PER FTE



SECTION 5:

Compliance Statements

Statement of Performance

This Statement of Performance (SoP) measures the Guardians' progress against objectives and measurements set out in the Guardians' 2010–2015 and 2014–2019 Statements of Intent and the 2014–2015 Statement of Performance.

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;
- 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 intended for and used to meet Board costs and audit fees (this appropriation, NZD326,000 compared to a budget of NZD528,000 in 2014/15, 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 smooth 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. Our legislation prescribes the level of annual capital contributions to the Fund required from the Government and only permits capital withdrawals once all the required contributions have been made and, in any event, only after 30 June 2020. Treasury is currently forecasting that withdrawals will begin in 2031/32.

MEASURE	EXPECTED OUTCOME – 1 YEAR	ACTUAL OUTCOME – 1 YEAR	EXPECTED OUTCOME – 5 YEARS	ACTUAL OUTCOME – 5 YEARS
Reference Portfolio returns relative to Treasury Bills (per annum)	+2.5%	+6.71%	+3.2% p.a.	+10.44% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.0%	+4.45%	+0.8% p.a.	+3.65% p.a.
Expected worst-case downside return (first percentile)	–31.0%*	+14.64%	–5.0% p.a.*	+16.85% p.a.

* Expected outcomes are losses of greater than or equal to the amounts stated.

Our Reference Portfolio and Treasury Bill measures are discussed on pages 52–54, and on our website at www.nzsuperfund.co.nz/how-we-invest/reference-portfolio.

The 'expected worst-case downside return' is a portfolio volatility measure. It shows the amount of value the Fund could lose in a one-in-100-year event (or, to put it another way, there is a 1% chance of the Fund losing this amount of value or more within the specified time period). If losses of this magnitude were to happen more often than is expected, then either a rarer-than-expected event has occurred or we have taken more risk than we assumed we had. For a fuller description of this measure, please refer to page 9 of our 2014–2019 Statement of Intent, which is available at www.nzsuperfund.co.nz.

OUTPUT MEASURES 2014/15

WORK PROGRAMME	MEASURE	EXPECTED OUTCOME	ACTUAL RESULT	FURTHER INFORMATION
Investment	Reference Portfolio Returns above Treasury Bills (per annum)	2.5% p.a.	Achieved	Pages 3; 48–50 and www.nzsuperfund.co.nz.
Investment	Actual Fund Returns above Reference Portfolio (per annum, net of costs)	1.0% p.a.	Achieved	Pages 3; 48–50 and www.nzsuperfund.co.nz.
Cost Control	Costs relative to peers in CEM survey	Achieve/better rating of 'median cost, value adding'	Cost (one year) – achieved Cost (five years) – achieved Value-Add (one year) – achieved Value-Add (five years) – achieved	See page 91 for a full discussion and more information on the CEM survey and cost control. An executive summary of the survey results is also available at www.nzsuperfund.co.nz/performance/cost
Risk Management	In a one-in-100 year event, potential Reference Portfolio loss	–31.0% p.a.	14.64% p.a.	See page 100 and page 9 in our 2014-2019 Statement of Intent.
Risk Management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index; results as appropriate in other surveys	Achieved 10/10 in the SWFI's Q4 2014 Transparency Index. No other surveys noted.	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/performance/best-practice and the website of the International Forum of Sovereign Wealth Funds at www.ifswf.org.
Risk Management	UNPRI Assessment over time	Participate in pilot of new UNPRI assessment; establish performance measures for future years	Achieved an A+ rating for our overall approach in the UNPRI pilot assessment. This is an increase on our 2014 rating of A. Ratings of A were also received for the two other modules applicable to the Fund: Indirect Listed Equity and Listed Equity Active Ownership.	See pages 70–73; www.unpri.org. and www.nzsuperfund.co.nz for more information.
Risk Management	Published records of voting. Responsible Investment section in the Annual Report	Published	Six-monthly voting reports to 31/12/14 and 30/6/15 published. RI Report published.	See www.nzsuperfund.co.nz/performance-esg-management/voting-reports and the Responsible Investment Report at pages 67-75.
Governance	Outcome of independent reviews	Ongoing good reviews with the review and our response published. There were no material concerns of the effective and efficient performance of the Guardians' function.	Completed.	See page 43 for more information.
Organisational Capability	Key person risks identified and covered; three-to-six month cover in place for all critical roles	EPRC approval received for our assessment of our key person risks and our plans to mitigate those risks.	Achieved	See pages 84–90.
Organisational Capability	Key performance indicators (KPIs) achieved	Staff members achieve their personal key performance indicators, with the average % achieved and trends from year to year reported in each year's Annual Report. Any key Strategic Plan activities for the financial year that are not achieved as planned are also reported in the Annual Report.	N/A	A new performance review system was introduced in 2014/15, superseding the KPI approach. Under the new system, average bonus achievement was 74%. See page 85 for further information on the new system. All key strategic plan activities were achieved. Refer to pages 102–103 for more information on these activities. A broader summary of progress is available at pages 16–17.

For detailed explanations of these performance measures see our 2014–2019 Statement of Intent and the Performance Section of www.nzsuperfund.co.nz.

KEY 2014/15 STRATEGIC PLAN ACTIVITIES

In this section, we report on the Guardians' progress against the three activities that were highlighted in our 2014-2019 Statement of Intent, and which were key to our Strategic Plan for the 2014/15 year.

1

DIRECT INVESTMENT – PURSUING MORE DEALS

ACHIEVED	100%
WORK PROGRAMME	INVESTMENT, ORGANISATIONAL CAPABILITY
STRATEGIC PLAN OBJECTIVE:	COLLABORATION WITH PEERS

At the end of the 2013/14, the Direct Investment team was restructured to form the New Zealand and International Direct Investment teams, with new roles added in both teams. The greater resource has enabled a larger number of deals to be considered in 2014/15, with a dual focus on direct origination and building syndicates of like-minded peers.

Overall the two teams explored a total of 53 deals over the 2014/15 financial year compared to 26 in 2013/14. Of these, eight deals from the New Zealand Direct team and nine deals from the International Direct team reached the due diligence stage.

A total of five direct investments were successfully made in the 2014/15 year. Four of these were International Direct investments in RetireAustralia (page 94–95), two with Lanzatech (page 29) and a small follow-on investment in Ogin. In New Zealand, we purchased an additional stake in Kaingaroa Timberlands (page 65).

2

PORTFOLIO COMPLETION – EXPANSION OF ACTIVITIES

ACHIEVED	100%
WORK PROGRAMME	INVESTMENT, ORGANISATIONAL CAPABILITY
STRATEGIC PLAN OBJECTIVE:	BEST PORTFOLIO

Good progress has been made in increasing the types of arbitrage transactions undertaken and to develop new investment opportunities within the credit mandate in Portfolio Completion. Six new opportunity types were researched and developed over the 2014/15 year. Of these, two were fully implemented and the others not pursued.

In addition, during the period under review, we worked with our passive equity and fixed income managers to be able to settle equity and fixed income trades contractually one day early, so as to improve the management of Fund liquidity.

3

INNOVATION HUBS – ENSURING CONTINUOUS LEARNING AND IMPROVEMENT

ACHIEVED	100%
WORK PROGRAMME	ORGANISATIONAL CAPABILITY
STRATEGIC PLAN OBJECTIVE:	EFFICIENCY, SCALABILITY AND INNOVATION

A key objective for the 2014/15 year was to examine and incubate new ideas for business innovation through a standing Innovation Hub. Three key projects were undertaken to achieve this objective.

Over a week in May 2015, the team attended a series of workshops to discuss doing things better and doing better things. Ideas for new initiatives and improving the way we do things were discussed, evaluated and prioritised for development. Seven ideas received Fund-wide support and have been progressed into projects. A list of potential improvements were identified and provided to individual business units to progress.

A dashboard innovation project was also delivered with the aim of providing a high-level overview of the Guardians and its performance. As a part of the project the role of each Board and management committee was reviewed to ensure that the information provided adequate oversight. The project also served to inform the review of risk oversight processes and reporting.

Managers and Custodians

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

We disclose the value of the assets each manager manages on behalf of the Fund, as at 30 June 2015. We also disclose the value of each investment as a percentage of the total Fund.

We have also listed our internal investment mandates. These mandates are managed by the Guardians' in-house team of investment professionals.

MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDM	% OF TOTAL NZSF (PRE-TAX)
New managers appointed, or new mandates implemented, in 2014/15					
Blackrock Investment Management (UK)	2014	Bespoke emerging markets fixed income	Listed	–	–
Northern Trust	2015	Bespoke global passive fixed income	Listed	423	1.4
		Passive equities in emerging markets		784	2.7
Managers terminated in 2014/15					
AMP Capital Investors	2003	Bespoke New Zealand active equities	Listed	–	–
Capital Partners Pty Limited (CP2)	2005	CP2 (A) Direct Investment Fund – US toll roads	Unlisted	–	–
QS Investors	2011	Global active equities	Listed	–	–
Managers retained in 2014/15					
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-US Fund – non-US private equity	Unlisted	11	–
American Securities	2010	American Securities Opportunities Fund II – US companies experiencing operating or financial stress	Unlisted	50	0.2
AMP Capital Investors	2005	AMP Property Portfolio (APP) – New Zealand property	Unlisted	1	–
Apollo Global Management	2012	Financial Credit Investment – US life settlements	Unlisted	59	0.2
	2014	Financial Credit Investment II – US life settlements	Unlisted	154	0.5
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	26	0.1
BlackRock Investment Management (UK)	2010	Bespoke global passive fixed income	Listed	3,442	11.7
	2013	Bespoke global listed passive equities	Listed	2,426	8.2
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global tactical asset allocation	Listed	331	1.1
Canyon Capital Advisors	2010	Canyon Distressed Opportunity Fund (Delaware) – distressed credit	Unlisted	139	0.5
Capital Partners Pty Limited (CP2)	2011	Infrastructure – Horizon Roads	Unlisted	317	1.1
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	62	0.2
Coller Investment Management*	2007	Coller International Partners V Fund – global private equity secondaries	Unlisted	–	–
Devon Funds Management	2011	Bespoke New Zealand active equities	Listed	290	1.0
D.E. Shaw & Co	2012	D.E. Shaw Heliant International Fund – global macro hedge fund	Listed	404	1.4

* Our investment in Coller Investment Management is held at cost. To date, Coller have returned 100% of our invested capital and still retain some funds for potential future distribution.

MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDM	% OF TOTAL NZSF (PRE-TAX)
Direct Capital	2005	Direct Capital Partners III – mid-sized private equity in New Zealand and Australia	Unlisted	6	–
	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 assist with ownership succession	Unlisted	23	0.1
	2011	Scales Corporation co-investment	Listed July 2014	12	–
	2014	George H Limited co-investment	Unlisted	15	0.0
Elementum Advisors	2010	Catastrophe-linked securities	Unlisted	76	0.3
FarmRight	2010	Rural land in New Zealand	Unlisted	162	0.5
GAW Capital	2010	Gateway Real Estate Fund III – real estate investments in greater China and South-east Asia	Unlisted	67	0.2
Global Forest Partners	2007	Global Timber Investors 8 – timber assets in Australia, New Zealand and South America	Unlisted	107	0.4
	2009 & 2012	AIF Properties – Australian timber	Unlisted	120	0.4
	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	9	–
Hancock Natural Resource Group, Inc	2005	Timber assets in the United States	Unlisted	46	0.2
	2005	Timber assets in New Zealand	Unlisted	1	–
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund – non-US private equity opportunities	Unlisted	46	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	34	0.1
H.I.G. 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	37	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	34	0.1
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund – private equity in Asia, including Australasia	Unlisted	27	0.1
	2008	KKR 2006 Fund – large and predominantly US private equity buyouts with scope to invest in Europe and Asia-Pacific	Unlisted	66	0.2
	2014	Energy Income and Growth Fund & bespoke private equity mandate	Unlisted	57	0.2
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	220	0.7
LSV Asset Management	2005	Emerging markets equities	Listed	401	1.4
Milford Asset (Suspended)	2009	Bespoke New Zealand active equities	Listed	–	–

Managers and Custodians (continued)

MANAGER	YEAR	FUND NAME AND/OR FOCUS AREAS	TYPE	VALUE OF AMOUNT INVESTED NZDM	% OF TOTAL NZSF (PRE-TAX)
H.R.L. Morrison & Co	2006 & 2014	Global Infrastructure mandate which includes our investments in Z Energy; and RetireAustralia	Listed/ Unlisted	925	3.1
	2009	Public Infrastructure Partners Fund – social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	50	0.2
Mountgrange Investment Management	2010	Mountgrange Real Estate Opportunity Fund – UK real estate	Unlisted	13	–
	2010	MoREOF (Parallel I) Unit Trust – UK real estate	Unlisted	13	–
Northern Trust	2013	Bespoke global passive listed equities	Listed	3,560	12.0
Orion Capital Managers	2009	Orion European Real Estate Fund III – private equity real estate	Unlisted	7	–
Pencarrow Private Equity	2005	AMP Pencarrow Private Equity JV Fund – New Zealand management buy-outs and expansion capital transactions	Unlisted	2	–
	2011	Pencarrow IV Investment Fund – small and mid-market New Zealand businesses	Unlisted	18	0.1
Pioneer Capital Partners	2013	New Zealand Expansion Capital	Unlisted	15	0.1
Red Fort Capital	2011	Red Fort India Real Estate Fund II – Indian real estate	Unlisted	43	0.1
Sankaty Advisors	2013	European Distressed Credit	Unlisted	135	0.5
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	15	0.1
Secured Capital	2010	SCJREPIV Loan Fund – non-performing and sub-performing commercial property loans in Japan	Unlisted	–	–
Sveafastigheter	2011	Sveafastigheter Fund III – real estate assets primarily in Sweden and Finland	Unlisted	29	0.1
State Street Global Advisors	2009	Bespoke global listed passive equities	Listed	5,373	18.2
Waterman Capital	2010	Waterman Fund II – small and mid-market New Zealand businesses	Unlisted	29	0.1
Willis Bond & Co	2010	Willis Bond Institutional Partners – private equity real estate in New Zealand	Unlisted	8	–

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

Investment Mandates managed by the Guardians' in-house team of investment professionals include:

- Active Collateral
- Active New Zealand Equities
- Cash
- Currency Management
- Direct Arbitrage
- Emerging Market Opportunity
- Event Driven Opportunity
- Global Inflation Linked Bonds
- Infrastructure Transition Assets
- Life Settlements
- Passive NZ Equities
- Portfolio Completion
- Strategic Tilting
- United States Transition Assets
- Volatility

SIPSP Compliance

The Guardians' Statement of 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, the SIPSP has been complied with during the 2014/15 financial year.

GAVIN WALKER, CHAIR

ADRIAN ORR, CEO

Financial Statements

NEW ZEALAND SUPERANNUATION FUND

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 the judgements used in them.

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2015 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

GAVIN WALKER, CHAIRMAN

15 September 2015

ADRIAN ORR, CHIEF EXECUTIVE OFFICER

15 September 2015

Statement of Comprehensive Income

For the year ended 30 June 2015		FUND ACTUAL		BUDGET (UNAUDITED)
		2015	2014	2015
	NOTE	NZD'000	NZD'000	NZD'000
Interest income	2(a)	280,067	234,580	361,024
Dividend income		426,452	399,784	285,700
Timber sales		3,180	58,779	–
Milk sales		12,365	29,053	16,514
Livestock sales		1,592	1,170	–
Fair value changes in investments at fair value through profit or loss	3	1,969,606	3,988,299	1,935,132
Net foreign exchange gains/(losses)		1,252,844	(207,418)	–
Fair value changes in forests		694	(35,418)	–
Fair value changes in livestock		(3,613)	3,411	–
Other income		186	8,563	–
Net operating income		**3,943,373**	**4,480,803**	**2,598,370**
Operating expenses	2(b)	115,045	134,352	148,028
Profit for the year before income tax expense		**3,828,328**	**4,346,451**	**2,450,342**
Income tax expense	5	122,652	1,094,556	593,408
Profit for the year after income tax expense		**3,705,676**	**3,251,895**	**1,856,934**
Other comprehensive income – reclassifiable to profit or loss in subsequent periods				
Net fair value gains/(losses) on available-for-sale financial assets		11,923	(7,369)	9,757
Other comprehensive income – not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		(726)	17,392	9,619
Tax expense on items of other comprehensive income	5	(324)	(372)	–
Other comprehensive income for the year, net of tax		**10,873**	**9,651**	**19,376**
Total comprehensive income for the year		**3,716,549**	**3,261,546**	**1,876,310**

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

Statement of Financial Position

As at 30 June 2015		FUND ACTUAL		BUDGET (UNAUDITED)
		2015	2014	2015
	NOTE	NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	19	1,257,420	3,759,673	4,501,453
Cash pledged as collateral	22	403,568	171,204	–
Trade and other receivables	8	653,845	258,205	957,551
Other assets	9	734	1,143	966
Investments				
Investments – derivative financial instrument assets	6	492,557	1,172,054	499,787
Investments – other financial assets	6	29,160,050	22,183,319	21,154,123
Other financial assets pledged as collateral	6, 22	60,536	57,831	–
Investments in unconsolidated subsidiaries	6	396,807	229,191	331,574
Agricultural assets	6	18,387	24,121	43,476
Total investments		30,128,337	23,666,516	22,028,960
Taxation receivable		278,223	–	–
Assets held for sale	7	4,220	–	–
Property, plant and equipment	10	126,471	128,449	182,808
Intangible assets	11	6,177	4,730	584
Total assets		**32,858,995**	**27,989,920**	**27,672,322**
LIABILITIES				
Cash collateral received	22	305,604	577,976	–
Trade and other payables	12	583,851	781,833	338,644
Investments – derivative financial instrument liabilities	6	2,129,562	179,386	–
Taxation payable		–	409,162	116,944
Provisions	13	19,834	13,613	2,195
Deferred tax liability	5	278,887	203,242	181,294
Total liabilities		**3,317,738**	**2,165,212**	**639,077**
Net assets		**29,541,257**	**25,824,708**	**27,033,245**
PUBLIC EQUITY				
Retained surplus		14,609,793	10,904,117	12,100,679
Available-for-sale reserve		27,682	15,759	31,326
Asset revaluation reserve		21,703	22,753	19,161
Contributed capital	15	14,882,079	14,882,079	14,882,079
Total public equity		**29,541,257**	**25,824,708**	**27,033,245**

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 2015		FUND ACTUAL				
	NOTE	ASSET REVALUATION RESERVE NZD'000	AVAILABLE-FOR-SALE RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 1 July 2013		**5,733**	**23,128**	**14,882,079**	**7,652,222**	**22,563,162**
Profit for the year					3,251,895	3,251,895
Other comprehensive income		17,392	(7,369)			10,023
Tax expense on items of other comprehensive income		(372)	–			(372)
Total comprehensive income for the year		17,020	(7,369)	–	3,251,895	3,261,546
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			10,913,103		10,913,103
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(10,913,103)		(10,913,103)
Balance at 30 June 2014		**22,753**	**15,759**	**14,882,079**	**10,904,117**	**25,824,708**
Profit for the year					3,705,676	3,705,676
Other comprehensive income		(726)	11,923			11,197
Tax expense on items of other comprehensive income		(324)	–			(324)
Total comprehensive income for the year		(1,050)	11,923	–	3,705,676	3,716,549
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			11,591,026		11,591,026
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	15			(11,591,026)		(11,591,026)
Balance at 30 June 2015		**21,703**	**27,682**	**14,882,079**	**14,609,793**	**29,541,257**

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 2015		FUND ACTUAL		BUDGET (UNAUDITED)
		2015	2014	2015
	NOTE	NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		23,280,657	21,833,666	32,991,469
Cash collateral received		7,933,848	7,272,432	–
Proceeds from sale of livestock		1,931	1,332	–
Dividends received		401,391	387,732	286,280
Interest received		262,927	224,804	346,313
Receipts from customers		27,623	95,915	40,168
Other income		8,318	75	–
Total cash inflow from operating activities		**31,916,695**	**29,815,956**	**33,664,230**
Cash was applied to:				
Purchases of investments		(25,282,722)	(24,008,540)	(32,840,541)
Cash collateral paid		(8,359,224)	(6,573,404)	–
Purchases of forests		–	(954)	–
Purchases of livestock		–	(34)	–
Managers' fees		(38,288)	(53,365)	(25,730)
Payments to suppliers		(71,029)	(75,317)	(111,310)
Income tax paid		(717,708)	(903,101)	(894,845)
Goods and Services Tax		(4,220)	(4,917)	–
Total cash outflow from operating activities		**(34,473,191)**	**(31,619,632)**	**(33,872,426)**
Net cash provided by/(used in) operating activities	19(c)	**(2,556,496)**	**(1,803,676)**	**(208,196)**
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**	**–**	**–**
Cash was applied to:				
Purchases of property, plant and equipment		(1,544)	(2,525)	(60,650)
Purchases of intangible assets		(784)	(1,154)	(700)
Total cash outflow from investing activities		(2,328)	(3,679)	(61,350)
Net cash provided by/(used in) investing activities		**(2,327)**	**(3,679)**	**(61,350)**
Net increase/(decrease) in cash and cash equivalents		**(2,558,823)**	**(1,807,355)**	**(269,546)**
Cash and cash equivalents at the beginning of the financial year		3,759,673	5,625,397	4,770,999
Effects of exchange rate changes on the balance of cash held in foreign currencies		56,570	(58,369)	–
Cash and cash equivalents at the end of the financial year	19(a)	**1,257,420**	**3,759,673**	**4,501,453**

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 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the New Zealand Superannuation Fund (Fund), 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 of the cost of New Zealand superannuation for future New Zealand taxpayers.

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 Corporation.

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 215.

STATEMENT OF COMPLIANCE

The Fund is a profit-oriented entity. The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with 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 2015 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 15 September 2015.

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 (NZD'000) unless stated otherwise.

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 Fund meets the definition of an investment entity as defined by NZ IFRS 10 and therefore has applied the exception to not consolidate subsidiaries. As a result, its investments in subsidiaries are measured at fair value through profit or loss.

These separate financial statements are the only financial statements presented by the Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2015. The budget figures are unaudited.

The Fund has adopted the following new and amended NZ IFRS and interpretations as of 1 July 2014:

(i) Amendments to IFRS's arising from the Annual Improvements Project (2010–2012).

The adoption of these amendments has not had any impact on recognition or measurement in the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations that have been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2015. 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 FUND*
NZ IFRS 9 (2014)	Financial Instruments	The final version of NZ IFRS 9 Financial Instruments, brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10–11 of NZ IFRS 7 Financial Instruments: Disclosures.	1 January 2018	The new standard will affect the classification and measurement of the Fund's financial assets and disclosures in the financial statements.	1 July 2018

* Designates the beginning of the applicable annual reporting period.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
NZ IFRS 15	Revenue from Contracts with Customers	NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes: (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter Transactions Involving Advertising Services The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation	1 July 2017	The new standard may impact disclosures in the financial statements.	1 July 2017

* Designates the beginning of the applicable annual reporting period.

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

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 30 June 2020. These capital contributions are recorded in the Statement of Changes in Public Equity.

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

FUND CAPITAL WITHDRAWALS

In terms of Section 47 of the Act, no withdrawals of Fund capital contributions are permitted prior to 1 July 2020.

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 or loss 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 or loss 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 which 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) which 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 Fund 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 Fund 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 Fund 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 Fund becomes a party to the contractual provisions of the instrument. Purchases and 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 on which the Fund commits to purchase or sell the instrument.

The Fund offsets financial assets and financial liabilities when it 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 Fund has transferred substantially all of the risks and rewards of ownership. The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or has expired.

The Fund 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. The Fund does not classify any derivatives as hedges in a hedging relationship.

Fair value through profit or loss upon initial recognition

Financial assets and financial liabilities 'designated at fair value through profit or loss' upon initial recognition 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 which are managed and have their performance evaluated on a fair value basis, in accordance with the risk management and investment strategies of the Fund.

Initial recognition and subsequent measurement

Financial assets and financial liabilities at 'fair value through profit or loss' are initially recognised at fair value on the trade date. Transaction costs e.g. trading commission, are expensed as incurred in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at 'fair value through profit or loss' are measured at fair value. Changes in fair value are recognised in the Statement of Comprehensive Income in the period in which they arise.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise unquoted equity instruments where fair value cannot be reliably measured, or where the instrument is not managed on a fair value basis.

Available-for-sale financial assets are initially recognised at cost less impairment. After initial measurement, they are subsequently measured at fair value, where fair value can be reliably measured, with unrealised gains or losses recognised in other comprehensive income and the available-for-sale reserve.

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 Fund includes in this category amounts relating to cash and cash equivalents, reverse repurchase agreements, cash pledged as collateral, unquoted debt instruments and other short-term receivables.

Loans and receivables are initially recognised at fair value, then subsequently at amortised cost using the effective interest rate less any allowance for impairment.

FINANCIAL LIABILITIES AT AMORTISED COST

Financial liabilities at amortised cost include all non-derivative financial liabilities. The Fund 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 assets and financial liabilities at fair value through profit or loss:	
– Listed equities	**(i)**
– Fixed income securities	**(ii)**
– Derivatives	**(iii)**
– Collective investment funds	**(iv)**
– Private equity investments	**(v)**
– Unlisted unit trusts	**(vi)**
– Insurance-linked investments	**(vii)**
– Unlisted debt instruments	**(viii)**
• Available-for-sale financial assets:	
– Private equity investments	**(ix)**
– Other available-for-sale investments	**(x)**
• Loans and receivables:	
– Unlisted debt instruments	**(xi)**
– Reverse repurchase agreements	**(xii)**
• Agricultural assets:	
– Forests and livestock	

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

Determination of fair value

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. The bid price is representative of fair value.

(ii) Highly liquid fixed income securities and equity-linked notes are valued at the last quoted bid price by a reputable pricing vendor (a financial data provider such as Bloomberg or Thomson Reuters) or broker as of the close of business at balance date. The bid price is representative of fair value. 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 which 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) Private equity investment funds, which are 'designated at fair value through profit or loss', are valued at the last quoted 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. Private equity investments (not invested via a managed fund structure), which are 'designated at fair value through profit or loss', are valued by reference to either an independent valuation or the price of recent observable transactions. Certain other 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 bid price is representative of fair value. 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 ASSETS

(ix) 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, 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 Fund is required to hold these investments to facilitate farming investment operations. As such, the Fund is normally unable to sell these investments without disrupting farming investment operations. 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.

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' in the Statement of Comprehensive Income, these assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired.

(xii) Recognition of reverse repurchase agreements is outlined under 'Repurchase and reverse repurchase agreements' below.

DERIVATIVES

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

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 that incorporates default rate and credit spread assumptions for the reference entity or index.

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 that 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 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.

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 Fund 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 Fund. 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 Fund. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate.

AGRICULTURAL ASSETS

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 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(f).

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.

Further details on the valuation basis are set out in note 6(g).

IMPAIRMENT

The Fund 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.

(f) Investment entity

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

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

Although the Fund does not meet all of the typical characteristics of an investment entity (namely, the Fund does not have multiple investors, its investor is not an unrelated party and it does not have ownership interests in the form of equity), management believe the Fund is an investment entity because it has been specifically established as an investment vehicle; it has a diversified investment portfolio with best practice investment policies and procedures in place; it invests funds for the purpose of maximising returns; and it has elected to fair value the majority of its investments where feasible for the purposes of its financial statements.

(g) Investments in unconsolidated subsidiaries

Subsidiaries are those entities (including structured entities) that are controlled by the Fund. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Fund reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

As an investment entity, the Fund has taken advantage of the exemption from preparing consolidated financial statements available under NZ IFRS 10. Subsidiaries are therefore measured at fair value through profit or loss in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement.

(h) 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.

The Fund's investments in associates are measured at fair value through profit or loss in accordance with NZ IAS 39 Financial Instruments: Recognition and Measurement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments in joint arrangements

A joint arrangement is a contractual arrangement whereby the Fund and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Fund does not have any interests in joint operations.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The Fund's investments in joint ventures are measured at fair value through profit or loss in accordance with NZ IAS 39: Financial Instruments: Recognition and Measurement.

(j) 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.

(k) Receivables

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

(l) 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 expenses directly attributable to bringing the item to working condition for its intended use.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, plant and machinery, office equipment, computer equipment, motor vehicles and office fit-outs are stated at cost less accumulated depreciation and any impairment in value.

Land, land improvements and buildings are measured at fair value less accumulated depreciation on land improvements and 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, land improvements 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 the Statement of Comprehensive Income, in which case the increase is credited to profit or loss in the Statement of Comprehensive Income to the extent of the decrease previously charged.

A decrease in carrying amount arising on the revaluation of land, land improvements and buildings is charged as an expense in profit or loss in the Statement of Comprehensive Income 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, land improvements 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 its continued use.

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

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

IMPAIRMENT

All items of property, plant and equipment are assessed for 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, land improvements 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 which would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately unless it relates to land, land improvements 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.

(m) 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.

(n) 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 net realisable value where they have been received, or where the Fund is reasonably certain that they will be received, and a price can be reliably ascertained either through the existence of an observable active market or through pricing obtained from reputable brokers. Other changes in the quantity of carbon credits are recognised at either cost or book value at the time of the transaction.

Subsequent to initial recognition, the carbon credits are measured at net realisable value i.e. the carbon credits are 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.

(o) 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 having been 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) Payables

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

(r) Provisions

Provisions are recognised when the Fund has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and when 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.

(s) Income recognition

Revenue is recognised to the extent which it is probable that the economic benefits will flow to the Fund 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 Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in profit or loss in the Statement of Comprehensive Income.

SALE OF GOODS

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

(t) 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 profit or loss in the Statement of Comprehensive Income.

(u) Statement of Cash Flows

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

Operating activities include all activities 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 Fund and is accordingly not recorded in the Statement of Cash Flows.

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

(v) 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 inclusive of GST. 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 Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(w) Changes in accounting policies

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

Certain prior year comparatives have been restated to conform with current year presentation.

(x) 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 within the next financial year are:

ASSESSMENT AS AN INVESTMENT ENTITY

Management has concluded that the Fund meets the definition of an investment entity as outlined in the Summary of Significant Accounting Policies. These conclusions will be reassessed on an annual basis, if any of the criteria or characteristics change.

ASSESSMENT OF CONTROL, JOINT CONTROL OR SIGNIFICANT INFLUENCE

The Fund has assessed its investments in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries.

The Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. Management has concluded that the Fund has no power to direct the relevant activities of these entities and therefore it does not have control of these entities.

The Fund also holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. Management have concluded that the Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

The Fund holds a 37.6% interest in Datacom Group Limited. Under a Shareholder's Agreement, there are a number of key operating and financial activities that require approval in writing by the Fund, as well as the majority shareholder. As a consequence, it is management's view that the Fund and the major shareholder have collective or joint control of Datacom Group Limited and therefore the investment in Datacom Group Limited is treated by the Fund as a joint arrangement.

The Fund holds a 50.0% interest in RA (Holdings) 2014 Pty Limited. Under a Shareholder's Agreement, there are a number of key operating and financial activities that require approval in writing by the Fund, as well as the other major shareholder. As a consequence, it is management's view that the Fund and the other major shareholder have collective or joint control of RA (Holdings) 2014 Pty Limited and therefore the investment in RA (Holdings) 2014 Pty Limited is treated by the Fund as a joint arrangement.

The Fund classifies its joint arrangements as joint ventures because the contractual agreements provide the parties with rights to the net assets of the joint arrangements. Investments in joint ventures are accounted for at 'fair value through profit or loss'.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Significant estimates and judgements (continued)

ASSESSMENT OF INVESTMENTS IN STRUCTURED ENTITIES

The Fund has assessed which of its investments should be classified as investments in structured entities. In doing so, the Fund has considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

Management have concluded that certain of the Fund's investments meet the definition of a structured entity because:

- The voting rights in the investments are not the dominant factor in deciding who controls the investment;
- The investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosure is contained in note 6(i).

DETERMINATION OF FAIR VALUE OF INVESTMENTS

Fixed income securities where the fair value is determined by a pricing vendor.

The vendor uses models that utilise inputs including loan level data, prepayment and default assumptions and benchmark prices for similar securities. Management mitigates the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observed market data. Further disclosures regarding valuation inputs and sensitivity analysis of Level 3 instruments are contained in note 21.

Private equity, collective investment funds and unlisted unit trust investments

Managers and administrators may either use their own models or may engage independent valuers who use models to obtain the fair value of these investments. In addition management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by a manager or administrator or where an investment is directly managed by the Fund. Model inputs may include the price of recent transactions, earnings multiples or discounted cash flows. Further disclosures regarding valuation inputs and sensitivity analysis of Level 3 instruments are contained in note 21.

Derivatives where the fair value is determined by a pricing vendor, broker or counterparty

The pricing vendor, broker or counterparty uses models to price derivatives where the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. Management mitigates the risk of pricing errors by only selecting reputable vendors, brokers and counterparties and by periodically calibrating prices against observed market data. Further disclosures regarding valuation inputs and sensitivity analysis of Level 3 instruments is contained in note 21.

Transfers between levels of the fair value hierarchy

The classification of investments within the fair value hierarchy is reviewed annually. Transfers between the different levels of the hierarchy generally occur when there is a change in the trading status of an instrument (such as listing on a recognised exchange or de-listing).

DETERMINATION OF FAIR VALUE OF LAND, LAND IMPROVEMENTS AND BUILDINGS

Valuations of land, land improvements and buildings are provided by an independent valuer who uses a discounted cash flow model, recent transactions or capitalisation of a net income model (as appropriate). Further disclosures of valuation inputs is contained in note 10.

2. PROFIT/(LOSS) FROM OPERATIONS

(a) Interest income

	FUND ACTUAL	
	2015 NZD'000	2014 NZD'000
Interest income – financial instruments held at fair value through profit or loss		
Interest income – Crown	–	1,570
Interest income – State-Owned Entities	9,347	8,427
Interest income – Other	197,235	144,106
	206,582	154,103
Interest income – financial instruments not at fair value through profit or loss		
Other interest	73,485	80,477
Total interest income	**280,067**	**234,580**

(b) Operating expenses

Profit for the year before income tax expense has been arrived at after charging/(crediting):

	2015 NZD'000	2014 NZD'000
Timber harvesting and operating expenses	2,070	13,892
Farm operating expenses	13,165	14,382
Depreciation of property, plant and equipment	1,278	1,227
Loss on disposal of property, plant and equipment	45	84
Loss on revaluation of property, plant and equipment	63	693
Revaluation gain on intangible assets	(1,811)	(1,805)
Amortisation of intangible assets	1,087	1,110
Managers' fees – base	26,884	24,814
Managers' fees – performance	21,822	28,336
Custody fees	5,151	4,229
Auditor's remuneration (note 4)	395	377
Reimbursement of Guardians' expenses (note 17)	33,812	30,137
Trade expenses	5,805	6,618
Other expenses	5,279	10,258
	115,045	**134,352**

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

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Financial assets or liabilities designated at fair value through profit or loss	1,708,505	1,826,363
Financial assets or liabilities at fair value through profit or loss – held for trading	261,101	2,161,936
	1,969,606	**3,988,299**

4. REMUNERATION OF AUDITOR

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Auditor of the Fund		
Audit of the Fund's financial statements	390	354
Audit of the Fund's and Guardians' subsidiaries	–	18
Other fees paid to auditor	5	5
	395	**377**

The auditor of the Fund is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

As a result of the July 2013 amendments to the Crown Entities Act 2004, commencing 1 July 2014, the Fund's and Guardians' subsidiaries which are Crown Entities are no longer required to be audited.

The financial statements of the Fund's unconsolidated subsidiaries are not separately audited by the Fund's auditor. Audit fees relating to unconsolidated subsidiaries are not reflected in the above fees.

The other fees paid to the auditor of the Fund were for an assurance review of the calculation of Fund performance.

5. INCOME TAX

	FUND ACTUAL 2015 NZD'000	FUND ACTUAL 2014 NZD'000
Major components of income tax expense		
Current tax expense:		
Current period	68,051	1,071,545
Prior period adjustment	(20,720)	(126)
Total current tax expense	47,331	1,071,419
Deferred tax expense:		
Current period	73,021	23,362
Prior period adjustment	2,300	(225)
Total deferred tax expense	75,321	23,137
Income tax expense recognised in profit or loss	**122,652**	**1,094,556**
Relationship between income tax expense and accounting profit		
Profit for the year before income tax expense	3,828,328	4,346,451
Income tax expense calculated at 28%	1,071,932	1,216,999
Fair Dividend Regime[(i)]	(800,575)	(7,962)
Dividend imputation credits	(23,256)	(35,952)
Other items	4,848	4,660
Expenses non-deductible for tax purposes	(1,055)	35
Controlled Foreign Companies (CFC) Regime	(5,388)	63
Portfolio Investment Entities (PIE) Regime	(105,434)	(82,936)
Prior period adjustments	(18,420)	(351)
Income tax expense	**122,652**	**1,094,556**
Tax expense relating to items charged or credited directly to equity		
Deferred tax on asset revaluation reserve	(324)	(372)
	(324)	**(372)**

(i) The Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

	FUND ACTUAL RECOGNISED 2014 NZD'000	CHARGED TO PROFIT OR LOSS NZD'000	CHARGED DIRECTLY TO EQUITY NZD'000	RECOGNISED 2015 NZD'000
Deferred tax liability recognised in the Statement of Financial Position				
Temporary differences				
Timber investments – forest revaluation	(199,610)	(77,156)	–	(276,766)
Asset revaluation	(1,603)	–	(324)	(1,927)
Other	(2,029)	1,835	–	(194)
Total deferred tax liability	**(203,242)**	**(75,321)**	**(324)**	**(278,887)**

6. INVESTMENTS

(a) Investments by asset type

	FUND ACTUAL	
	2015 NZD'000	2014 NZD'000
Financial assets		
Derivative financial instrument assets:		
Forward foreign exchange contracts	87,657	151,251
Cross currency swaps	83,449	419,423
Asset swaps	1,995	–
Longevity contingent swaps	96,761	85,368
Futures contracts	–	–
Total return swaps – equity	18,434	302,188
Total return swaps – bonds	–	3,760
Credit default swaps	199,756	204,272
Insurance-linked swaps	–	690
Interest rate swaps	4,416	5,031
Other OTC swaps	89	71
Total derivative financial instrument assets	**492,557**	**1,172,054**
Other financial assets:		
New Zealand equities – State-Owned Entities	174,432	128,569
New Zealand equities – Other	1,825,660	1,565,214
Global equities	12,330,840	9,251,816
New Zealand fixed income – Crown	537	–
Other fixed income	9,864,549	7,180,704
Collective investment funds	1,253,401	925,432
Reverse repurchase agreements	147,948	171,321
Insurance-linked investments – catastrophe bonds	74,878	55,811
Private equity (i)	3,486,546	2,658,757
Unlisted unit trusts	1,259	245,695
Total other financial assets	**29,160,050**	**22,183,319**
Investments in unconsolidated subsidiaries	396,807	229,191
Other financial assets pledged as collateral	60,536	57,831
Total financial assets	**30,109,950**	**23,642,395**

(i) Includes unlisted investment funds; unlisted equity investments; investments in joint ventures; and investments in associates.

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Agricultural assets		
Forests	410	2,442
Livestock	17,753	21,366
Crops	224	313
Total agricultural assets	**18,387**	**24,121**
Total investments	**30,128,337**	**23,666,516**
Financial liabilities		
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	1,781,672	17,497
Cross currency swaps	40,863	2,513
Asset swaps	86,194	90,516
Futures contracts	–	–
Total return swaps – equity	139,689	25,975
Credit default swaps	46,753	24,279
Interest rate swaps	34,391	18,606
Total derivative financial instrument liabilities	**2,129,562**	**179,386**
Net investments	**27,998,775**	**23,487,130**

(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) and note 21.

6. INVESTMENTS (continued)

(d) Investments in unconsolidated subsidiaries

The Fund has interests in the following significant unconsolidated subsidiaries:

NAME OF SUBSIDIARY	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2015 %	OWNERSHIP INTEREST 2014 %
CNI Timber Operating Company Limited	(i)	30 June	New Zealand	0.0	0.0
Sankaty Managed Account (NZSF) Limited Partnership	(iii)	31 March	Cayman Islands	99.9	99.9
KKR NZSF Energy Investor Limited Partnership	(iii)	31 December	Cayman Islands	100.0	100.0

In addition, the Fund has 100% ownership interest in 1 Segregated Account of Bermudan-domiciled Segregated Account Company Horseshoe Re Limited (2014: 3 Segregated Accounts) and 100% ownership interest in 31 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2014: 93 Segregated Accounts)(ii). All Segregated Accounts have a balance date of 31 December.

(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 accounted for as an unconsolidated subsidiary in 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 those assets. 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 Segregated Accounts, enter into agreements relating to the Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. 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 Segregated Accounts are treated as unconsolidated subsidiaries in 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.

(iii) 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 limited partnerships are treated as unconsolidated subsidiaries, they are not entities for the purposes of Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

The Fund seeks to maximise after-tax returns. In some cases, this includes the use of holding vehicles that are subsidiaries for accounting purposes. All investment opportunities are diligently evaluated to ensure they generate an adequate return to the Fund. Full transparency and information exchange for tax purposes and compliance with all relevant laws is required.

As at 30 June, there are no significant restrictions on the ability of these unconsolidated subsidiaries to transfer funds, including dividends, to the Fund.

As at 30 June the Fund had outstanding commitments to provide capital to Sankaty Managed Account (NZSF) Limited Partnership and KKR NZSF Energy Investor Limited Partnership. These outstanding commitments total $427,192,000 (2014: $462,762,000). The subsidiaries are able to request capital by providing the Fund with not less than 10 business days notice.

(e) Investments in associates

The Fund has the following investment in an associate that is measured at 'fair value through profit or loss' and classified as a private equity investment:

NAME OF ASSOCIATE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2015 %	2014 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.00	38.75

On 5 December 2014, the Fund purchased an additional 3.25% of Kaingaroa Timberlands Partnership, increasing its ownership to 42.00%.

Kaingaroa Timerlands Partnership is valued in United States dollars and translated into New Zealand dollars for reporting purposes.

As at 30 June, there are no significant restrictions on the ability of this associate to transfer funds to the Fund.

(f) Agricultural assets – forests

Forests are accounted for under NZ IAS 41 Agriculture and are carried at fair value less estimated point-of-sale costs.

	FUND ACTUAL 2015 NZD'000	2014 NZD'000
Gross carrying amount – forests		
Carrying amount at beginning of the year	2,442	36,979
Additions	–	–
Disposals	–	–
Fair value changes due to harvesting	(456)	(16,870)
Other fair value changes	1,150	(17,667)
Other changes	24	–
Transfer to assets held for sale	(2,750)	–
Carrying amount at end of the year	**410**	**2,442**

At 30 June 2015, the Fund's forests measured approximately 272 hectares (ha) (2014: 226 ha). During the year ended 30 June 2015, the Fund harvested a total of 0.03 million cubic metres (m^3) (2014: 0.63 million m^3).

All forests are categorised within Level 3 of the fair value hierarchy (as set out in Note 21).

The forests have been measured at fair value based on a net present value or discounted cash flow approach.

FOREST RISK MANAGEMENT

The Fund is exposed to financial risks in respect of its forestry activities. The primary financial risk that these activities expose the Fund to is price risk 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.

6. INVESTMENTS (continued)

(g) Agricultural assets – livestock

Livestock are accounted for under NZ IAS 41 Agriculture and carried at fair value less estimated point-of-sale costs.

Livestock are valued by an independent valuer at balance date who uses recent observable livestock sales (adjusted for condition and location of livestock where necessary) to determine the fair value of livestock.

The change in the value of livestock owned by the Fund during the year was due to:

	FUND ACTUAL	
	2015 NZD'000	2014 NZD'000
Livestock reconciliation		
Carrying amount at beginning of the year	21,366	17,921
Purchases	–	34
Fair value changes in livestock – price changes	(3,136)	3,989
Growth of animals	2,336	2,033
Birth of animals	4,423	4,821
Livestock losses	(667)	(1,121)
Book value of livestock sold	(6,569)	(6,311)
Carrying amount at end of the year	**17,753**	**21,366**

During the year ended 30 June 2015, the Fund produced 3,511,623 kilograms (kg) of milk solids (2014: 3,718,055 kg).

All livestock is classified within Level 2 of the fair value hierarchy (as set out in Note 21).

LIVESTOCK RISK MANAGEMENT

The Fund is exposed to financial risks in respect of its farming activities. The primary financial risk that these activities expose the Fund to is price risk due to the global volatility of milk prices and the price of key inputs e.g. feed and fertiliser. Milk prices relative to key inputs are continually monitored so that management can adapt operations as required. There are procedures, systems and infrastructure in place to minimise and manage the risks which the land and livestock assets are exposed to that could lead to financial loss. Such measures include ongoing animal health management, detailed planning and cost control systems supported by regular visits by agricultural consultants, along with significant investment in farm infrastructure and technology to deal with risks associated with effluent disposal. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(h) Investments in joint ventures

Investments in joint ventures are measured at 'fair value through profit or loss' and classified as private equity investments.

			OWNERSHIP INTEREST	
NAME OF JOINTLY CONTROLLED ENTITY	BALANCE DATE	COUNTRY OF INCORPORATION	2015 %	2014 %
Datacom Group Limited	31 March	New Zealand	37.6	37.6
RA (Holdings) 2014 Pty Limited	31 March	Australia	50.0	0.0

As at 30 June, there are no restrictions on the ability of either Datacom Group Limited or RA (Holdings) 2014 Pty Limited to transfer funds, including dividends, to the Fund.

(i) Investments in structured entities

STRUCTURED ENTITIES

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Fund is principally involved with structured entities through investments in private equity investment funds, collective investment funds, unlisted unit trusts, insurance-linked investments – catastrophe bonds, shareholder loans, unconsolidated subsidiaries, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The Fund invests in structured entities to assist with the implementation of its overall investment strategy. The Fund does not sponsor any structured entities.

Structured entities have the following business activities:

Private equity investments and unconsolidated subsidiaries

Private equity investments and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives. The change in fair value of each of these investments is included in the Statement of Comprehensive Income in 'fair value changes in investments held at fair value through profit or loss'.

Collective investment funds and unlisted unit trusts

Collective investment funds and unit trusts finance their operations by way of subscription, in which case, the Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment fund. The change in fair value of each investment fund is included in the Statement of Comprehensive Income in 'fair value changes in investments held at fair value through profit or loss'.

Asset-backed securities

The Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans) collateralised debt obligations (CDO) and collateralised loan obligations (CLO).

Insurance-linked investments – catastrophe bonds

The Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the sponsor to the bond holder.

Shareholder loans

The Fund may make investments in private equity investment funds, or other private equity types of investment via shareholder loans. The borrower in the arrangement may be a structured entity.

Agency mortgage-backed securities

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15- or 30-year maturity dates, however, whilst the terms of the securities are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement.

6. INVESTMENTS (continued)

(i) Investments in structured entities (continued)

RISK ASSOCIATED WITH UNCONSOLIDATED STRUCTURED ENTITIES

The following table summarises the carrying values recognised in the Statement of Financial Position of the Fund's interest in unconsolidated structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Fund's interest in these entities. These values represent the most current available information.

2015

			FUND ACTUAL				
			MAXIMUM EXPOSURE TO LOSS				
STRUCTURED ENTITY TYPE	STATEMENT OF FINANCIAL POSITION LINE ITEM	STATEMENT OF COMPREHENSIVE INCOME LINE ITEM	INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS MADE AND UNDRAWN COMMITMENTS	CARRYING AMOUNT OF INVESTMENTS WITHIN THE STATEMENT OF FINANCIAL POSITION	TOTAL ASSETS WITHIN THE STRUCTURED ENTITY (INCLUSIVE OF THE FUND'S INVESTMENTS)
			NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Private equity investments	Private equity	Fair value changes in investments held at fair value through profit or loss	2,484,069	441,788	2,925,857	2,484,069	34,172,158
Collective investment funds	Collective investment funds	Fair value changes in investments held at fair value through profit or loss	1,253,401	–	1,253,401	1,253,401	42,501,741
Unlisted unit trusts	Unlisted unit trusts	Fair value changes in investments held at fair value through profit or loss	1,259	–	1,259	1,259	4,300
Asset-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	533,777	–	533,777	533,777	143,841,838
CDOs and CLOs	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	492,956	–	492,956	492,956	17,119,891
Mortgage-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	1,347,626	–	1,347,626	1,347,626	49,893,153
Shareholder loans	Other fixed income	Interest income	144,619	–	144,619	144,619	662,426
Catastrophe bonds	Insurance linked investments – catastrophe bonds	Interest income and fair value changes in investments held at fair value through profit or loss	74,878	–	74,878	74,878	8,255,131
Agency mortgage-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	442,428	–	442,428	442,428	Information not available as securities have not yet been issued.
Unconsolidated subsidiaries	Unconsolidated subsidiaries	Fair value changes in investments held at fair value through profit or loss	396,807	427,192	823,999	396,807	435,560
			7,171,820	868,980	8,040,800	7,171,820	296,886,198

2014

STRUCTURED ENTITY TYPE	STATEMENT OF FINANCIAL POSITION LINE ITEM	STATEMENT OF COMPREHENSIVE INCOME LINE ITEM	FUND ACTUAL: MAXIMUM EXPOSURE TO LOSS: INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS MADE AND UNDRAWN COMMITMENTS	CARRYING AMOUNT OF INVESTMENTS WITHIN THE STATEMENT OF FINANCIAL POSITION	TOTAL ASSETS WITHIN THE STRUCTURED ENTITY (INCLUSIVE OF THE FUND'S INVESTMENTS)
			NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Private equity investments	Private equity	Fair value changes in investments held at fair value through profit or loss	2,049,521	436,024	2,485,545	2,049,521	26,875,788
Collective investment funds	Collective investment funds	Fair value changes in investments held at fair value through profit or loss	925,432	46,453	971,885	925,432	67,669,754
Unlisted unit trusts	Unlisted unit trusts	Fair value changes in investments held at fair value through profit or loss	245,695	–	245,695	245,695	771,303
Asset-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	581,396	–	581,396	581,396	14,462,489
CDOs and CLOs	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	341,179	–	341,179	341,179	17,544,629
Mortgage-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	1,042,591	315,664	1,358,255	1,042,591	23,615,320
Shareholder loans	Other fixed income	Interest income	67,731	–	67,731	67,731	1,700,645
Catastrophe bonds	Insurance linked investments – catastrophe bonds	Interest income and fair value changes in investments held at fair value through profit or loss	55,811	–	55,811	55,811	5,832,645
Agency mortgage-backed securities	Other fixed income	Interest income and fair value changes in investments held at fair value through profit or loss	287,192	–	287,192	287,192	Information not available as securities have not yet been issued.
Unconsolidated subsidiaries	Unconsolidated subsidiaries	Fair value changes in investments held at fair value through profit or loss	229,191	462,762	691,953	229,191	233,013
			5,825,739	1,260,903	7,086,642	5,825,739	158,705,586

6. INVESTMENTS (continued)

(i) Investments in structured entities (continued)

INCOME RECEIVED AND GAINS AND LOSSES RECOGNISED FROM INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The following table summarises the Fund's total income received and gains and losses recognised in the Statement of Comprehensive Income from its interests in unconsolidated structured entities:

	FUND ACTUAL				
STRUCTURED ENTITY TYPE	INTEREST INCOME	DIVIDEND INCOME	GAINS	LOSSES	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
2015					
Private equity investments	–	44,146	510,343	(93,259)	461,230
Collective investment funds	542	–	154,789	–	155,331
Unlisted unit trusts	–	–	73,971	(66,896)	7,075
Asset-backed securities	947	–	1,974	(15,789)	(12,868)
CDOs and CLOs	5,039	–	6,920	(212)	11,747
Mortgage-backed securities	4,027	–	9,802	(13,323)	506
Shareholder loans	8,575	–	13	(812)	7,776
Catastrophe bonds	858	–	472	(274)	1,056
Agency mortgage-backed securities	38	–	644	(2,562)	(1,880)
Unconsolidated subsidiaries	–	1,950	20,421	(12,794)	9,577
2014					
Private equity investments	–	26,823	214,271	(73,976)	167,118
Collective investment funds	361	–	12,608	(9,049)	3,920
Unlisted unit trusts	–	–	16,806	–	16,806
Asset-backed securities	3,277	–	13,237	(1,189)	15,325
CDOs and CLOs	3,668	–	2,217	(200)	5,685
Mortgage-backed securities	4,913	–	28,038	(1,600)	31,351
Shareholder loans	7,438	–	89	(104)	7,423
Catastrophe bonds	1,614	–	988	(964)	1,638
Agency mortgage-backed securities	–	–	4,017	(4,106)	(89)
Unconsolidated subsidiaries	–	95	–	(95)	–

7. ASSETS HELD FOR SALE

The major class of assets classified as held for sale are as follows:

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Forests	2,750	–
Property, plant and equipment	1,470	–
Assets held for sale	**4,220**	**–**

No gains or losses have been recognised on reclassification of these assets.

8. TRADE AND OTHER RECEIVABLES

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Trade receivables	3,980	18,279
Allowance for impairment	–	(210)
Accrued interest	62,419	51,254
Dividends receivable	30,772	21,358
Unsettled sales	556,223	167,372
GST receivable	451	152
	653,845	**258,205**

Trade receivables have standard 30-day credit terms.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions. All receivables are expected to be settled within one year.

9. OTHER ASSETS

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Inventory (agricultural produce)	723	1,139
Prepayments	11	4
	734	**1,143**

10. PROPERTY, PLANT AND EQUIPMENT

	FUND ACTUAL							
	LAND AND LAND IMPROVEMENTS	BUILDINGS	PLANT AND MACHINERY	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	MOTOR VEHICLES	OFFICE FIT-OUT	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Gross carrying amount								
Balance at 1 July 2013	91,864	13,253	3,056	101	853	947	1,334	111,408
Additions	588	1,005	620	–	97	159	149	2,618
Disposals	(2)	–	(37)	–	(158)	(87)	–	(284)
Transfer (to)/from assets held for sale	750	–	–	–	–	–	–	750
Transfer between categories	(710)	710	–	–	–	–	–	–
Net revaluation increments/ (decrements)	16,050	218	–	–	–	–	–	16,268
Balance at 30 June 2014	**108,540**	**15,186**	**3,639**	**101**	**792**	**1,019**	**1,483**	**130,760**
Additions	165	330	420	–	170	39	467	1,591
Disposals	–	–	(16)	(6)	–	(32)	(4)	(58)
Transfer (to)/from assets held for sale	(1,473)	–	–	–	–	–	–	(1,473)
Transfer between categories	–	–	–	–	–	–	–	–
Net revaluation increments/ (decrements)	(1,884)	600	–	–	–	–	–	(1,284)
Balance at 30 June 2015	**105,348**	**16,116**	**4,043**	**95**	**962**	**1,026**	**1,946**	**129,536**
Accumulated depreciation								
Balance at 1 July 2013	–	–	476	76	727	120	339	1,738
Depreciation expense	12	458	393	10	115	102	137	1,227
Depreciation recovered	–	–	(6)	–	(158)	(20)	–	(184)
Depreciation reversed on revaluation	(12)	(458)	–	–	–	–	–	(470)
Balance at 30 June 2014	**–**	**–**	**863**	**86**	**684**	**202**	**476**	**2,311**
Depreciation expense	3	495	409	8	97	98	168	1,278
Depreciation recovered	–	–	(5)	(5)	–	(14)	(2)	(26)
Transfer (to)/from assets held for sale	(3)	–	–	–	–	–	–	(3)
Depreciation reversed on revaluation	–	(495)	–	–	–	–	–	(495)
Balance at 30 June 2015	**–**	**–**	**1,267**	**89**	**781**	**286**	**642**	**3,065**
Net book value								
As at 30 June 2014	**108,540**	**15,186**	**2,776**	**15**	**108**	**817**	**1,007**	**128,449**
As at 30 June 2015	**105,348**	**16,116**	**2,776**	**6**	**181**	**740**	**1,304**	**126,471**

FAIR VALUE MEASUREMENT

Land and land improvements and buildings are measured at fair value. The revalued land and land improvements and buildings consist of farm properties in New Zealand. Management have determined that these constitute one class of asset under NZ IFRS 13, based on the nature, characteristics and risks of the property. All revalued land and land improvements and buildings are categorised within Level 3 of the fair value hierarchy, as set out in note 21.

Land and 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 and land improvements and buildings. Fair value is an estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is determined by direct reference to recent market transactions for land and land improvements and buildings of comparable size and location as those held by the Fund, significantly adjusted for difference in the nature, location or condition of the specific property. The effective date for the valuation was 30 June 2015.

Significant unobservable valuation input	Range
Price per hectare	$18,800 – $54,200

Land and land improvements and buildings purchased during the year have not been independently valued at balance date. The Fund believes the purchase price paid reflects fair value at balance date.

The carrying amount of land and land improvements and buildings that would have been recognised under the cost model is $100,689,000 (2014: $102,220,000).

Refer to Note 21 for further fair value disclosures.

11. INTANGIBLE ASSETS

	FUND ACTUAL		
	COMPUTER SOFTWARE NZD'000	CARBON CREDITS NZD'000	TOTAL NZD'000
Gross carrying amount			
Balance at 1 July 2013	4,666	1,395	6,061
Additions	882	–	882
Disposals	(5)	(9)	(14)
Net revaluation increments/(decrements)	–	1,805	1,805
Balance at 30 June 2014	**5,543**	**3,191**	**8,734**
Additions	723	–	723
Disposals	–	–	–
Net revaluation increments/(decrements)	–	1,811	1,811
Balance at 30 June 2015	**6,266**	**5,002**	**11,268**
Accumulated amortisation			
Balance at 1 July 2013	2,899	–	2,899
Amortisation expense	1,110	–	1,110
Amortisation recovered	(5)	–	(5)
Balance at 30 June 2014	**4,004**	**–**	**4,004**
Amortisation expense	1,087	–	1,087
Amortisation recovered	–	–	–
Balance at 30 June 2015	**5,091**	**–**	**5,091**
Net book value			
As at 30 June 2014	**1,539**	**3,191**	**4,730**
As at 30 June 2015	**1,175**	**5,002**	**6,177**

Carbon credits are New Zealand Units (NZU's) under the New Zealand Emissions Trading Scheme (ETS). The Fund owns NZU's in relation to its forestry operations.

Carbon credits have been revalued to their estimated fair value of $6.60 per unit (2014: $4.15).

12. TRADE AND OTHER PAYABLES

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Trade payables	49	1,409
Accrued expenses	30,426	26,053
Unsettled purchases	544,210	746,949
Related party payable to the Guardians – current	9,033	6,831
Related party payable to the Guardians – non-current	133	591
	583,851	**781,833**

The average credit period on trade payables is 30 days. No interest is charged on overdue balances. The Fund 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 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

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Balance brought forward	13,613	499
New provision during the year	20,315	13,613
Unused provision released during the year	(1,405)	–
Current portion transferred to accrued expenses	(12,689)	(499)
Closing provision	**19,834**	**13,613**
Represented by:		
Current	–	–
Non-current	19,834	13,613
	19,834	**13,613**

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's fee is capped, with the remainder of the fee being held by the Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain. The current portion of the performance-based fees is included in accrued expenses.

14. AMOUNTS EXPECTED TO BE RECOVERED OR SETTLED AFTER MORE THAN 12 MONTHS

The Fund'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:

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
ASSETS		
Investments		
Investments – derivative financial instrument assets	321,550	527,700
Investments – other financial assets	1,786,715	1,188,845
Agricultural assets	18,163	23,665
Total investments	**2,126,428**	**1,740,210**
Property, plant and equipment	126,471	128,449
Intangible assets	6,177	4,730
Total assets	**2,259,076**	**1,873,389**
LIABILITIES		
Trade and other payables	133	591
Investments – derivative financial instrument liabilities	186,167	132,161
Provisions	19,834	13,613
Deferred tax liability	278,887	203,242
Total liabilities	**485,021**	**349,607**
Net assets	**1,774,055**	**1,523,782**

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 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 reduction in contributions to the Fund. Full capital contributions are projected to resume from 2020/21 under current Treasury modelling, however this may change based 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 Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz/publications/policies.

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 and land improvements and buildings.

Available-for-sale reserve

This reserve records movements in the fair value of available-for-sale financial assets.

16. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

COMMITMENTS

The Fund has entered into three operating leases for the lease of dairy farm land. The leases have remaining terms of less than one, two and three years. There are options to extend the less-than-one-year term lease by three years, the less-than-two-years remaining lease by four renewals of two years each, and the less-than-three-years lease by five years. The Fund 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 agreements stipulate 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:

	FUND ACTUAL	
	2015 NZD'000	2014 NZD'000
Within 1 year	119	142
After 1 year but not more than 5 years	138	218
Greater than 5 years	–	–
	257	**360**

At year end, the Fund had outstanding commitments to private equity investment funds (excluding those classified as unconsolidated subsidiaries) totalling $441,788,000 (2014: $482,476,000), of which $2,417,000 has been called but not yet paid (2014: $5,480,000). Additionally, private equity investment funds that have reached the end of their contracted investment periods can call for 'follow on capital' under restricted conditions to support existing investments. The Fund has an additional commitment of $167,980,000 for follow on capital (2014: $110,910,000). These commitments are denominated in the foreign currency of the respective fund and have been translated at the year-end rate.

At year end, the Fund had outstanding commitments under loan agreements totalling $13,623,000 (2014: $315,664,000). Under the loan agreements, the borrower can call for cash by giving the Fund up to 10 business days notice.

CONTINGENT LIABILITIES

The Fund 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 (ETS). Should the Fund harvest, and not replant, all of its pre-1990 forests, it would have a liability under the ETS of approximately $960,000 determined at 30 June 2015 (2014: $623,000). Should the Fund harvest, and not replant, all of its post-1989 forests, it would have a liability under the ETS of approximately $nil (2014: $nil). The amount and timing of any liability is uncertain and is dependent on the intention of the Fund 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 unconsolidated subsidiaries, associates and joint ventures are disclosed in notes 6(d), 6(e) and 6(h) (respectively) to the financial statements.

(c) Transactions with related parties

The Guardians has paid expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of the reimbursement to the Guardians for the financial year was $33,812,000 (2014: $30,137,000).

The related party payable to the Guardians as at 30 June 2015 is $9,166,000 (2014: $7,422,000).

Related party transactions entered into with unconsolidated subsidiaries, associates and joint ventures during the financial year are as follows:

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Unconsolidated subsidiaries		
Expenses paid by the Fund on behalf of unconsolidated subsidiaries	10	22

The Fund has made a financial commitment to Sankaty Managed Account (NZSF) Limited Partnership totalling $255,361,000 (equivalent to EUR 155m) (2014: $242,384,000), of which $126,531,000 remains outstanding at year end (2014: $192,694,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving 10 business days notice. This financial commitment expires on 25 February 2016.

The Fund has made a financial commitment to KKR Energy Investor Limited Partnership totalling $369,658,000 (equivalent to USD 250m) (2014: $285,535,000), of which $300,661,000 remains outstanding at year end (2014: $270,068,000). From May 2015 until December 2015, the unconsolidated subsidiary is required to seek approval from the Fund before any call on this financial commitment is made. Following this period, the unconsolidated subsidiary can call on this financial commitment at any time by giving 10 business days notice. This financial commitment expires on 12 February 2019.

	2015	2014
Associates		
Interest income	2,683	1,006

Related party loans to Kaingaroa Timberlands Partnership and associated companies comprise interest bearing loans of $50,340,000 (2014: $14,000) repayable on 24 May 2043 and an interest-free loan of $26,246,000 (2014: $8,000) repayable on demand.

	2015	2014
Joint ventures		
Dividend income	8,649	6,258
Other income	33	–
Purchase of plant, property and equipment	2	48
Purchases of intangible assets	155	50

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at year end were $1,000 (2014: $22,000). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

The Fund transacts with the New Zealand Debt Management Office (NZDMO) for a portion of its cross currency swaps. The rates at which the Fund transacts are negotiated with the NZDMO. The fair value of outstanding contracts at year end was an asset of $40,033,000 (2014: asset of $387,407,000). Gains on contracts with the NZDMO recognised in profit or loss in the Statement of Comprehensive Income for the year were $141,036,000 (2014: gains $253,248,000).

The Fund has invested a portion of its assets in fixed income securities issued by the New Zealand Government. These are detailed in note 6. Interest income earned from these investments for the year was $nil (2014: $1,570,000).

At year end, the Fund held 45,937,000 (2014: 50,869,000) shares in Meridian Energy Limited, valued at $98,765,000 (2014: $63,078,000). Dividend income earned during the year from holdings in this entity amounted to $7,329,000 (2014: $1,747,000).

At year end, the Fund held 6,383,000 (2014: 7,732,000) shares in Air New Zealand, valued at $16,084,000 (2014: $16,082,000). Dividend income earned during the year from holdings in this entity amounted to $2,099,000 (2014: $1,298,000).

At year end, the Fund held 4,660,000 (2014: 7,665,000) shares in Genesis Energy Limited, valued at $8,109,000 (2014: $13,798,000). Dividend income earned during the year from holdings in this entity amounted to $609,000 (2014: $nil).

At year end, the Fund held 18,616,000 (2014: 15,933,000) shares in Mighty River Power Limited, valued at $51,473,000 (2014: $35,611,000). Dividend income earned during the year from holdings in this entity amounted to $3,312,000 (2014: $1,860,000).

The Fund places cash on deposit with Kiwibank Limited. The balance on deposit at year end was $150,000,000 (2014: $225,000,000). Interest income earned during the year on these deposits was $9,347,000 (2014: $8,427,000).

18. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end.

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, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less. 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:

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Cash and cash equivalents	1,257,420	3,759,673
	1,257,420	**3,759,673**

At year end, cash of $281,648,000 (2014: $149,660,000) had been allocated and was held in Northern Trust's (the Fund's Global Master Custodian) custody awaiting investment by investment managers.

(b) Restrictions

For restrictions on cash balances pledged as collateral, refer to note 22.

19. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(c) Reconciliation of profit for the year to net cash flows from operating activities

	FUND ACTUAL	
	2015 NZD'000	2014 NZD'000
Profit for the year after income tax expense	3,705,676	3,251,895
Add/(Deduct) non-cash items:		
Depreciation and amortisation	2,365	2,337
Loss on revaluation of property, plant and equipment	63	693
Revaluation gain on intangible assets	(1,811)	(1,805)
Fair value changes in forests	(694)	35,418
Fair value changes in livestock	3,613	(3,411)
Fair value changes in investments	(1,969,606)	(3,988,299)
Net foreign exchange (gain)/loss	(1,252,844)	207,418
Increase in deferred tax balances	75,645	23,509
Other non-cash items	(6,642)	(1,228)
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	45	84
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	(395,431)	(143,606)
Other assets	409	(60)
Increase/(Decrease) in liabilities:		
Trade and other payables	(197,982)	53,650
Provisions	6,221	13,114
Current tax balances	(687,385)	160,421
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	388,851	135,624
Unsettled purchases	202,738	(69,010)
Add/(Deduct) net operating cash flows not included in net profit [(i)]	(2,429,727)	(1,480,420)
Net cash provided by/(used in) operating activities	**(2,556,496)**	**(1,803,676)**

(i) Net operating cash flows not included in net profit is primarily comprised of the cash flows arising from the sale and purchase of investments and the net movement in cash collateral.

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
A4S: Available-for-sale
AC: Amortised cost

	FUND ACTUAL					
2015	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Cash and cash equivalents			1,257,420			1,257,420
Cash pledged as collateral			403,568			403,568
Trade and other receivables			653,845			653,845
	–	–	**2,314,833**	–	–	**2,314,833**
Investments						
Derivative financial instrument assets:						
Forward foreign exchange contracts	87,657					87,657
Cross currency swaps	83,449					83,449
Asset swaps	1,995					1,995
Longevity contingent swaps	96,761					96,761
Futures contracts	–					–
Total return swaps – equity	18,434					18,434
Total return swaps – bonds	–					–
Credit default swaps	199,756					199,756
Insurance-linked swaps	–					–
Interest rate swaps	4,416					4,416
Other OTC swaps	89					89
Total derivative financial instrument assets	**492,557**	–	–	–	–	**492,557**
Other financial assets:						
New Zealand equities – State-Owned Entities		174,432				174,432
New Zealand equities – Other		1,825,660				1,825,660
Global equities		12,330,840				12,330,840
New Zealand fixed income – Crown		537				537
Other fixed income		7,824,857	2,039,692			9,864,549
Collective investment funds		1,253,401				1,253,401
Reverse repurchase agreements			147,948			147,948
Insurance-linked investments – catastrophe bonds		74,878				74,878
Private equity		3,406,082		80,464		3,486,546
Unlisted unit trusts		1,259				1,259
Total other financial assets	–	**26,891,946**	**2,187,640**	**80,464**	–	**29,160,050**
Investments in unconsolidated subsidiaries		396,807				396,807
Other financial assets pledged as collateral		60,536				60,536
Total financial assets	**492,557**	**27,349,289**	**4,502,473**	**80,464**	–	**32,424,783**

20. FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and financial liabilities by category (continued)

2015	FUND ACTUAL					
	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial liabilities						
Cash collateral received					305,604	305,604
Trade and other payables					583,851	583,851
	–	**–**	**–**	**–**	**889,455**	**889,455**
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	1,781,672					1,781,672
Cross currency swaps	40,863					40,863
Asset swaps	86,194					86,194
Futures contracts	–					–
Total return swaps – equity	139,689					139,689
Credit default swaps	46,753					46,753
Interest rate swaps	34,391					34,391
Total derivative financial instrument liabilities	**2,129,562**	**–**	**–**	**–**	**–**	**2,129,562**
Total financial liabilities	**2,129,562**	**–**	**–**	**–**	**889,455**	**3,019,017**

2014	FUND ACTUAL H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Cash and cash equivalents			3,759,673			3,759,673
Cash pledged as collateral			171,204			171,204
Trade and other receivables			258,205			258,205
	–	**–**	**4,189,082**	**–**	**–**	**4,189,082**
Investments						
Derivative financial instrument assets:						
Forward foreign exchange contracts	151,251					151,251
Cross currency swaps	419,423					419,423
Longevity contingent swaps	85,368					85,368
Futures contracts	–					–
Total return swaps – equity	302,188					302,188
Total return swaps – bonds	3,760					3,760
Credit default swaps	204,272					204,272
Insurance-linked swaps	690					690
Interest rate swaps	5,031					5,031
Other OTC swaps	71					71
Total derivative financial instrument assets	**1,172,054**	**–**	**–**	**–**	**–**	**1,172,054**
Other financial assets:						
New Zealand equities – State-Owned Entities		128,569				128,569
New Zealand equities – Other		1,565,214				1,565,214
Global equities		9,251,816				9,251,816
New Zealand fixed income – Crown		–				–
Other fixed income		6,657,979	522,725			7,180,704
Collective investment funds		925,432				925,432
Reverse repurchase agreements			171,321			171,321
Insurance-linked investments – catastrophe bonds		55,811				55,811
Private equity		2,577,330		81,427		2,658,757
Unlisted unit trusts		245,695				245,695
Total other financial assets	**–**	**21,407,846**	**694,046**	**81,427**	**–**	**22,183,319**
Investments in unconsolidated subsidiaries		229,191				229,191
Other financial assets pledged as collateral		57,831				57,831
Total financial assets	**1,172,054**	**21,694,868**	**4,883,128**	**81,427**	**–**	**27,831,477**

20. FINANCIAL INSTRUMENTS (continued)

(a) Financial assets and financial liabilities by category (continued)

2014	FUND ACTUAL					
	H4T	DESIGNATED AT FVTPL	L&R	A4S	AC	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial liabilities						
Cash collateral received					577,976	577,976
Trade and other payables					781,833	781,833
	–	**–**	**–**	**–**	**1,359,809**	**1,359,809**
Derivative financial instrument liabilities:						
Forward foreign exchange contracts	17,497					17,497
Cross currency swaps	2,513					2,513
Asset swaps	90,516					90,516
Futures contracts	–					–
Total return swaps – equity	25,975					25,975
Credit default swaps	24,279					24,279
Interest rate swaps	18,606					18,606
Total derivative financial instrument liabilities	**179,386**	**–**	**–**	**–**	**–**	**179,386**
Total financial liabilities	**179,386**	**–**	**–**	**–**	**1,359,809**	**1,539,195**

(b) Financial risk management objectives

Through its activities, the Fund 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 Fund'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 asset class 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 to each active investment opportunity.

Management monitors and manages the financial risks relating to the Fund's operations through internal risk reports that analyse exposures by degree and magnitude of risks. These risks include market risk (which includes foreign 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 Fund 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 the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired.

(c) Derivatives

The use of derivatives is governed by the Fund's Statement of Investment Policies, Standards and Procedures and its Derivatives Policy as approved by the Guardians. 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 Fund; 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 year end, the Fund 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 Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. 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 Fund pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the Fund to counterparty credit risk, market risk and liquidity risk.

20. FINANCIAL INSTRUMENTS (continued)

(c) Derivatives (continued)

The contract maturities, notional and fair values for all derivatives are set out below:

FORWARD FOREIGN EXCHANGE CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE – BUY/(SELL) FOREIGN CURRENCY	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(16,463,433)	(1,491,068)	(9,867,837)	133,055
3 to 12 months	(8,598,383)	(202,947)	(236,133)	699
	(25,061,816)	**(1,694,015)**	**(10,103,970)**	**133,754**

All forward foreign exchange contracts are settled gross.

CROSS CURRENCY SWAPS

	FUND ACTUAL		
2015	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/EUR	329,499	52,770
	NZD/JPY	36,251	11,611
	NZD/USD	502,735	(18,212)
1 to 2 years	NZD/EUR	82,375	17,345
	NZD/GBP	146,044	(12,879)
	NZD/USD	161,171	(9,772)
2 to 5 years	AUD/JPY	368,516	1,723
		1,626,591	**42,586**

		FUND ACTUAL	
2014	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/EUR	84,443	12,126
	NZD/JPY	95,831	35,510
	NZD/USD	755,756	122,296
	USD/EUR	283,666	1,571
	NZD/CNH	166,522	13,200
	NZD/KRW	290,400	(862)
1 to 2 years	NZD/EUR	312,752	69,670
	NZD/JPY	33,823	14,242
	NZD/USD	388,327	96,828
2 to 5 years	NZD/EUR	78,188	22,032
	NZD/GBP	122,646	10,852
	NZD/USD	220,490	19,445
		2,832,844	**416,910**

All cross currency swaps are settled gross. Notional value is derived from the 'buy' leg of these contracts.

ASSET SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	85,236	1,995	60,442	(445)
1 to 2 years	–	–	80,851	(462)
2 to 5 years	82,375	(15,480)	78,188	(15,351)
5 to 10 years	164,749	(70,714)	156,376	(70,524)
Over 10 years	–	–	26,950	(3,734)
	332,360	**(84,199)**	**402,807**	**(90,516)**

All asset swaps are settled net.

20. FINANCIAL INSTRUMENTS (continued)

(c) Derivatives (continued)

LONGEVITY CONTINGENT SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Over 10 years	368,180	96,761	304,951	85,368
	368,180	**96,761**	**304,951**	**85,368**

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	2,337,838	–	1,539,580	–
Fixed interest futures	3,833,874	–	2,496,053	–
	6,171,712	**–**	**4,035,633**	**–**

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS – EQUITY

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	9,709,498	(120,640)	9,848,582	276,213
1 to 2 years	5,517	(615)	–	–
	9,715,015	**(121,255)**	**9,848,582**	**276,213**

All equity total return swaps are settled net.

TOTAL RETURN SWAPS – BONDS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	–	–	277,851	3,760
	–	**–**	**277,851**	**3,760**

All bond total return swaps are settled net.

CREDIT DEFAULT SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2015	2015	2014	2014
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	1,277,539	(21,180)	769,803	(5,890)
	1 to 2 years	251,368	2,382	274,113	(9,256)
	2 to 5 years	7,996,636	(202,002)	6,613,120	(184,796)
	5 to 10 years	443,590	3,164	342,642	(13,435)
		9,969,133	**(217,636)**	**7,999,678**	**(213,377)**
Sell protection	Less than 1 year	1,015,082	18,345	764,091	14,089
	1 to 2 years	1,774,360	11,111	217,007	14,693
	2 to 5 years	14,747,895	341,183	11,936,142	364,588
	5 to 10 years	–	–	–	–
		17,537,337	**370,639**	**12,917,240**	**393,370**

All credit default swaps are settled net.

INSURANCE-LINKED SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2015	2015	2014	2014
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	–	–	10,839	690
		–	**–**	**10,839**	**690**

All insurance-linked swaps are settled net.

INTEREST RATE SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2015	2015	2014	2014
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	34,094	(1,103)	41,170	(247)
1 to 2 years	88,412	(1,287)	32,340	(1,672)
2 to 5 years	816,241	(18,169)	611,987	(8,145)
5 to 10 years	362,044	(9,416)	399,881	(3,511)
	1,300,791	**(29,975)**	**1,085,378**	**(13,575)**

All interest rate swaps are settled net.

20. FINANCIAL INSTRUMENTS (continued)

(c) Derivatives (continued)

OTHER OTC SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2015	2015	2014	2014
		NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps	2 to 5 years	103,504	17	79,950	16
Credit default arbitrage swaps	5 to 10 years	170,043	72	114,214	55
		273,547	**89**	**194,164**	**71**

All other OTC swaps are settled net.

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	FUND ACTUAL				
2015	LESS THAN 1 YEAR	1–2 YEARS	2–5 YEARS	5–10 YEARS	10+ YEARS
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Net-settled derivatives	(143,512)	(2,368)	(78,268)	(82,880)	–
Gross-settled derivatives – cash inflow	27,397,494	285,860	–	–	–
Gross-settled derivatives – cash outflow	(29,197,377)	(308,511)	–	–	–
	(1,943,395)	**(25,019)**	**(78,268)**	**(82,880)**	**–**
2014					
Net-settled derivatives	(27,215)	(3,301)	(48,527)	(76,599)	(3,734)
Gross-settled derivatives – cash inflow	2,516,283	–	–	–	–
Gross-settled derivatives – cash outflow	(2,536,293)	–	–	–	–
	(47,225)	**(3,301)**	**(48,527)**	**(76,599)**	**(3,734)**

(d) Offsetting and amounts subject to master netting arrangements and similar agreements

As at 30 June 2015 and 30 June 2014 the Fund was subject to multiple master netting arrangements with its derivative and reverse repurchase agreement counterparties.

The Fund offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and intends to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

The following tables present the Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements. The tables are presented by type of financial instrument.

	FUND ACTUAL					
	A	B	C=A-B	D		E=C-D
				RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS	GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL RECEIVED(ii)	NET AMOUNT
2015 Financial assets						
Derivatives	703,313	210,756	492,557	–	305,604	186,953
Reverse repurchase agreements(i)	147,948	–	147,948	147,979	–	(31)
2014 Financial assets						
Derivatives	1,450,125	278,071	1,172,054	–	577,976	594,078
Reverse repurchase agreements(i)	171,321	–	171,321	171,505	–	(184)

	FUND ACTUAL					
	A	B	C=A-B	D		E=C-D
				RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES	GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF FINANCIAL LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL PLEDGED(ii)	NET AMOUNT
2015 Financial liabilities						
Derivatives	(2,340,318)	(210,756)	(2,129,562)	–	(220,687)	(1,908,875)
2014 Financial liabilities						
Derivatives	(457,457)	(278,071)	(179,386)	–	(43,413)	(135,973)

(i) Financial instruments held as collateral against reverse repurchase agreements are held by a tri-party agent. These financial instruments are not included in the Statement of Financial Position of the Fund.

(ii) Refer to Note 22 for further information regarding the Fund's collateral positions at year end.

20. FINANCIAL INSTRUMENTS (continued)

(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, credit default swap spreads and equity prices.

The market risks that the Fund 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 foreign currency risk (primarily to changes in the New Zealand dollar versus the United States dollar).

Market risk is managed for the Fund as a whole as noted in Note 20(b) under financial risk management objectives. Market risk is further managed by requiring, where appropriate, 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 Fund 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.

EQUITY PRICE SENSITIVITY

The following table details the Fund's sensitivity to a change of price with all other variables held constant. 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.

		FUND ACTUAL			
	ONE STANDARD DEVIATION (%)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2015					
New Zealand equities	18	244,210	(244,210)	–	–
Global large cap equities	16	2,469,443	(2,469,443)	–	–
Global small cap equities	20	363,536	(363,536)	–	–
Infrastructure equities	12	149,460	(149,460)	–	–
Emerging markets equities	26	906,053	(906,053)	–	–
Private equity	20	434,244	(434,244)	15,592	(15,592)
2014					
New Zealand equities	18	223,700	(223,700)	–	–
Global large cap equities	16	2,075,443	(2,075,443)	–	–
Global small cap equities	20	307,460	(307,460)	–	–
Infrastructure equities	12	103,417	(103,417)	–	–
Emerging markets equities	26	375,069	(375,069)	–	–
Private equity	20	320,293	(320,293)	14,178	(14,178)

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to foreign currency risk through its investments in offshore assets and actively manages its risk by taking out forward foreign exchange contracts and cross currency swaps.

Foreign 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 foreign currency exposures relative to their benchmark; and

(c) engaging one or more counterparties to transact the Fund's foreign exchange transactions, including both spot and forward transactions, at the most favourable rate.

The financial instruments managers may use, and the creditworthiness of the counterparties, are detailed in the investment management agreements with respective managers. Any forward foreign exchange contracts or cross currency swaps 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 foreign currency manager and the counterparty.

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(ii) Foreign currency risk (continued)

Foreign currency exposures are mainly economically hedged with derivative financial instruments such as forward foreign exchange contracts and cross currency swaps. The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

FOREIGN CURRENCY EXPOSURE	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Australian Dollars	310,167	285,641
Brazilian Real	159,079	190,104
Canadian Dollars	(107,435)	850,462
Swiss Francs	(1,404,071)	(134,505)
Chilean Pesos	25,761	26,639
Colombian Pesos	12,371	17,915
Czech Koruny	7,502	7,265
Danish Kroner	–	1,631
Egyptian Pounds	4,290	3,361
European Union Euros	(213,893)	(71,997)
British Pounds	(766,039)	781,717
Hong Kong Dollars	785,477	253,447
Hungarian Forints	4,439	3,926
Indonesian Rupiahs	49,127	42,858
Israeli New Shekels	47,693	38,253
Indian Rupees	204,997	154,476
Japanese Yen	497,573	1,020,353
South Korean Won	26,569	–
Mexican Pesos	110,024	97,947
Malaysian Ringgits	94,884	84,451
Norwegian Krone	–	565
Peruvian Nuevo Sol	–	7,516
Philippines Pesos	28,679	17,098
Polish Zloty	38,910	35,549
Russian Rubles	66,269	98,476
Qatari Rial	20,087	–
Thai Baht	57,755	45,273
Turkish New Lira	36,833	33,146
Taiwanese New Dollars	27,466	8,556
United Arab Emirates Dirham	13,739	–
United States of America Dollars	969,565	5,708,133
South African Rand	175,365	136,154
	1,283,183	**9,744,410**

FOREIGN CURRENCY SENSITIVITY

The following table details the Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies, with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The analysis has been performed on the same basis as that used in 2014. The percentages used represent management's assessment of a reasonably possible change in foreign currency rates, equivalent to one standard deviation.

	FUND ACTUAL				
	ONE STANDARD DEVIATION (%)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2015					
NZD / USD	10	65,081	(65,081)	(4,728)	4,728
NZD / EUR	10	(15,400)	15,400	–	–
NZD / GBP	10	(55,155)	55,155	–	–
NZD / JPY	10	35,825	(35,825)	–	–
NZD / Others	10	58,634	(58,634)	–	–
2014					
NZD / USD	10	(407,052)	407,052	(3,933)	3,933
NZD / EUR	10	5,184	(5,184)	–	–
NZD / GBP	10	(56,284)	56,284	–	–
NZD / JPY	10	(73,465)	73,465	–	–
NZD / Others	10	(167,148)	167,148	–	–

20. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the value of the Fund's investments in fixed income and other interest-sensitive instruments 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 Fund 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 Fund.

The Fund is primarily exposed to changes in New Zealand and United States short-term interest rates.

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.

	FUND ACTUAL							
			FIXED MATURITY DATES					
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1–2 YEARS	2–5 YEARS	5–10 YEARS	10+ YEARS	NON-INTEREST BEARING
	%	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
2015								
Financial assets								
Cash and cash equivalents (i)	3.32	1,005,472	–	–	–	–	–	251,948
Cash pledged as collateral (ii)	0.00	403,568	–	–	–	–	–	–
Other fixed income investments	2.76	–	1,823,974	536,108	2,230,737	3,022,255	2,252,012	–
Other financial assets pledged as collateral	1.00	–	–	–	60,536	–	–	–
		1,409,040	**1,823,974**	**536,108**	**2,291,273**	**3,022,255**	**2,252,012**	**251,948**
2014								
Financial assets								
Cash and cash equivalents (i)	2.03	3,607,350	–	–	–	–	–	152,323
Cash pledged as collateral (ii)	0.00	171,204	–	–	–	–	–	–
Other fixed income investments	2.90	–	1,121,568	573,998	1,616,423	1,803,422	2,065,293	–
Other financial assets pledged as collateral	1.00	–	–	–	57,831	–	–	–
		3,778,554	**1,121,568**	**573,998**	**1,674,254**	**1,803,422**	**2,065,293**	**152,323**

(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) Cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements and with futures exchanges. The rate of interest earned on this cash, whilst variable, is minimal as a result of the current low interest rate environment, and consequently a weighted average effective interest rate of 0.00% has been applied.

INTEREST RATE SENSITIVITY

The sensitivity analysis in the table below, showing the effect on profit after income tax expense and other comprehensive income, has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place, with all other variables remaining constant. The percentages used represent management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation.

	FUND ACTUAL				
	ONE STANDARD DEVIATION (BASIS POINTS)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2015					
Fixed income and other interest-sensitive instruments	50	(3,217)	3,217	–	–
2014					
Fixed income and other interest-sensitive instruments	50	(1,317)	1,317	–	–

(f) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. Financial instruments which potentially subject the Fund to credit risk consist principally of cash and cash equivalents, investments and receivables.

The Fund 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 Fund'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, operates within similar industries, geographies, or has similar economic characteristics that would cause its 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 Fund seeks to specifically mitigate counterparty credit risk by applying policies to internally managed investments 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 unhedged exposure to a counterparty is capped at 2% of the Fund's net asset value, except for Australian and New Zealand banks;

(iii) Total direct unhedged exposure to Australian and New Zealand banks is capped at 5% of the Fund's net asset value, or 15% in aggregate; and

(iv) Maximum unhedged exposure to 'BBB' rated counterparties in aggregate, is capped at 6% of the Fund's net asset value.

In addition, the Fund has specific limits in place to restrict the level of market credit risk that can be taken on in internally managed investment mandates.

The use of, and capital allocated to, investment managers is governed by the Fund's Externally Managed Investment Policy and Investment Risk Allocation Policy as approved by the Guardians. Each existing relationship is governed by an investment management agreement which underlines the key terms and conditions of the appointment. The Fund has specific prudential limits for managers which limit the active credit risk they can take versus the benchmark set. Managers are monitored individually on an ongoing basis as well as being considered in the Fund's overall financial risk management activities.

20. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk (continued)

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (CONTINUED)

The following tables analyse the Fund's concentration of credit risk by geographical and industrial distribution. The analyses are based on the Fund's net financial assets at balance date, at the aggregated level of each individual investment.

By geography	FUND ACTUAL	
	2015	2014
	%	%
New Zealand	15	13
Australia	6	9
North America	34	34
Europe	25	26
Asia	14	14
Other	6	4
	100	**100**

By industry		
Basic materials	9	8
Communications	6	5
Consumer – Cyclical	5	5
Consumer – Non-cyclical	11	9
Energy	6	5
Financial	33	42
Funds	4	4
Government	6	7
Industrial	7	6
Technology	5	4
Utilities	3	3
Other	5	2
	100	**100**

(i) Counterparty credit risk

It is the Fund's policy to enter into financial instruments with reputable counterparties. Management closely monitor the creditworthiness of the Fund's counterparties by reviewing their credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset 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, excluding collateral, by individual counterparty (and, where applicable, specific branch) where instruments have a net positive fair value:

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
ANZ Bank New Zealand Limited	17,761	21,606
Bank of New Zealand	14,248	45,194
Barclays Bank PLC, London Branch	–	25,014
Barclays Bank PLC, New York Branch	–	19,495
BNP Paribas, London Branch	–	5,662
Citibank N.A., London Branch	–	26,999
Citibank N.A., New York Branch	841	589
Commonwealth Bank of Australia, Sydney Branch	26,740	38,115
Credit Suisse Securities (Europe) Limited	104,810	131,383
Deutsche Bank AG, London Branch	5,947	77,674
Deutsche Bank AG, Seoul Branch	–	1,651
Goldman Sachs International	8,317	37,852
Her Majesty the Queen In Right of New Zealand (NZ DMO)	81,726	387,407
JP Morgan Chase, London Branch	187,522	179,388
Morgan Stanley & Co. International PLC	6,012	31,486
Nomura International PLC	20,673	19,956
RFIB Group Limited	–	235
Societe Generale	11,919	31,022
The Hong Kong and Shanghai Banking Corporation Limited	–	60,258
The Northern Trust Corporation	1	1
Toronto-Dominion Bank	15	24
UBS AG, London Branch	100	140
UBS AG, Singapore Branch	–	11,552
Westpac Banking Corporation, Wellington Branch	5,925	19,351
	492,557	**1,172,054**

The Fund 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.

20. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk (continued)

SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (CONTINUED)

(ii) Credit quality of financial assets

The following table analyses the Fund's portfolio of fixed income securities by rating agency category. Ratings are obtained from Standard & Poor's, Moody's and Fitch respectively depending on availability of data.

Credit rating	FUND ACTUAL % OF FIXED INCOME ASSETS	
	2015	2014
Standard & Poor's/Moody's		
AAA/Aaa	23	15
AA/aa	36	37
A/A	12	20
BBB/Baa	7	5
Other credit rating	9	7
Not rated	13	16
	100	**100**

(g) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

The Fund's liquidity management framework is designed to ensure that the Fund 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 2031/32 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(c) and 20(e)(iii).

21. FAIR VALUE

(a) Fair value hierarchy

The Fund uses various methods in estimating fair value. These methods comprise:

Level 1 – fair value is calculated using quoted prices in active markets.

Level 2 – 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 – fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of all assets and liabilities measured at fair value, as well as the methods used to estimate fair value, are summarised in the tables below.

		FUND ACTUAL			
2015	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000
Financial assets					
Investments					
Derivative financial instrument assets:					
Forward foreign exchange contracts			87,657		87,657
Cross currency swaps			83,449		83,449
Asset swaps			1,995		1,995
Longevity contingent swaps	(i)			96,761	96,761
Futures contracts			–		–
Total return swaps – equity			18,434		18,434
Total return swaps – bonds			–		–
Credit default swaps			199,756		199,756
Insurance-linked swaps			–		–
Interest rate swaps			4,416		4,416
Other OTC swaps	(ii)			89	89
Total derivative financial instrument assets		**–**	**395,707**	**96,850**	**492,557**
Other financial assets:					
New Zealand equities – State-Owned Entities	(iii)	174,432			174,432
New Zealand equities – Other	(iii)	1,825,660			1,825,660
Global equities	(iii)	12,316,588		14,252	12,330,840
New Zealand fixed income – Crown	(iv)		537		537
Other fixed income	(iv)		7,726,547	98,310	7,824,857
Collective investment funds	(v)	353,095	761,548	138,758	1,253,401
Insurance-linked investments – catastrophe bonds			74,878		74,878
Private equity	(vi)		14,801	3,471,745	3,486,546
Unlisted unit trusts	(vi)			1,259	1,259
Total other financial assets		**14,669,775**	**8,578,311**	**3,724,324**	**26,972,410**
Investments in unconsolidated subsidiaries	(vii)			396,807	396,807
Other financial assets pledged as collateral			60,536		60,536
Total financial assets at fair value		**14,669,775**	**9,034,554**	**4,217,981**	**27,922,310**

21. FAIR VALUE (continued)

(a) Fair value hierarchy (continued)

		FUND ACTUAL			
2015	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000
Other assets at fair value					
Forests				410	410
Livestock			17,753		17,753
Property, plant and equipment	(viii)			121,464	121,464
Intangible assets			5,002		5,002
Total other assets at fair value		**–**	**22,755**	**121,874**	**144,629**
Total assets at fair value		**14,669,775**	**9,057,309**	**4,339,855**	**28,066,939**
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			1,781,672		1,781,672
Cross currency swaps			40,863		40,863
Asset swaps			86,194		86,194
Futures contracts			–		–
Total return swaps – equity			139,689		139,689
Credit default swaps			46,753		46,753
Interest rate swaps			34,391		34,391
Total financial liabilities at fair value		**–**	**2,129,562**	**–**	**2,129,562**
Total liabilities at fair value		**–**	**2,129,562**	**–**	**2,129,562**

(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 of 21%. If a 2% movement in discount rate is applied, the fair value of the swap would increase by $4,117,000 or decrease by $3,695,000.

(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 (0.75%–2.00%). 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 can also be 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 $3,637,000.

(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 $8,494,000.

(v) The fair value of collective investment funds is provided by the investment manager or administrator. 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 $17,786,000.

(vi) The fair values of private equity investment funds, unlisted equity investments and unlisted unit trusts are provided by the investment managers or administrators. The prices are based on the underlying net assets of the investments. Fair values are 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 Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. Other private equity investments are valued by reference to an independent valuation or the price of recent observable transactions. The reasonably likely movements in the fair values in a one-year period have been determined to be 20% for private equity investment funds and private equity investments, 16% for private timber funds, 12% for private infrastructure investments and unlisted unit trusts and 6% for life settlements investments based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $470,238,000.

(vii) The fair values of unconsolidated subsidiaries are provided by investment managers or administrators. The prices are based on the underlying net assets of the investments. Fair values are 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 Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. However, the reasonably likely movements in the fair values in a one-year period have been determined to be 20% based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $32,986,000.

(viii) The main assumption used in the property, plant and equipment valuation is the price per hectare. If the price per hectare were to move up or down by 5% then the overall valuation would increase or decrease by $6,240,000. On an individual asset basis, a 5% movement in price per hectare would result in an increase or decrease in value of $243,000 for the lowest value asset, and an increase or decrease in value of $975,000 for the highest value asset within this category.

21. FAIR VALUE (continued)

(a) Fair value hierarchy (continued)

2014	NOTE	FUND ACTUAL QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000
Financial assets					
Investments					
Derivative financial instrument assets:					
Forward foreign exchange contracts			151,251		151,251
Cross currency swaps			419,423		419,423
Longevity contingent swaps	(i)			85,368	85,368
Futures contracts			–		–
Total return swaps – equity			302,188		302,188
Total return swaps – bonds			3,760		3,760
Credit default swaps			204,272		204,272
Insurance-linked swaps			690		690
Interest rate swaps			5,031		5,031
Other OTC swaps	(ii)			71	71
Total derivative financial instrument assets		**–**	**1,086,615**	**85,439**	**1,172,054**
Other financial assets:					
New Zealand equities – State-Owned Entities	(iii)	128,569			128,569
New Zealand equities – Other	(iii)	1,565,214			1,565,214
Global equities	(iii)	9,250,391		1,425	9,251,816
New Zealand fixed income – Crown	(iv)		–	–	–
Other fixed income	(iv)		6,565,046	92,933	6,657,979
Collective investment funds	(v)	272,260	530,947	122,225	925,432
Insurance-linked investments – catastrophe bonds			55,811		55,811
Private equity	(vi)		17,026	2,641,731	2,658,757
Unlisted unit trusts	(vi)			245,695	245,695
Total other financial assets		**11,216,434**	**7,168,830**	**3,104,009**	**21,489,273**
Investments in unconsolidated subsidiaries	(vii)			229,191	229,191
Other financial assets pledged as collateral			57,831		57,831
Total financial assets at fair value		**11,216,434**	**8,313,276**	**3,418,639**	**22,948,349**
Other assets at fair value					

2014	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET-OBSERVABLE INPUTS (LEVEL 3)	TOTAL
		FUND ACTUAL			
		NZD'000	NZD'000	NZD'000	NZD'000
Forests				2,442	2,442
Livestock			21,366		21,366
Property, plant and equipment	(viii)			123,726	123,726
Intangible assets			3,191		3,191
Total other assets at fair value		**–**	**24,557**	**126,168**	**150,725**
Total assets at fair value		**11,216,434**	**8,337,833**	**3,544,807**	**23,099,074**
Financial liabilities					
Derivative financial instrument liabilities:					
Forward foreign exchange contracts			17,497		17,497
Cross currency swaps			2,513		2,513
Asset swaps			90,516		90,516
Futures contracts			–		–
Total return swaps – equity			25,975		25,975
Credit default swaps			24,279		24,279
Interest rate swaps			18,606		–
Total financial liabilities at fair value		**–**	**179,386**	**–**	**179,386**
Total liabilities at fair value		**–**	**179,386**	**–**	**179,386**

(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 of 18%. If a 2% movement in discount rate is applied, the fair value of the swap would increase by $5,550,000 or decrease by $4,919,000.

(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 (0.75%–2.00%). 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 can also be 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 $340,000.

21. FAIR VALUE (continued)

(a) Fair value hierarchy (continued)

(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 $8,029,000.

(v) The fair value of collective investment funds is provided by the investment manager or administrator. 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 $15,666,800.

(vi) The fair values of private equity investment funds, unlisted equity investments and unlisted unit trusts are provided by the investment managers or administrators. The prices are based on the underlying net assets of the investments. Fair values are 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 Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. Other private equity investments are valued by reference to an independent valuation or the price of recent observable transactions. The reasonably likely movements in the fair values in a one-year period have been determined to be 20% for private equity investment funds and private equity investments, 16% for private timber funds, 12% for private infrastructure investments and unlisted unit trusts and 6% for life settlements investments based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $392,907,000.

(vii) The fair values of unconsolidated subsidiaries are provided by investment managers or administrators. The prices are based on the underlying net assets of the investments. Fair values are 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 Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. However, the reasonably likely movements in the fair values in a one-year period have been determined to be 20% based on internal risk modelling. Applying these movements would increase or decrease the fair value of these investments by $14,764,000.

(viii) The main assumption used in the property, plant and equipment valuation is the price per hectare. If the price per hectare were to move up or down by 5% then the valuation would increase or decrease by $6,273,000.

(b) Transfers between categories

The following table presents the transfers between levels for the year ended 30 June 2015.

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
	NZD'000	NZD'000	NZD'000
Transfers between Levels 1 and 3:			
Global equities	(4,299)		4,299
New Zealand equities	24,361		(24,361)

Global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2015 but was actively traded on 30 June 2014.

New Zealand equities transferred out of level 3 relate to positions that were listed on the New Zealand stock exchange during the year.

The following table presents the transfers between levels for the year ended 30 June 2014.

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
	NZD'000	NZD'000	NZD'000
Transfers between Levels 1 and 3:			
Global equities	(238)		238

Global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2014 but was actively traded on 30 June 2013.

Transfers between levels are deemed to have occurred at the beginning of the reporting period.

(c) 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.

	FUND ACTUAL	
	2015	2014
	NZD'000	NZD'000
Opening balance	3,544,807	3,759,048
Gains and losses – profit or loss unrealised	738,385	(37,884)
Gains and losses – profit or loss realised	111,312	162,700
Gains and losses – other comprehensive income	14,638	(3,465)
Purchases	844,908	634,456
Sales	(302,305)	(200,896)
Settlements	(591,828)	(769,482)
Transfers to other categories	(20,062)	330
Closing balance	**4,339,855**	**3,544,807**
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	790,769	109,213
– Other comprehensive income – Included in net fair value gains/(losses) on available-for-sale financial assets	14,659	(3,607)

21. FAIR VALUE (continued)

(d) Assets and liabilities not carried at fair value but for which fair value is disclosed

The following tables analyse within the fair value hierarchy the Fund's assets and liabilities (by class) not measured at fair value. These assets and liabilities are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

	FUND ACTUAL			
2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets				
Cash and cash equivalents	1,257,420			1,257,420
Cash pledged as collateral	403,568			403,568
Trade and other receivables		653,845		653,845
Other fixed income		2,039,692		2,039,692
Reverse repurchase agreements		147,948		147,948
Crops		224		224
Property, plant and equipment			5,007	5,007
Intangible assets			1,175	1,175
	1,660,988	**2,841,709**	**6,182**	**4,508,879**
Financial liabilities				
Cash collateral received	305,604			305,604
Trade and other payables		583,851		583,851
	305,604	**583,851**	**–**	**889,455**

	FUND ACTUAL			
2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets				
Cash and cash equivalents	3,759,673			3,759,673
Cash pledged as collateral	171,204			171,204
Trade and other receivables		258,205		258,205
Other fixed income		522,725		522,725
Reverse repurchase agreements		171,321		171,321
Crops		313		313
Property, plant and equipment			4,723	4,723
Intangible assets			1,539	1,539
	3,930,877	**952,564**	**6,262**	**4,889,703**
Financial liabilities				
Cash collateral received	577,976			577,976
Trade and other payables		781,833		781,833
	577,976	**781,833**	**–**	**1,359,809**

22. COLLATERAL

In line with standard industry practice, collateral transactions are settled in line with the relevant Credit Support Agreements (CSA's) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSA's, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

(a) Collateral pledged

The cash balance pledged as collateral to meet obligations under Credit Support Agreements for derivative positions is $220,687,000 (2014: $43,413,000). The counterparties are not permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

Cash balances totalling $182,881,000 (2014: $127,791,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $60,536,000 (2014: $57,831,000) have been lodged with a clearing broker. These cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2014: $nil) held by the Fund.

(b) Collateral received

The cash balance received as collateral to meet obligations under Credit Support Agreements for derivative positions is $305,604,000 (2014: $577,976,000). The Fund 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 Fund is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under Global Master Repurchase Agreements is $147,979,000 (2014: $171,505,000). The Fund 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 Fund is entitled to apply the collateral in order to settle the liability.

23. COMPARISON TO BUDGET (UNAUDITED)

During the year ended 30 June 2015 the specific asset mix of the Fund varied from the budgeted figures and 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.

Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund). 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 on her behalf.

OPINION

We have audited the financial statements of the Fund on pages 111 to 179, that comprise the Statement of Financial Position as at 30 June 2015, the Statement of Comprehensive Income, Statement of Changes in Public Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Fund:

- present fairly, in all material respects:
  - its financial position as at 30 June 2015; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 15 September 2015. 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's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

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 believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE GUARDIANS

The Guardians are responsible for the preparation and fair presentation of financial statements of the Fund that comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

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.

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.

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.

We have performed a limited assurance engagement in respect of Fund performance. Other than this engagement and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

B R Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Financial Statements

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 Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

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

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Performance for the year ended 30 June 2015 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

GAVIN WALKER, CHAIRMAN

15 September 2015

MARK TUME, BOARD MEMBER

15 September 2015

Consolidated Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2015	NOTE	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000	BUDGET (UNAUDITED) 2015 NZD'000
Revenue	2(a)	34,326	30,661	41,516
Expenses	2(b)	34,326	30,661	41,516
Surplus/(Deficit) for the year		**–**	**–**	**–**
Other comprehensive revenue and expense		–	–	–
Total comprehensive revenue and expense for the year		**–**	**–**	**–**

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

Consolidated Statement of Financial Position

As at 30 June 2015	NOTE	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000	BUDGET (UNAUDITED) 2015 NZD'000
Current assets				
Cash and cash equivalents	15	1,526	1,529	575
Receivables from exchange transactions	4	9,461	7,272	8,252
Receivables from non-exchange transactions	4	72	100	113
Total current assets		**11,059**	**8,901**	**8,940**
Non-current assets				
Receivables from exchange transactions	4	133	591	–
Property, plant and equipment	5	–	–	–
Total non-current assets		**133**	**591**	**–**
Total assets		**11,192**	**9,492**	**8,940**
Current liabilities				
Trade and other payables under exchange transactions	6	777	599	625
Employee entitlements	7	8,902	6,916	7,219
Deferred lease incentive	9	75	75	75
Total current liabilities		**9,754**	**7,590**	**7,919**
Non-current liabilities				
Employee entitlements	7	417	806	–
Deferred lease incentive	9	521	596	521
Total non-current liabilities		**938**	**1,402**	**521**
Total liabilities		**10,692**	**8,992**	**8,440**
Net assets		**500**	**500**	**500**
Public equity				
Accumulated comprehensive revenue and expense		–	–	–
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.

Consolidated Statement of Changes in Public Equity

For the year ended 30 June 2015	ACTUAL		
	GENERAL EQUITY RESERVE	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	TOTAL
	NZD'000	NZD'000	NZD'000
Balance at 1 July 2013	**500**	**–**	**500**
Surplus/(Deficit) for the year	–	–	–
Total comprehensive revenue and expense for the year	–	–	–
Balance at 30 June 2014	**500**	**–**	**500**
Surplus/(Deficit) for the year	–	–	–
Total comprehensive revenue and expense for the year	–	–	–
Balance at 30 June 2015	**500**	**–**	**500**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2015	NOTE	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000	BUDGET (UNAUDITED) 2015 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		354	363	528
Receipts from New Zealand Superannuation Fund		32,067	28,961	37,717
Interest received		74	52	34
Other receipts		121	187	78
Total cash inflow from operating activities		**32,616**	**29,563**	**38,357**
Cash was applied to:				
Payments to Board members		(223)	(223)	(223)
Payments to suppliers		(7,260)	(5,951)	(9,975)
Payments to employees		(25,081)	(22,939)	(28,848)
Goods and Services Tax		(55)	10	(32)
Total cash outflow from operating activities		**(32,619)**	**(29,103)**	**(39,078)**
Net cash provided by/(used in) operating activities	15	**(3)**	**460**	**(721)**
Net cash provided by investing activities		–	–	–
Net cash provided by financing activities		–	–	–
Net increase/(decrease) in cash and cash equivalents		**(3)**	**460**	**(721)**
Cash and cash equivalents at the beginning of the year		1,529	1,069	1,296
Cash and cash equivalents at the end of the year	15	**1,526**	**1,529**	**575**

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

Consolidated Statement of Commitments

As at 30 June 2015	ACTUAL	ACTUAL
	2015	2014
	NZD'000	NZD'000
Non-cancellable operating lease commitments payable		
No later than 1 year	713	579
1 – 2 years	713	579
2 – 5 years	2,138	1,738
Later than 5 years	2,138	2,317
	5,702	**5,213**

Consolidated Statement of Contingent Liabilities

As at 30 June 2015

There were no contingent liabilities as at 30 June 2015 (2014: nil).

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

These are the financial statements of the Guardians of New Zealand Superannuation (Guardians), a Crown entity in terms of the Crown Entities Act 2004, and its subsidiaries (together, the Group).

The Guardians is a public authority in terms of the Income Tax Act 2007 and consequently is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 215.

STATEMENT OF COMPLIANCE

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards and other applicable financial reporting standards as appropriate for public benefit entities. These are the first set of financial statements presented in accordance with PBE Accounting Standards. The Guardians has previously reported in accordance with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for public benefit entities. There was no impact on the financial statements for the changes in accounting policies required to comply with PBE Standards except as outlined in Note 1(q) below.

The financial statements of the Guardians of New Zealand Superannuation and its subsidiaries (Group) for the year ended 30 June 2015 were authorised for issue in accordance with a resolution of the Board of Guardians of New Zealand Superannuation on 15 September 2015.

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 (NZD'000), unless stated otherwise.

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 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 the 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 on which control commenced or until the date such control ceased.

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

(c) Revenue

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 is recognised to the extent which 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:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Rendering of services:

New Zealand Superannuation Fund reimbursement of costs:

Revenue from the rendering of services is recognised by reference to the stage of completion when the transaction can be measured reliably. The stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

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. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Crown appropriations:

Revenue is recognised from the Crown when it is probable that future economic benefits or service potential associated with an asset will flow to the entity and the fair value of the asset can be measured reliably. To the extent that there is a related condition attached to the asset that would give rise to a liability to repay the amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

(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 Statement of Cash Flows 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) 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.

(f) 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 expenses 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

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 its continued use.

Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of an item) is included in the Statement of Comprehensive Revenue and Expense in the year in which the item is disposed of.

(g) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment 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:

Office equipment	3 years
Computer equipment	1 – 3 years

(h) Impairment

The Group does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

NON-CASH-GENERATING ASSETS

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 of an asset is assessed to be greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Revenue and Expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense immediately.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated, in which case the recoverable amount is determined for the non-cash-generating unit to which the asset belongs.

In assessing value in use, the present value of the remaining service potential of an asset is determined using a depreciated replacement cost approach. Depreciated replacement cost is measured as the replacement cost of the asset less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

(i) Employee entitlements

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 that 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. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

(j) 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 revenue 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.

(k) 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 Revenue and Expense. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

(l) 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 Revenue and Expense.

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 it 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.

(m) 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.

(n) Payables

Short-term payables are not interest-bearing and are stated at their nominal value.

(o) Equity

Equity is the Crown's interest in the Guardians and is measured as the difference between total assets and total liabilities.

(p) Statement of Cash Flows

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

Operating activities include all activities that are not investing and financing activities.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Effect of first-time adoption of PBE standards on accounting policies and disclosures

The accounting policies adopted in these financial statements have been applied consistently with those of the previous financial year, except for instances when the accounting or reporting requirements of a PBE standard are different to requirements under NZ IFRS (as applied in the previous financial year).

The changes to accounting policies and disclosures caused by first time application of PBE accounting standards are as follows:

PBE IPSAS 1 PRESENTATION OF FINANCIAL STATEMENTS

There are minor differences between PBE IPSAS 1 and the equivalent standard under NZ IFRS. These differences have an effect on disclosure only. The main changes in disclosure resulting from the first time application of PBE IPSAS 1 are the following:

Receivables from exchange and non-exchange transactions:

In the financial statements of the previous financial year, receivables were presented as a single total in the Statement of Financial Position. However, PBE IPSAS 1 requires receivables from non-exchange transactions to be presented separately from receivables from exchange transactions in the Statement of Financial Position. This requirement has affected the presentation of both current and comparative receivables figures.

PBE IPSAS 23 REVENUE FROM NON-EXCHANGE TRANSACTIONS

PBE IPSAS 23 prescribes the financial reporting requirements for revenue arising from non-exchange transactions. There is no equivalent financial reporting standard under NZ IFRS. The application of this standard has affected the presentation of Crown appropriations, which are considered revenue from non-exchange transactions, but it has had no effect on revenue recognition.

PBE IPSAS 21 IMPAIRMENT OF NON-CASH-GENERATING ASSETS

PBE IPSAS 21 prescribes the procedures for determining whether a non-cash-generating asset is impaired and requires disclosures specific to non-cash-generating assets. There is no equivalent financial reporting standard under NZ IFRS as NZ IFRS assumes all assets will be cash-generating. The application of this standard has not affected the measurement of non-cash-generating assets held by the Group but it has resulted in some additional disclosure.

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.

(r) Significant 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 SERVICE LEAVE

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering the historical salary inflation patterns.

EMPLOYEE ENTITLEMENTS – LONG-TERM PORTION OF INCENTIVES

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 Revenue and Expense 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. SURPLUS/(DEFICIT) FROM OPERATIONS

(a) Revenue

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Revenue from non-exchange transactions:		
Appropriations from the Crown	326	351
	326	**351**
Revenue from exchange transactions:		
Cost reimbursement from New Zealand Superannuation Fund	33,812	30,137
Other revenue	114	121
Interest revenue	74	52
	34,000	**30,310**

(b) Expenses

Surplus/(Deficit) has been arrived at after charging/(crediting):		
Auditor's remuneration (note 3)	44	42
Board members' fees (note 11)	223	223
Employee benefit expense*:		
Employee remuneration and related expenses	20,922	19,197
Employee incentives	6,333	5,674
Employer contributions to KiwiSaver	736	632
Travel and accommodation expenses	2,066	1,725
IT expenses	1,301	872
Operating lease expenses	604	436
Professional fees	284	277
Other expenses	1,813	1,583
	34,326	**30,661**

* Compensation of key management personnel of the entity is specifically disclosed in note 11.

3. REMUNERATION OF AUDITOR

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Auditor of the parent entity		
Audit of the financial statements	44	42
	44	**42**
Auditor of entities in the Group (not including the parent entity)		
Audit of the financial statements	–	–
	–	**–**

The auditor of the Group is Brent Penrose of Ernst & Young, on behalf of the Auditor-General.

The audit fees of other entities in the Group as detailed in note 10 were paid for by the Fund in 2014. As a result of the July 2013 amendments to the Crown Entities Act 2004, commencing 1 July 2014, the Fund's and Guardians' subsidiaries are no longer required to be audited.

4. RECEIVABLES

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Current receivables		
Receivables from exchange transactions		
Trade receivables	8	14
Goods and Services Tax (GST) receivable	136	81
Prepayments	271	333
Related party receivables:		
New Zealand Superannuation Fund	9,033	6,831
Other	13	13
	9,461	**7,272**
Receivables from non-exchange transactions		
Related party receivables:		
The Treasury	72	100
	72	**100**
Non-current receivables		
Receivables from exchange transactions		
Related party receivables:		
New Zealand Superannuation Fund	133	591
	133	**591**

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. PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment comprises office and computer equipment that are classified as non-cash-generating assets as they are not held for the primary objective of generating a commercial return. These assets are fully depreciated.

There were no new additions or disposals of property, plant and equipment in the current or prior year.

6. TRADE AND OTHER PAYABLES

	ACTUAL	ACTUAL
	2015	2014
	NZD'000	NZD'000
Trade payables [i]	438	332
Accrued expenses	223	209
Related party payables [ii]	116	58
	777	**599**

(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) Related party payables are due to Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the Fund.

7. EMPLOYEE ENTITLEMENTS

	ACTUAL	ACTUAL
	2015	2014
	NZD'000	NZD'000
Current portion		
Annual leave – key management personnel	176	125
Annual leave – other employees	1,051	873
Accrued salary – key management personnel	73	57
Accrued salary – other employees	470	351
Long service leave – key management personnel	34	39
Long service leave – other employees	120	113
Incentives – key management personnel [i]	1,233	1,317
Incentives – other employees [i]	5,745	4,041
	8,902	**6,916**
Non-current portion		
Long service leave – key management personnel	60	40
Long service leave – other employees	224	175
Incentives – key management personnel [i]	27	128
Incentives – other employees [i]	106	463
	417	**806**

(i) 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.

8. MANAGEMENT OF CAPITAL

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Guardians 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 8 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 8 years.

10. SUBSIDIARIES

NAME OF SUBSIDIARY	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST AND VOTING RIGHTS 2015 %	2014 %
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	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) 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.

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 these 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.

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Appropriations from the Crown	326	351
Cost reimbursement from New Zealand Superannuation Fund	33,812	30,137
	34,138	**30,488**

During the year, the Group purchased services from entities related to a joint venture owned by the Fund. These purchases totalled $838,751 (2014: $557,812).

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

Amounts receivable from or payable to related parties at balance date are disclosed in notes 4 and 6 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 2015, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2014: $nil).

All related party transactions have been entered into on an arm's length basis.

11. RELATED PARTY DISCLOSURES (continued)

(d) Compensation of key management personnel

Key management personnel of the Guardians comprise members of the Board and the Leadership Team.

The compensation of the Board and key management personnel is set out below:

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Leadership team		
Employee benefits (including salaries, holiday pay and long service leave)	2,692	3,206
Employee incentive scheme	1,225	1,357
	3,917	**4,563**
Number of employees	7	9
Board members' fees		
Board members earned the following fees during the year:		
G Walker (Chairman)	54	54
C Savage (Deputy Chairman)	34	34
M Tume	27	27
S Moir	27	27
C Ansley	27	27
P Dunphy	27	27
L Wright	27	27
	223	**223**

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 for 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 indemnified certain 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 respect 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.

12. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM

For a full discussion of the Guardians' remuneration framework, please refer to page 44 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, their actual remuneration paid has been reported, rather than their annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

ACTUAL					
BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZD'000	2015	2014	NZD'000	2015	2014
100 – 110	4	2	100 – 110	5	4
110 – 120	5	3	110 – 120	6	1
120 – 130	3	6	120 – 130	2	3
130 – 140	1	3	130 – 140	3	2
140 – 150	7	5	140 – 150	4	5
150 – 160	3	1	150 – 160	–	–
160 – 170	3	7	160 – 170	3	5
170 – 180	9	3	170 – 180	5	3
180 – 190	3	4	180 – 190	3	2
190 – 200	2	4	190 – 200	5	2
200 – 210	7	2	200 – 210	2	1
210 – 220	4	6	210 – 220	3	5
220 – 230	7	2	220 – 230	2	2
230 – 240	–	2	230 – 240	–	5
240 – 250	3	7	240 – 250	3	1
250 – 260	4	1	250 – 260	1	1
260 – 270	3	1	260 – 270	2	3
270 – 280	–	–	270 – 280	1	2
280 – 290	–	1	280 – 290	5	5
290 – 300	–	2	290 – 300	1	1
300 – 310	2	2	300 – 310	4	2
310 – 320	3	2	310 – 320	2	3
320 – 330	2	2	320 – 330	4	1
330 – 340	3	1	330 – 340	–	–

12. EMPLOYEES' REMUNERATION OVER $100,000 PER ANNUM (continued)

TOTAL REMUNERATION AND BENEFITS (continued)

ACTUAL					
BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZD'000	2015	2014	NZD'000	2015	2014
340 – 350	–	–	340 – 350	1	1
350 – 360	–	1	350 – 360	2	4
360 – 370	1	1	360 – 370	4	1
370 – 380	2	1	370 – 380	1	1
390 – 400	–	–	390 – 400	1	1
400 – 410	–	–	400 – 410	2	2
410 – 420	–	–	410 – 420	2	–
420 – 430	–	–	420 – 430	1	1
430 – 440	–	–	430 – 440	1	–
450 – 460	–	–	450 – 460	–	1
470 – 480	–	–	470 – 480	–	2
480 – 490	–	2	480 – 490	1	–
490 – 500	–	–	490 – 500	1	–
500 – 510	–	–	500 – 510	2	–
510 – 520	–	–	510 – 520	1	–
520 – 530	1	–	520 – 530	–	1
540 – 550	–	–	540 – 550	–	2
560 – 570	–	–	560 – 570	1	–
580 – 590	–	1	580 – 590	–	–
590 – 600	1	–	590 – 600	2	–
700 – 710	–	–	700 – 710	–	1
740 – 750	–	–	740 – 750	–	1
790 – 800	–	–	790 – 800	–	1
820 – 830	–	–	820 – 830	1	–
830 – 840	–	–	830 – 840	1	–
	83	**75**		**91**	**79**

13. REDUNDANCY AND SEVERANCE PAYMENTS

There was one payment made in respect of an employee who resigned during the year of $11,154 (2014: nil).

14. SUBSEQUENT EVENTS

There were no reportable events subsequent to year end (2014: 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. 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:

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Cash and cash equivalents	1,526	1,529
	1,526	**1,529**

(b) Reconciliation of surplus/(deficit) for the year to net cash flows from operating activities

	ACTUAL 2015 NZD'000	ACTUAL 2014 NZD'000
Surplus/(Deficit) for the year	–	–
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables	(1,703)	(1,246)
Increase/(Decrease) in liabilities:		
Payables and accruals	1,775	1,781
Deferred lease incentive	(75)	(75)
Net cash provided by/(used in) operating activities	**(3)**	**460**

16. FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities by category

KEY:

L&R: Loans and receivables **AC:** Amortised cost

	ACTUAL		
2015	L&R	AC	TOTAL
	NZD'000	NZD'000	NZD'000
Financial assets			
Cash and cash equivalents	1,526	–	1,526
Receivables from exchange transactions	9,187	–	9,187
Receivables from non-exchange transactions	72	–	72
Total financial assets	**10,785**	**–**	**10,785**
Financial liabilities			
Trade and other payables under exchange transactions	–	8,298	8,298
Total financial liabilities	**–**	**8,298**	**8,298**
2014			
Financial assets			
Cash and cash equivalents	1,529	–	1,529
Receivables from exchange transactions	7,450	–	7,450
Receivables from non-exchange transactions	100	–	100
Total financial assets	**9,079**	**–**	**9,079**
Financial liabilities			
Trade and other payables under exchange transactions	–	6,364	6,364
Total financial liabilities	**–**	**6,364**	**6,364**

(b) Financial risk management objectives

Through its activities, the Group is exposed to the financial risks of market risk, credit risk and liquidity risk.

The Group does not hold significant financial assets or liabilities. Market risk, credit risk and liquidity risk are not considered significant for this reason. Policies do not allow any transactions that 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 these financial statements.

(d) Market risk

Market risk is the risk that changes in market prices will affect revenue or the value of financial instruments. The market risk that the Group is primarily exposed to is interest rate risk (primarily to changes in New Zealand interest rates).

The Group holds cash that is interest-bearing and has no interest-bearing liabilities. The Group invests cash and cash equivalents, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and does not 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 Group's 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 2015 (30 June 2014: $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.

	ACTUAL	
2015	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VALUE OF INSTRUMENTS HELD AT VARIABLE INTEREST RATE
	%	NZD'000
Financial assets		
Cash and cash equivalents – no fixed maturity	3.27	1,526
	3.27	**1,526**
2014		
Financial assets		
Cash and cash equivalents – no fixed maturity	2.43	1,529
	2.43	**1,529**

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 taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables remaining constant. 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.

		ACTUAL	
		SURPLUS/(DEFICIT) AND EQUITY	
		2015	2014
	BASIS POINTS	NZD'000	NZD'000
Cash and cash equivalents	+ 100	15	15
Cash and cash equivalents	– 100	(15)	(15)

The Group's sensitivity to interest rate changes has not changed significantly from that of the prior year.

16. FINANCIAL INSTRUMENTS (continued)

(e) Credit risk

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

The Group limits its exposure to credit risk by investing cash and cash equivalents with reputable financial institutions that have a high credit rating. There are no significant amounts held by entities other than the Group's bank or the Fund. Consequently, the Group does not consider there to be any significant exposure to credit risk. 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 which had a credit rating as at 30 June 2015 of AA- (2014: AA-). The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

(f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities. 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 as they fall due.

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.

17. COMPARISON TO BUDGET (UNAUDITED)

	ACTUAL	BUDGET (UNAUDITED)	FAVOURABLE/ (UNFAVOURABLE) VARIANCE
	2015	2015	2015
	NZD'000	NZD'000	NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred (i)	34,326	41,516	7,190
Consolidated Statement of Changes in Public Equity	500	500	–
Consolidated 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 in the budget.

Building a better working world

Chartered Accountants

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its New Zealand domiciled subsidiaries. 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 the performance information of the group consisting of the Guardians of New Zealand Superannuation and its subsidiaries (collectively referred to as 'the Group'), on her behalf.

OPINION ON THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

We have audited:

- the financial statements of the Group on pages 185 to 206, that comprise the Statement of Financial Position as at 30 June 2015, 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 performance information of the Group on pages 100 to 103.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Tier 1 Public Benefit Entity Accounting Standards.
- the performance information:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2015, including for each class of reportable outputs its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 15 September 2015. 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 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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 performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Group's financial position, financial performance and cash flows; and
- present fairly the Group's performance information.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit 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 Group.

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Glossary

ACC	Accident Compensation Corporation.
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 investment opportunities and long-term themes, of 'stress testing' outcomes and deploying manager skill (or capability). 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 analytical research, forecasts and their own judgement and experience in making investment decisions. Active investment strategies are more complex and therefore 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 – that is, it is only sensible in the context of a benchmark. 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.
Arbitrage transactions	The simultaneous purchase and sale of an asset in order to profit from a difference in the price.
Asset class	An asset class is a group of securities or assets that share common risk and return characteristics.
Basis Point	One-hundredth of a percentage point.
Belief	The Fund's stated view on some aspect of financial markets and investing, and the result of a mix of evidence and judgment.
Benchmark	A standard against which the performance of a security or investment manager can be measured.
Capability	Management's ability to execute a value-add strategy. Incorporates depth and breadth of experience, risk management abilities etc.
Capital	A corpus of funds which can be invested to generate economic value.
Cash	Generally taken to mean a very short-term investment (i.e. a liquid investment) earning interest from a highly-rated bank or an equivalent bank bill (i.e. with negligible credit risk).
CEM	CEM Global Benchmarking – a provider of benchmarking services and peer comparisons.
Central clearing	A process by which many financial transactions are processed by a single (i.e. central) counterparty, instead of being transacted directly between several pairs of parties to individual transactions. This new requirement is designed to reduce risk in the global financial system.
CFI	Crown Financial Institution
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 a number of individual, largely qualitative, factors.

Glossary (continued)

Counterparty	A counterparty is a term used to describe a legal entity which presents an exposure to financial risk. The Fund's counterparties are typically banks. We work to best-practice criteria and standards for the appointment and ongoing use of counterparties.
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. 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.
Derivative	Derivatives are financial instruments that replicate the behaviour and performance of certain types of underlying entities. Typically, they are linked to: – individual securities such as equities – indexes on bonds and equities – reference rates (such as an exchange rate or interest rate). Transacting in derivative contracts rather than the underlying securities can be advantageous for access, liquidity, and cost reasons.
Direct	A direct activity is a financial market transaction undertaken by the Fund's management.
Diversification	The improvement in the Sharpe Ratio of a portfolio arising from introducing assets with risk and return characteristics that are different to the existing portfolio composition. 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 20 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	An inalienable and intrinsic characteristic of the Fund that provides the Fund with a natural advantage or edge over the typical investor.
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.
Fixed income	Assets providing income to investors via a fixed periodic payment (the coupon). 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.
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.
Fund Investment Vehicles	Fund investments may be held in separate entities (Fund Investment Vehicles or 'FIVs') that are established or controlled by the Guardians, rather than being held by the Guardians direct.
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.
G20/OECD Base Erosion & Profit Shifting Initiative (BEPS)	BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).
Gear	Gearing is the ratio of debt to equity held by a firm on its balance sheet.
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. Over the long term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth.
Hedge	Making an investment to reduce undesired risks associated with a portfolio asset or asset class. Normally, a edge 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.
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, especially at times of market dislocation. 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.
Illiquidity Premia	The enhanced expected premium we wish to receive for investing in illiquid assets.
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 – the new placement of an entity's securities on a recognised exchange or traded market.
Iwi	Meaning 'peoples', Iwi is often translated as 'tribe'. Iwi forms the largest social units with Māori culture.
Market index	An aggregate value produced by combining several stocks or other investment vehicles together and expressing their total values against a base value from a specific date. Market indices are intended to represent an entire stock market and thus track the market's changes over time.
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.

Glossary (continued)

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.
Mezzanine loan	A financial security or a layer of capital that ranks between debt provided by creditors (like banks) and the equity provided by shareholders. Debt claims therefore have first claim on the capital of a business, with the mezzanine loans paid thereafter. These loans are usually convertible to equity under defined circumstances.
NAV	Net Asset Value.
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.
New Zealand Corporate Governance Forum	A Forum comprising of institutional investors committed to promoting good corporate governance in NZ companies for the long-term health of the capital market. Visit www.nzcgf.org.nz
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 centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.
Overweight and Underweight	The actual exposure to an individual investment or asset class at a point in time relative to a pre-determined policy or benchmark index.
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 – private placement of capital with defined ownership rights (i.e. claims to the profits generated by the business). It may be accompanied by rights to influence the governance of the entity (e.g. through a Board directorship).
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio Completion	The set of market activities that deliver the desired portfolio, including placement of market orders, hedging activity, and other Treasury functions.
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	See PE.
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 active return business unit but now comes under the Investments group. An increasingly artificial distinction between strategy the private markets active strategy. Abbreviated to PMAR.
Rebalancing	The process of realigning the weightings of one's portfolio of assets. Rebalancing involves periodically buying or selling assets in your portfolio to maintain your original desired level of asset allocation.
Reference Portfolio	A simple, low cost, passively managed and well diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZD) plus a set of risk premiums or excess returns that also sum to 100%. See pages 52–54 for more information.
REIT	Real Estate Investment Trust – an entity that receives rental income from the ownership and operation of real estate assets. The securities of this entity are often (but not always) publicly traded on an exchange.
Return	The financial reward on an investment after manager fees and taxes. This includes earnings (such as dividends or coupon payments) as well as capital gains that are realised when an asset is disposed of or matures.
RI	Responsible Investment.
Risk	The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions.
Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.
Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for SWFs.
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 in excess of a defined benchmark.
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.
SPE	Statement of Performance Expectations.

Glossary (continued)

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 to desired risk using derivatives.
Systematic Premia	A risk premium is the excess return offered by one asset relative to another. For example, we expect higher returns from risky equities than from safe government bonds. This is the equity risk premium. There are other risk premia that are specific to certain kinds of equities or specific to certain market situations. We call these systematic premia. For example, they can arise from the size of a company or from certain events in its life cycle, such as a merger.
Theme	Long-term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other shorter-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.
Total risk	Generally referring to the Fund's total or absolute risk.
Treasury Bills	Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit.
UNPRI	United Nations Principles for Responsible Investment.
Value-add	See active 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.
Venture capital	Money provided to fund early-stage businesses with perceived long-term growth potential.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

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