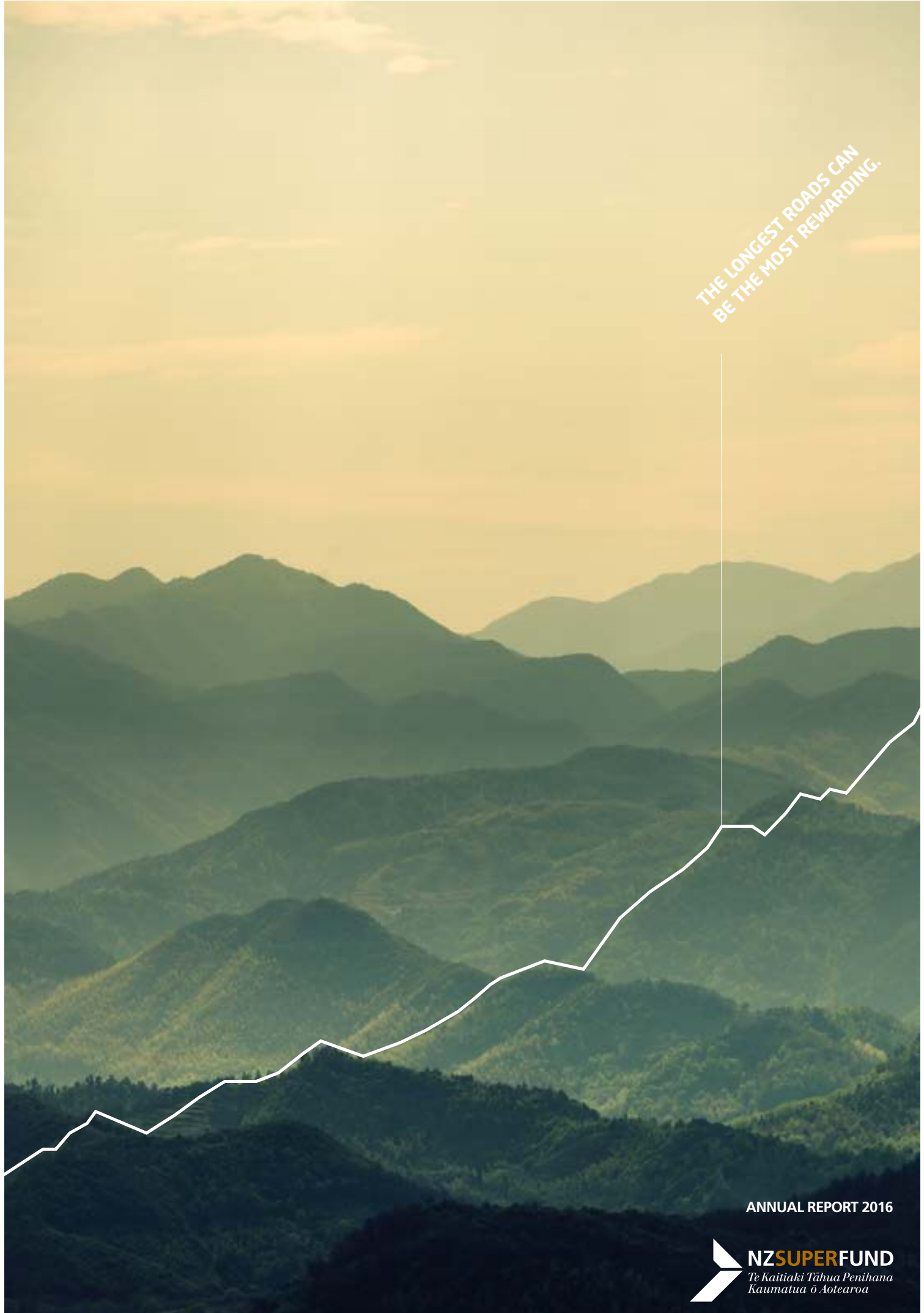


THE LONGEST ROADS CAN
BE THE MOST REWARDING.



ANNUAL REPORT 2016

A full-page photograph of a hiker in a red jacket and blue pants walking on a rocky mountain trail. The hiker is carrying a large backpack and using a trekking pole. The trail is marked with white lines on the dark, layered rock. In the background, a waterfall cascades down a steep, rocky cliff face. The sky is overcast.

TODAY AND EVERY DAY.

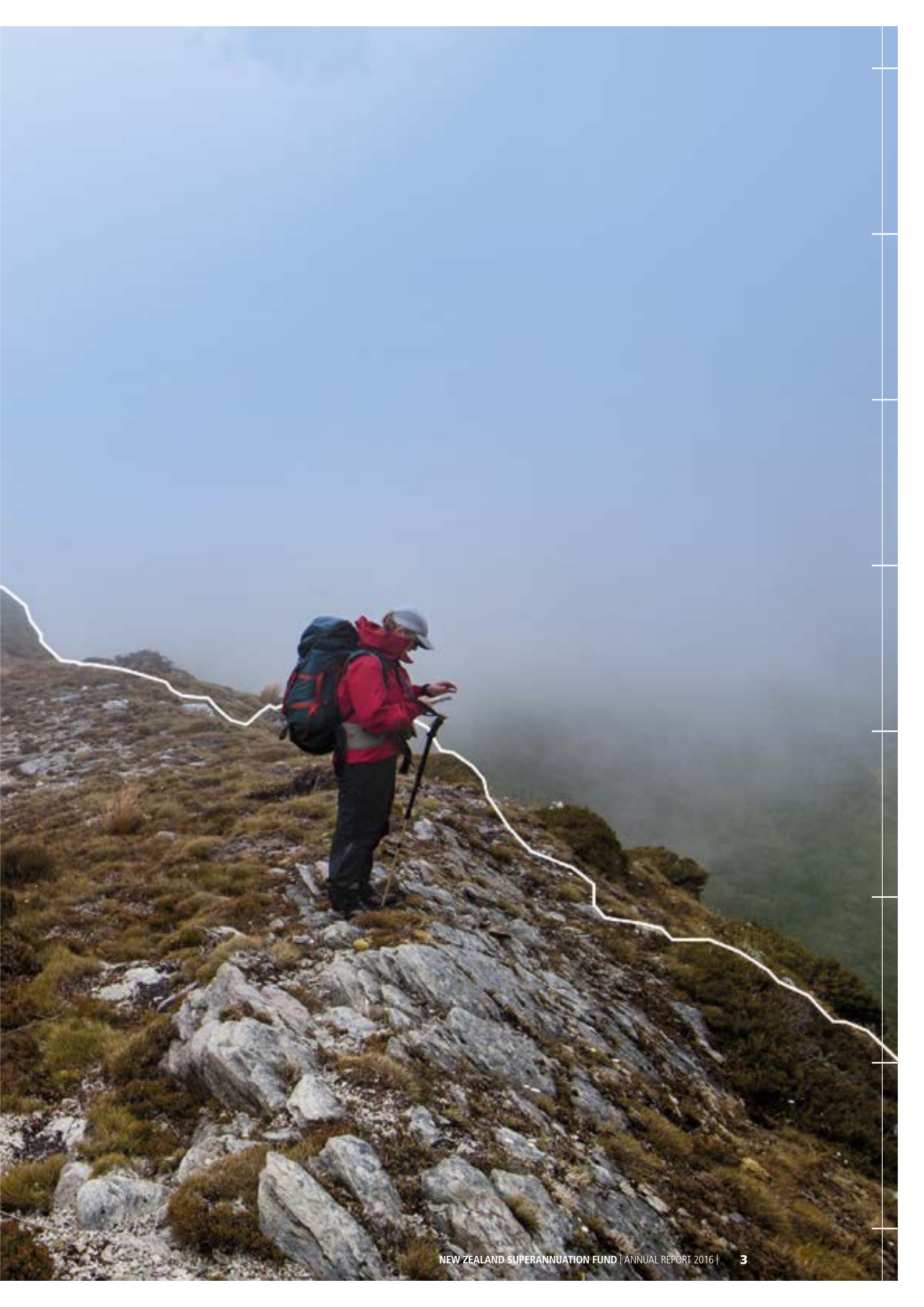
WE'RE NAVIGATING THE GLOBAL
INVESTMENT UNIVERSE.

TO FIND THE BEST
INVESTMENT OPPORTUNITIES.

THAT WILL HELP SECURE THE
LONG TERM RETIREMENT FUTURE ...

A photograph of a mountain peak, likely in New Zealand, with a white outline tracing its silhouette. A thin white line extends from the peak down to the text above. The foreground shows a rocky slope with patches of green and brown vegetation. The sky is a clear, pale blue.

... ALL NEW ZEALANDERS
DESERVE.



OUR MISSION:

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

2015/16 ACHIEVEMENTS:

- Reference Portfolio review recommendations implemented.
- Refreshed our risk reporting (Risk Appetite Statement and Risk Assessment Framework) and completed vendor research for an Investment Risk Management System.
- Key lessons from post-implementation review of new Performance System implemented.

PRIORITIES FOR 2016/17:

- Climate Change Strategy – finalising and implementing our strategy to deal with associated risks and opportunities.
 - Collateral optimisation – increasing the efficiency of collateral supply and demand management.
 - Implement the Investment Risk Management System platform that best matches our requirements.
-

WHAT IS
COLLATERALISATION?

Collateralisation is the primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions.



FUND SIZE

\$30.10_b

(AFTER COSTS, BEFORE NZ TAX)

RETURN

1.89%

(AFTER COSTS, BEFORE NZ TAX)

INCREASE OF FUND
(BEFORE NZ TAX)

\$0.56_b

VALUE ADD
(VS. REFERENCE PORTFOLIO)

\$155_m

VALUE ADDED

\$4.27_b

SINCE INCEPTION

NET RETURN

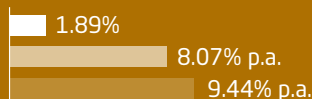
\$13.3_b

SINCE INCEPTION

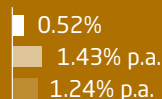
FUND RETURNS*

As at 30 June 2016

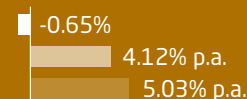
ACTUAL FUND RETURN
(after costs, before NZ tax)



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



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




● 1 Year ● 10 Years ● Since Inception **

* See page 43 for explanations of our benchmarks.

** The first capital contributions were invested in September 2003.

G4-9
G4-EC1

<p style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold;">SECTION</p> <p style="font-size: 2em; font-weight: bold;">01</p> <hr/> <p style="font-weight: bold; color: #0070C0;">OVERVIEW OF THE GUARDIANS AND THE FUND</p> <hr style="border: 2px solid #0070C0;"/> <p>This section provides high-level information on the purpose and mandate of the Guardians and the Fund, including a snapshot view of our performance and key highlights from the 2015/16 financial year. In addition, it provides insight into future priorities.</p> <p>Overview 10</p> <p>Chair’s Statement 12</p> <div style="text-align: center; margin: 10px 0;">  </div> <p>Chief Executive’s Statement 13</p> <p>Progress against our Strategic Plan 14</p> <p>Identifying our Material Aspects 16</p>	<p style="font-size: 2em; font-weight: bold;">02</p> <hr/> <p style="font-weight: bold; color: #A52A2A;">GOVERNANCE</p> <hr style="border: 2px solid #A52A2A;"/> <p>This section provides detailed information on the Guardians’ Governance structure and Principles. We discuss our Risk Management and provide detail on our Remuneration and Discretionary Incentive Scheme.</p> <p>Overview 20</p> <p>Board Members 22</p> <p>Leadership Team 24</p> <p>Principles 26</p> <p>Case Study – IFSWF Auckland ... 34</p> <p>Risk Management 35</p> <p>Remuneration and Discretionary Incentive Scheme 39</p>	<p style="font-size: 2em; font-weight: bold;">03</p> <hr/> <p style="font-weight: bold; color: #0070C0;">INVESTMENT REPORT</p> <hr style="border: 2px solid #0070C0;"/> <p>Following on from the information provided in the Overview section, the Investment Report provides details on the Fund’s performance, with comparisons to previous years. This section also contains investment case studies and our Responsible Investment Report.</p> <p>Performance Report 42</p> <p>Our CIO on How we think about active risk and adding value 44</p> <p>Value-Add in 2015/16 46</p> <p>Case Study – Active Collateral and Direct Arbitrage Strategies 47</p> <p>Investment Activity – Global 48</p> <p>New Investments and Portfolio Activities During 2015/16 50</p> <p>Case Study – View Inc. 51</p> <p>Investment Activity – New Zealand 52</p> <p>Case Study – Hobsonville 54</p> <p>Responsible Investment Report 55</p> <p>Case Studies 60</p>
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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 2015/16 financial year.

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. For more depth, the remainder of the Report details four important aspects of the Guardians and Fund: governance; investment performance; an overview of operations during the year; and Financials.

An overview of the Report and supplementary information are available on www.nzsuperfund.co.nz and www.ar2016.nzsuperfund.co.nz. The overview includes video interviews with our Chair and Chief Executive 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 2016.

OPERATIONAL REPORT

Information on our people initiatives and environmental performance is covered in the Operational Report.

Our People 62

Case Study – Improving Workplace Culture 64

Regulatory Update 69

Environmental Performance 70

STATEMENT OF PERFORMANCE

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

Statement of Performance 72

Managers and Custodians 76



FINANCIAL STATEMENTS

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

Financial Report **82**

Financial Statements and Audit Report – **Fund** **88**

Financial Statements and Audit Report – **Guardians** **150**

APPENDIX

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

SIPSP Compliance 180

Presentation of the Annual Report 180

Glossary 181

Useful links 186

Corporate Directory 187

Note: Previous Annual Reports, including the last Report (2014/15), are available on

www.nzsuperfund.co.nz/publications/annual-reports.

There has been a restatement within our Environmental Performance data on page 70. There were no significant changes from previous reporting periods in the Scope and Aspect Boundaries. GRI disclosures are currently not externally assured.



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

- G4-9
- G4-17
- G4-23
- G4-28
- G4-29
- G4-30
- G4-31
- G4-32
- G4-33



The long road:

Our eye is firmly on a long-term retirement future for all New Zealanders. We'll stay on this path, whatever each day brings.

SECTION

OVERVIEW

of the Guardians and the Fund

01

Overview	10
Chair's Statement	12
Chief Executive's Statement	13
Progress against our Strategic Plan	14
Identifying our Material Aspects	16

Investing for the long term

WHAT IS THE CHALLENGE THE FUND IS HELPING TO SOLVE?

All New Zealanders aged 65 and over are eligible to receive New Zealand Superannuation payments (also known as the pension, National Super, Government Superannuation or Super). The Government pays for these through taxes paid by today's taxpayers.

With New Zealand's population ageing, there will eventually be fewer taxpayers of working age to support those receiving superannuation.

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

HOW DO WE FIT IN?

To help pre-fund future retirement benefits, 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 2032/33, 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 as a percentage of GDP in the 2070s (see www.treasury.govt.nz/government/assets/nzsf/contributionratemodel for projections by New Zealand Treasury).

WHAT DO WE DO?

The Guardians 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. The Guardians has operational independence from the Government regarding its investment decisions.



Watch a short animation video that explains our purpose at www.ar2016.nzsuperfund.co.nz/our-purpose

Our mandate

The Fund is investing today to help meet future retirement needs by reducing 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 consistently 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)



NEW ZEALAND SUPERANNUATION FUND
(LONG-TERM SAVINGS VEHICLE)

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

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

G4-4
G4-7
G4-8
G4-9
G4-12

Guardians of **INVESTMENT** excellence



Catherine Savage – Chair

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

The New Zealand Superannuation Fund is vitally important for our country, children and future generations, and my fellow Board members and I take the responsibility of investing it very seriously.

FUND PERFORMANCE

I am pleased to report that the Guardians' track record of adding value to the Fund through active investment continued over 2015/16. The Fund returned 1.89% (after costs, before NZ tax) compared to a market return of 1.37%, as measured by our passive Reference Portfolio benchmark.

The result reflected low and volatile returns by growth assets, to which the Fund is heavily weighted, over the year.

As Promontory Financial Group noted in its 2014 Independent Review, the Guardians is one of a minority of global professional fund managers who have been successful in adding substantial value above their benchmarks over a sustained period. Since the inception of the Fund in 2003, the Guardians' active investing has added an additional NZD4.27 billion,

compared to what a passive, market-tracking investment approach would have achieved.

The Fund finished the year at NZD30.10 billion (after costs, before NZ tax), a record high for the year end.

SUSPENSION OF CONTRIBUTIONS

July 2016 marks seven years since the Government last contributed capital to the Fund. It is pleasing to see that there is largely bi-partisan political support for resuming contributions.

We note that had contributions not been suspended, the Fund would now be worth an estimated NZD50 billion. The Board looks forward to the resumption of contributions and to the increased surety that this will give to New Zealanders about the affordability of universal superannuation in the future, at the earliest opportunity.

INVESTMENT APPROACH

The Board remains committed to the Fund's long-term investment strategies and its leading approach to responsible investment and high transparency.

Our mandate is to invest in line with global best practice. It was therefore pleasing to receive global recognition from a number of quarters during the year. This included being named as a finalist for best Sovereign Wealth Fund in Institutional Investor's annual awards; winning a number of international awards for our 2015 Annual Report; and winning the 2016 Institute of Public Administration New Zealand award for Leadership Excellence.

We also received an overall A+ rating from the United Nations Principles for Responsible Investment (UNPRI) for our responsible investment strategy and governance.

The UNPRI's report and our responsible investment activities are discussed in more detail on pages 55-59.

BOARD CHANGES

I would like to thank former Chair Gavin Walker (ONZM), and former Audit Committee Chair Mark Tume, for their work over many years for the Guardians and Fund. Your contribution has been greatly valued by your fellow Board members and by the staff of the Guardians.

I would also like to congratulate Lindsay Wright on her appointment as Deputy Chair and to welcome two new Board members. We have been privileged to be able to attract Doug Pearce, the former Chief Executive Officer of the British Columbia Investment Management Corporation, and well-known New Zealand investor and business person John Williamson to the Board. Details on Doug's and John's backgrounds are available on page 23.

We look forward to continuing the fine reputation of the Guardians for governance, transparency and investment excellence.

CATHERINE SAVAGE
CHAIR



See Catherine talk about the past year at www.ar2016.nzsuperfund.co.nz/year-review

Adding **LONG-TERM** value



Adrian Orr – Chief Executive Officer

A privilege and responsibility of my role is to view global trends, not only in terms of economic activity, but also in terms of social, cultural, and environmental outcomes. These factors are inextricably linked in either a 'virtuous' or a 'vicious' circle. As a long horizon investor, we desire virtuous circles so that opportunities are sustainable. Currently, however, significant stress points are being exposed globally with regard to environmental degradation (e.g. climate change), social cohesion (e.g. the 'excluded and have nots') and cultural protectionism (e.g. protectionism and denial of diversity). These factors are both disruptive and a drag on societal well-being.

The Guardians – as long-term investor – has direct influence on, and part responsibility for, creating a virtuous investment circle. We do this through ensuring our investment decision-making accounts for these global trends and our responsible investment commitments.

Our white paper on *'Why we believe responsible investing pays off'* (www.nzsuperfund.co.nz/sites/default/files/documents-sys/White-Paper-ESG-Beliefs.pdf) outlines a substantive body of evidence that environmental, social and governance factors are material to long-term returns. We are thus

obliged to be engaged owners of assets – through insisting fund managers, boards and company executives are aligned with our goal of achieving long-term returns for the Fund.

Climate change for example, is a significant disruptive environmental and economic event that is inescapable. A potent combination of Nation State policy commitments, technology and societal preferences means that global energy systems will change over coming decades. This creates substantial investment risks and opportunities for the Fund.

Our actions alone will make minimal difference to any of these trends. That is not, however, an excuse for doing nothing and being party to the 'tragedy of the commons' or taking on undue risks. Instead, we are committed directly, and through a variety of global initiatives, to do our best to ensure investors' and companies' activities are sustainable over the long term.

OUR PRIORITIES

On pages 14–15 we outline our strategic priorities for the coming year. As well as finalising and beginning to implement our climate change strategy, these include:

- investigating the benefits of concentrating our portfolio on fewer stocks;
- getting better visibility of what it costs us to invest and identifying opportunities to improve cost effectiveness;
- improving our cyber-security defences;
- successfully hosting the 2016 Annual Meeting of the International Forum of Sovereign Wealth Funds; and
- continuing to build a great workplace culture and team.

I elaborate on these last two points below.

IFSWF

In November, we will host global investors, regulators and industry experts at the 2016 Annual Meeting of the International Forum of Sovereign Wealth Funds. We will share tales with international investment experts and peer investors, as well as showcase New Zealand. There will also be a spotlight on the renaissance of indigenous economic activity. For more information, see the case study on page 34.

TEAM

We were delighted to be named the winners of the Institute of Public Administration New Zealand's 2016 award for Leadership Excellence. As discussed on page 64, behaving consistently with our preferred culture is a permanent focus for us. Team, thank you so much for your commitment to our desired culture and so making your organisation world class.



ADRIAN ORR,
CHIEF EXECUTIVE OFFICER



See Adrian talk about the global investment environment at www.ar2016.nzsuperfund.co.nz/year-review

Here we provide an overview of progress made during 2015/16 against the medium-term objectives in our 2015–2020 Strategic Plan.

For more information, see our 2014–2019 Statement of Intent and 2015–2016 Statement of Performance Expectations, available at www.nzsuperfund.co.nz/publications/statement-intent.



**OBJECTIVE:
BEST PORTFOLIO**

WHAT DOES SUCCESS LOOK LIKE IN 2020?

- 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 (e.g., investment managers)
- 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 (a ratio of return achieved vs. risk taken)
- Maximise cost efficiency and effectiveness

ACHIEVEMENTS DURING 2015/16:

- Reference Portfolio review recommendations implemented
- Assessed the merits of option-based rebalancing and opportunities for liquidity provision as a source of additional return
- Contributed to CEM Benchmarking research to promote understanding and disclosure of the full costs of private equity investment

PRIORITIES FOR 2016/17:

- **Collateral optimisation** – Implement additional measures to manage collateral supply and demand in the most efficient manner possible (multi-year objective)
- **Concentrated portfolio** – Investigate the benefits of concentrating on fewer stocks at lower cost
- **Cost management** – Better visibility of what it costs us to invest and identify opportunities to improve cost effectiveness
- Form a **domestic investment hub** to create and facilitate domestic investment opportunities¹



**OBJECTIVE:
STRONG EXTERNAL
RELATIONSHIPS**

WHAT DOES SUCCESS LOOK LIKE IN 2020?

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

ACHIEVEMENTS IN 2015/16:

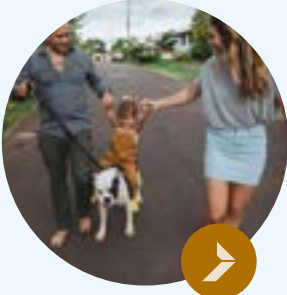
- Concerted effort to engage more deeply and extensively with external partners and stakeholders
- Stakeholder research reports published on our website and feedback actioned
- IFSWF 2016 project progressing successfully

PRIORITIES FOR 2016/17:

- Through IFSWF 2016, contribute to the development of best practice among sovereign wealth funds globally, promote opportunities for peer collaboration and showcase New Zealand as an investment destination

¹ The Guardians' 2016/17 Statement of Intent noted the implementation of a new document and records management system. An upgrade for our current system has subsequently been made available and we have decided against a new system. The domestic investment hub was introduced to replace this activity.

2015/16 AWARDS



WINNER

Governance Award, Asian Investor's 2015 Institutional Excellence Awards

WINNER

Excellence in Governance, Deloitte Top 200 Awards

WINNER

Improving Performance through Leadership Excellence, Deloitte IPANZ Excellence Awards

WINNER

Online Reporting – Public Sector, 2016 Australasian Reporting Awards

GOLD AWARD

2016 Australasian Reporting Awards

WINNER

Governance Reporting – Public Sector, 2016 Australasian Reporting Awards

HIGHLY COMMENDED

Best Responsible Investment Report by an Asset Owner, 2016 Responsible Investor Reporting Awards

BEST ANNUAL REPORT AWARD

2015 Asia-Pacific Excellence Awards



OBJECTIVE:
BUILDING AND MAINTAINING A GREAT TEAM

WHAT DOES SUCCESS LOOK LIKE IN 2020?

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

ACHIEVEMENTS DURING 2015/16:

- Culture Survey recommendations implemented
- Key lessons implemented from post-implementation review of new Performance System
- Diversity and Inclusiveness policy, training, and regular reporting implemented

PRIORITIES FOR 2016/17:

- Continue development of a Great Team by implementing lessons from the staff engagement survey



OBJECTIVE:
EFFICIENCY, SCALABILITY AND INNOVATION

WHAT DOES SUCCESS LOOK LIKE IN 2020?

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

ACHIEVEMENTS DURING 2015/16:

- New risk reporting implemented and Risk System research completed
- Cyber security threats assessed and defences improved Collaborated with peers and local security specialists to improve knowledge and capabilities
- Data Management platform recommended by the Portfolio Management System project progressed
- 2015 Innovation week ideas executed. Ongoing business-as-usual focus on innovation

PRIORITIES FOR 2016/17:

- Implement the Risk System platform that best matches our requirements
- New Data Management architecture and governance structures implemented

In 2015/16, we developed a formal process to better understand the ‘material aspects’ of our business. Our aim was to understand what our stakeholders considered important when they evaluated our performance and the impact of those issues on our performance.

Using the GRI Guidelines, we surveyed Government stakeholders to understand what issues/risks they considered important when evaluating the performance of the Guardians. A similar survey was sent to senior Guardians staff to understand the impact of these issues/risks on the Fund.

While none of the issues/risks identified received a rating lower than three on a scale of five, they have been displayed on page 17 on a scale of lower to higher to illustrate their relative importance and impact.

The following materiality assessment process was used:



The Annual Report is closely aligned 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 72–75, we report against the 1-, 5- and 10-year performance measures set out in the Statement of Intent, as well as on our achievement of the priority Strategic Plan activities for 2015/16.

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

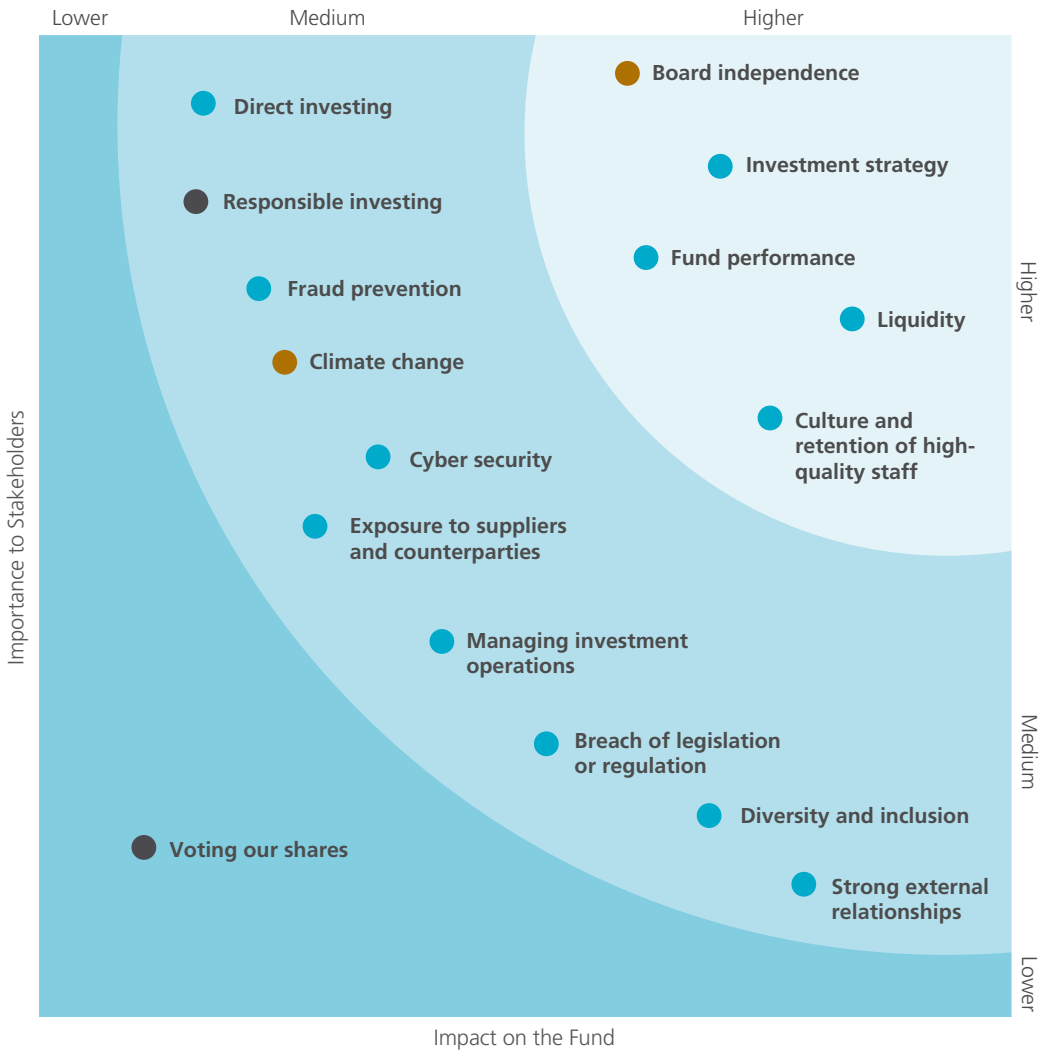
- Legislative reporting requirements for New Zealand Crown entities and for the Guardians and Fund; and
- Best practice disclosure guidelines for sovereign wealth funds and financial institutions, including the:
 - New Zealand Financial Markets Authority’s Corporate Governance Principles;
 - New Zealand 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; and
 - Global Reporting Initiative (GRI G4 Guidelines).

The Global Reporting Initiative (GRI) G4 is an international, independent reporting standard for best practice disclosure and reporting.

The GRI defines Material Aspects as reflecting significant economic, environmental and social impacts of an organisation or issues and risks that influence stakeholders’ assessment of that organisation.

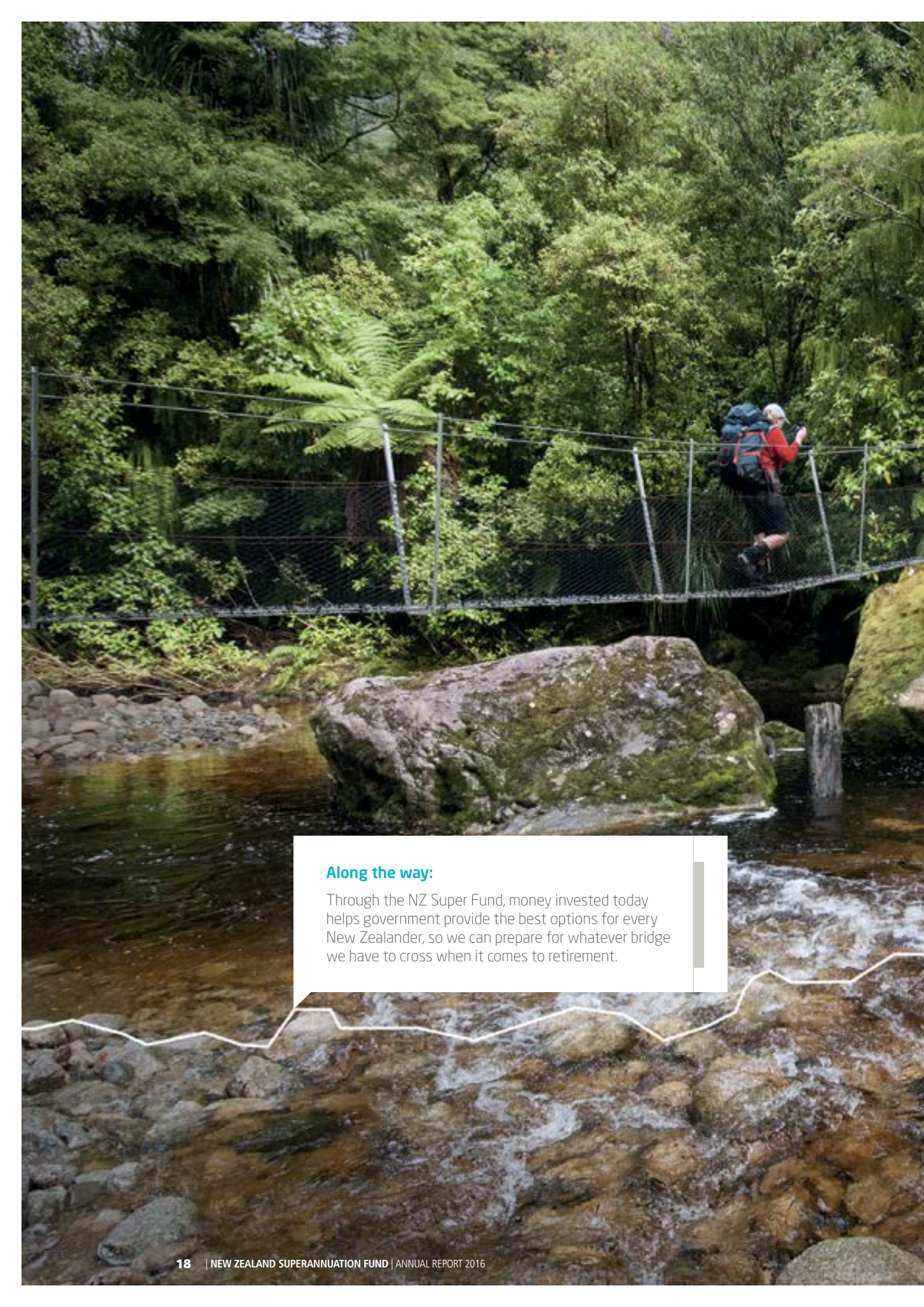
MATERIAL ASPECTS IDENTIFIED AND THEIR BOUNDARIES²

- Inside NZ Super Fund
- Outside NZ Super Fund
- Inside and Outside NZ Super Fund



G4-18
G4-19
G4-20
G4-21
G4-27

² The GRI G4 Guidelines describe Aspect Boundaries as the description of where impacts occur for each material Aspect. In setting the Aspect Boundaries, an organisation should consider impacts within and outside of the organisation. Aspect Boundaries vary based on the Aspects reported.



Along the way:

Through the NZ Super Fund, money invested today helps government provide the best options for every New Zealander, so we can prepare for whatever bridge we have to cross when it comes to retirement.

02

GOVERNANCE

Overview	20
Board Members	22
Leadership Team	24
Principles	26
Case Study – IFSWF Auckland	34
Risk Management	35
Remuneration and Discretionary Incentive Scheme	39

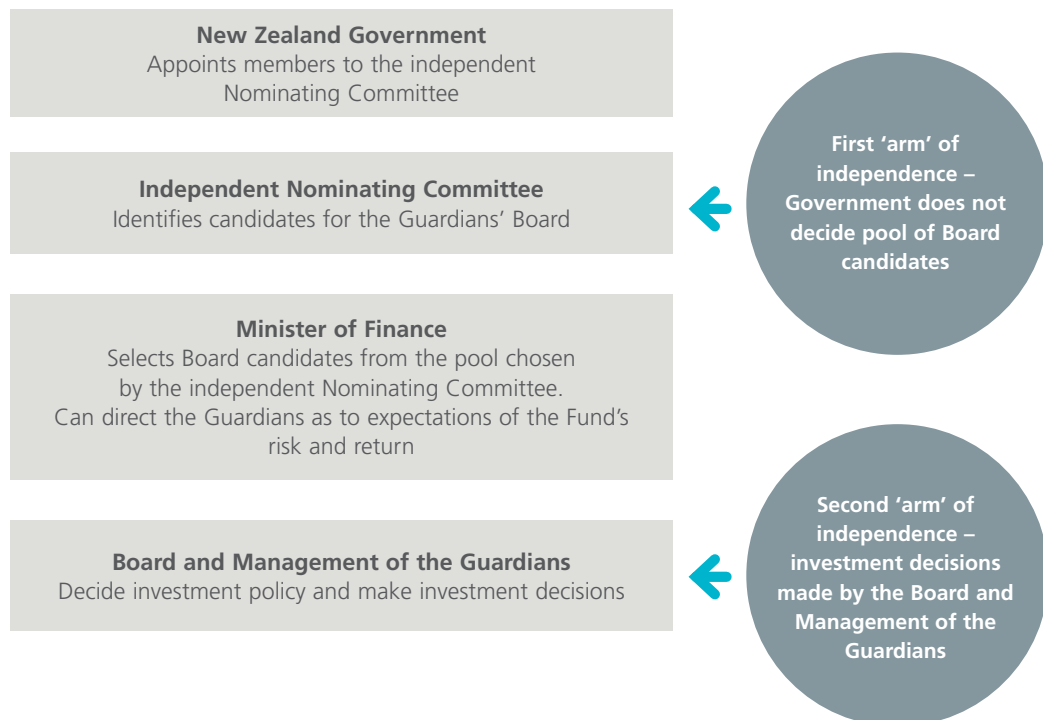
The Guardians has been vested with the powers and responsibilities to allow it to perform its investment mandate. In turn, sound governance and quality public reporting, with a high degree of transparency, are critical to maintaining stakeholder confidence in the Guardians and the Fund.

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; and
- provides clarity over accountability, roles and responsibilities.

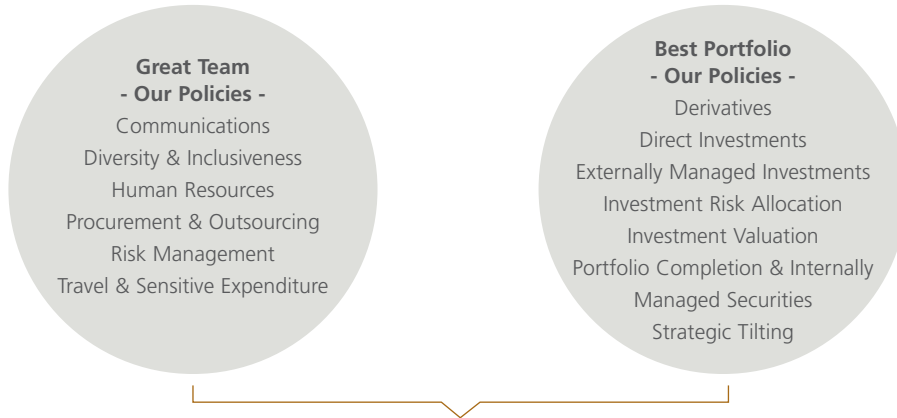
GOVERNANCE FRAMEWORK

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.



HOW WE IMPLEMENT GOVERNANCE

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



Delegations

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

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 appropriate 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 2015/16.

STAFF CODE OF CONDUCT AND SECURITIES TRADING PROCEDURE

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

- 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 and by setting rules about information flows and trading. Each quarter, staff members are required to disclose any personal trading they have undertaken, and to seek permission in advance before trading securities and in the New Zealand dollar currency (over a threshold). For further information on our Human Resources Policy see pages 62–68.

There were no major non-compliance issues in 2015/16.

 All our Policies including the Board Charter (which includes the Board Code of Conduct) and the Human Resources Policy are available at www.nzsuperfund.co.nz/publications/policies.

DOUG PEARCE

PIP DUNPHY

JOHN WILLIAMSON

CATHERINE SAVAGE

CRAIG ANSLEY

LINDSAY WRIGHT

STEPHEN MOIR



For bios of our Board members, visit

www.nzsuperfund.co.nz/nz-super-fund-explained-governance/board

CATHERINE SAVAGE
CHAIR

APPOINTED TO GUARDIANS' BOARD IN 2009
COMMITTEES: Employee Policy and Remuneration (Chair) and Audit

LINDSAY WRIGHT
DEPUTY CHAIR

APPOINTED TO GUARDIANS' BOARD IN 2012
COMMITTEES: Audit (Deputy Chair)

CRAIG ANSLEY

APPOINTED TO GUARDIANS' BOARD IN 2011
COMMITTEES: Audit

PIP DUNPHY

APPOINTED TO GUARDIANS' BOARD IN 2012
COMMITTEES: Audit (Chair)

STEPHEN MOIR

APPOINTED TO GUARDIANS' BOARD IN 2009
COMMITTEES: Employee Policy and Remuneration

JOHN WILLIAMSON

APPOINTED TO GUARDIANS' BOARD IN 2016
COMMITTEES: Audit

DOUG PEARCE

APPOINTED TO GUARDIANS' BOARD IN 2016
COMMITTEES: Employee Policy and Remuneration

NEW
Board
members

The past year saw some changes to the Guardians' Board. Following the departure of Gavin Walker and Mark Tume, we welcomed Doug Pearce and John Williamson. Both John and Doug bring a wealth of knowledge and experience.

DOUG PEARCE BCom



Doug Pearce was appointed to the Board of the Guardians on 30 May 2016. His term of office expires on 30 September 2020. Doug was the founding Chief Executive Officer and Chief Investment Officer of the British Columbia Investment Management Corporation (bcIMC), one of Canada's largest institutional investors, with over CAD100 billion in assets under management. He held these positions from 1988 until he retired in 2014 and has over thirty-five years of experience in the capital markets.

Doug has also served as Director and Chair of the Canadian Coalition for Good Governance (CCGG), the Pacific Pension Institute (PPI), and the Pension Investment Association of Canada (PIAC). He has a keen interest in business strategy and good governance and has been a member of the advisory board at the Forum for Women Entrepreneurs and the Faculty Advisory Board at UBC Sauder School of Business.

JOHN WILLIAMSON BA, LLB, LLM



John Williamson was appointed to the Board of the Guardians on 30 May 2016. His term of office expires 30 September 2020. John is the Group Chief Executive of Academic Colleges Group. Prior to this, John was the Group Chief Executive and Managing Director of Hellaby Holdings Limited and Director of Hellaby Holdings' subsidiaries. He has previously held positions on various boards including Hellaby Holdings, Hockey New Zealand and a number of primary sector, consumer and industrial businesses in New Zealand and Australia.

Leadership Team

DAVID SARA

MARK FENNELL

SARAH OWEN

MATT WHINERAY

ADRIAN ORR

MIKA AUSTIN

STEWART BROOKS



For bios of our leadership team visit

www.nzsuperfund.co.nz/nz-super-fund-explained-management/leadership-team

ADRIAN ORR BScSci, MA (Dist)
CHIEF EXECUTIVE OFFICER

AREAS OF RESPONSIBILITY:

General management of the Guardians under delegation from the Board

MATT WHINERAY BCom, LLB (Hons)
CHIEF INVESTMENT OFFICER

AREAS OF RESPONSIBILITY:

Asset allocation, investment analysis including macroeconomic strategy and responsible investment, appointment of investment managers, New Zealand and international direct investments, public and private market investments

MIKA AUSTIN BA, LLB
GENERAL MANAGER HUMAN RESOURCES

AREAS OF RESPONSIBILITY:

People and performance, culture, administration

STEWART BROOKS BCom, CA
GENERAL MANAGER FINANCE & RISK

AREAS OF RESPONSIBILITY:

Chair of Risk Committee, enterprise risk (including records management), external audit process, financial control, financial reporting, portfolio risk and compliance, tax

MARK FENNELL MSocSci (Hons), DipAcc, ACA, CTP
GENERAL MANAGER PORTFOLIO COMPLETION

AREAS OF RESPONSIBILITY:

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

SARAH OWEN BA, LLB, DipAcc
GENERAL MANAGER CORPORATE STRATEGY AND GENERAL COUNSEL

AREAS OF RESPONSIBILITY:

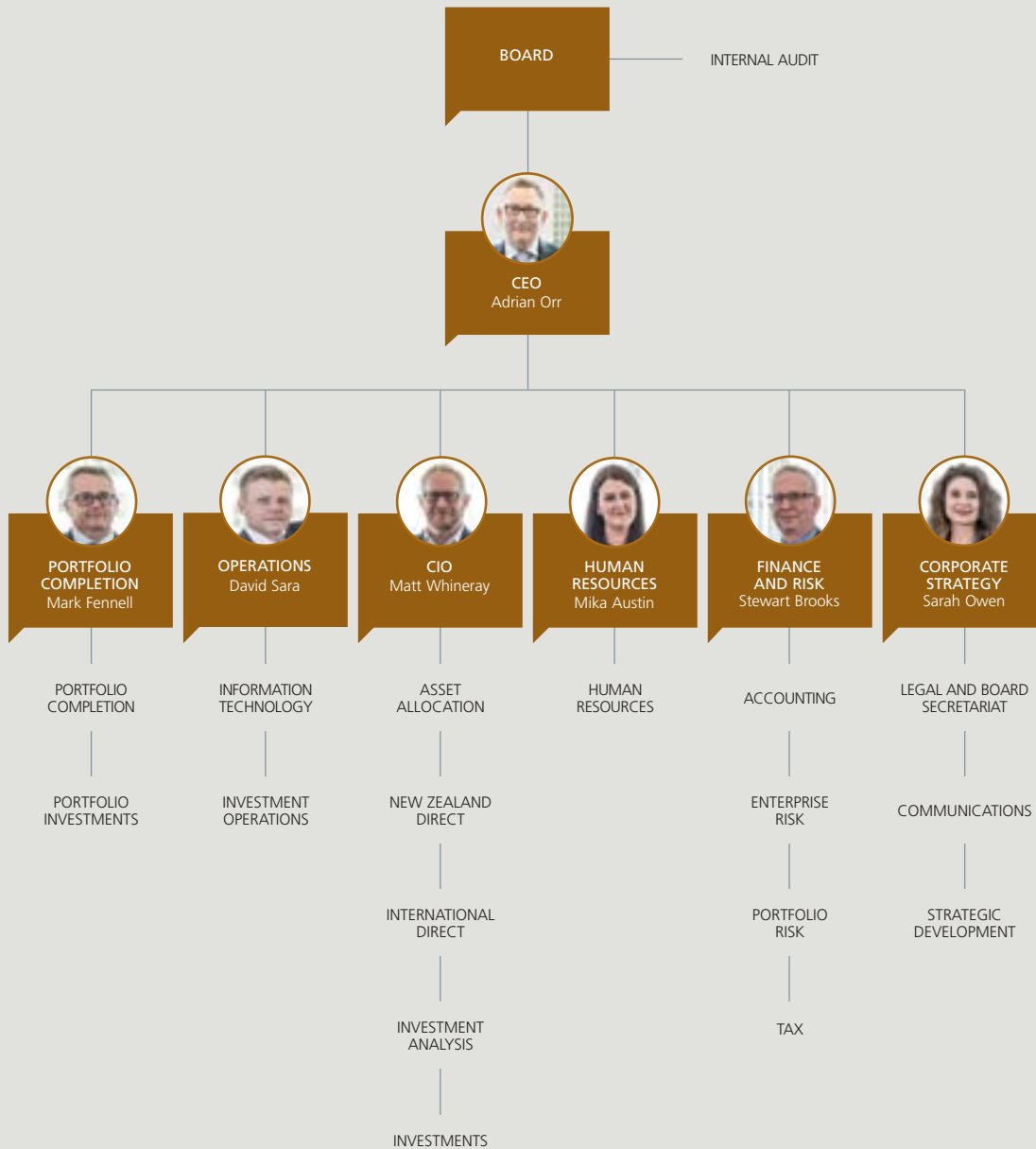
Board Secretariat, communications, legal, strategic development

DAVID SARA BMS (Hons), MBS (Dist)
GENERAL MANAGER OPERATIONS

AREAS OF RESPONSIBILITY:

Chair of Funding Treasury Group, information technology, investment operations

GUARDIANS OF NEW ZEALAND SUPERANNUATION Organisational Chart



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 2016.

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 21, 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.

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.

CONFLICTS OF INTEREST

The Guardians' approach to managing conflicts of interest is to treat a former role of a Board member as continuing to be a relevant interest for a period of time after the role ceased. The relevant period will depend on the circumstances (for instance, how long the Board member was in the role) but may be up to two years.

In light of this approach, on 2 June 2016, the Guardians obtained permission from the Minister of Finance under section 68 of the Crown Entities Act 2004 for Catherine Savage to act in relation to matters involving New Zealand banks, notwithstanding her potential interest by reason of being a former director of Kiwibank Limited (a role that she ceased on 31 January 2016). The Guardians' view was that the benefits of permitting Catherine Savage to contribute her expertise to New Zealand bank matters would enhance the quality of board governance and outweigh concerns about a potential conflict of interest.

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 2016 is set out on page 22.

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

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, 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;
- ensuring that decision-making authorities within the Guardians are clearly defined, that all applicable laws are complied with, and that the Guardians is well managed; and
- establishing the level of risk undertaken by the Guardians.

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 that 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.

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 comprehensive induction papers. An ongoing education programme for Board members ensures they have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board education programme are approved by the Board. The Board also hears directly from a range of external experts on relevant topics (e.g., investment markets and cyber security). The Board also has the opportunity to visit international peer funds or attend international fora to assess 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 Counsel.

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

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 www.nzsuperfund.co.nz/nz-super-fund-explained-governance/board for details on individual experiences.

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

DIVERSITY

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

- **Professional Experience:** Academia, Consulting, Banking, Funds Management, Insurance, Sales and Marketing, Manufacturing, Operational
- **Academic Disciplines:** Actuarial, Accounting, Arts, Economics, Finance, Law, Marketing, Mathematics and Science
- **Country Experience:** Australia, Canada, China, Germany, Hong Kong, Japan, Korea, New Zealand, Singapore, Thailand and United States of America
- **Gender:** Three women and four men
- **Age Range:** 40s–70s
- **Ethnicity:** European

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 2015/16 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.

As well as reviewing the financial statements of the Guardians and the Fund, the Audit Committee reviews the external and internal audit plans and monitor management's implementation of internal auditor recommendations.

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 seven times during 2015/16, including for a strategy day. The Audit Committee and the EPRC each met four times during 2015/16. 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
TOTAL NUMBER OF MEETINGS	7	4	4
Craig Ansley	6	4	n/a
Pip Dunphy	6	4	n/a
Stephen Moir	7	1*	4
Doug Pearce (joined 30/05/2016)	1	n/a	1 (as observer)
Catherine Savage	7	2**	4
Mark Tume (term of office expired 30/04/2016)	5	3	n/a
Gavin Walker (resigned on 31/12/2015)	4	2	2
John Williamson (joined 30/05/2016)	1	n/a	n/a
Lindsay Wright	7	4	n/a

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

** Catherine Savage joined the Audit committee in February 2016.

AUDIT COMMITTEE

Matters considered by the Audit Committee during the year included:

- The Guardians' process for monitoring market manipulation;
- Application of the Disclosure Initiative in the Fund and Guardians' financial statements;
- Deep dive asset valuation reviews; and
- Asset Safety Review on Assets Under Custody.

The Committee initiated a gap analysis with the Financial Market Authority's recently published guidelines on market misconduct. Although we are acting in accordance with the guidelines, we have chosen to introduce an additional process around post-trade monitoring.

In 2015/16, members of the Guardians' Finance team held a session to provide the Committee with further insight into the year-end reporting.

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 annually or on request with participation from the Office of the Auditor-General	Fund Performance Important developments relating to the Fund Important developments at the Guardians	Fund Performance 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, setting out strategic objectives and performance measures for the five years from 2016–2021, was published in June 2016. 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 2015/16 financial year are reported against in the Statement of Performance at pages 72–75 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. An online microsite is also available at www.ar2016.nzsuperfund.co.nz/. The report contains both audited financial statements for the Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and audited financial statements for the Guardians, which are signed by the Chair and one other Board member.

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

The Guardians were not required to appear before a Select Committee in 2015/16.

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

The Guardians received seven requests under the Official Information Act 1982 during 2015/16 (six in 2014/15).

 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 3(a) of the Guardians' financial statements.

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

Comprehensive information regarding executive remuneration, including details of the Guardians' discretionary incentive scheme, is disclosed at pages 39–40 and at Notes 3(a) and 3(b) of the Guardians' financial statements.

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 35–38.

7. Auditor

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 the Guardians' policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments without the approval of the Audit Committee. Any non-audit work conducted by the audit firm is disclosed in the financial statements.

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Auditor-General.

The Auditor-General has appointed Graeme Bennett of Ernst & Young to carry out the external audit of the Guardians and the Fund on her behalf. Typically the audit partner is rotated every six years. This is the first year of the new rotation.

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

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 30. As noted on page 20, the Guardians is an autonomous Crown entity that operates at 'double arm's length' from political stakeholders. This ensures that investment decision-making is on a purely commercial basis.

The Minister of Finance may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2015/16 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 52–54 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 8 December 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 – OUTCOMES AND ACTIONS

In 2014/15, we commissioned research into understanding the effectiveness of our relationships and communications with stakeholders. Drawing on this research, the result of which we summarised in last year's Annual Report, we have refreshed a three-year communications strategy for the Guardians and Fund. Specific initiatives undertaken during 2015/16 included:

- sharing our investment expertise via the publication of six 'How we Invest' white papers;
- holding a live streamed educational seminar on changes to the Fund's Reference Portfolio benchmark; and
- releasing a report on our views of the global investment environment.

In 2015/16, we undertook a further survey to understand the New Zealand public's awareness of the Fund. Overall awareness of the Fund was high, at 88%, although on more specific measures awareness was significantly lower. For example, around half of respondents confused the Fund with a Kiwisaver (private pension) fund. We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and Fund.

OUR STAKEHOLDERS

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

- asset and investment managers (for a full list of Managers and Custodians see pages 76–79);
- co-investors;
- Crown financial institutions;
- employees;
- investee companies;
- investor groups (e.g., UNPRI);
- iwi;
- media;
- non-government organisations (NGOs);
- peer funds;
- public of New Zealand;
- regulatory bodies in New Zealand and globally;
- relevant New Zealand public sector agencies (e.g. Treasury, Reserve Bank, State Services Commission, Financial Markets Authority, Serious Fraud Office, Inland Revenue, Office of the Auditor-General, Christchurch Earthquake Recovery Agency); and
- suppliers.

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 and detailed information easily on our website.

This includes:

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

Communications with stakeholders and the external website are managed in line with 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. A copy of this policy is available at www.nzsuperfund.co.nz/publications/policies.

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 continues 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;
- New Zealand Corporate Governance Forum;
- New Zealand Corporate Taxpayer Group; and
- Responsible Investment Association Australasia (RIAA).

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

Stakeholder engagement and collaboration activities undertaken in 2015/16 included:

- preparing to host the International Forum of Sovereign Wealth Funds' 2016 Annual Meeting in Auckland;
- chairing of, and provision of secretariat services to, the New Zealand Corporate Governance Forum;
- discussions with Treasury officials, on topics including strategic tilting, use of derivatives, responsible investment, performance reporting and liquidity management; and
- discussions with Crown Financial Institutions on various topics including responsible investment, cyber security and custodial arrangements.

PRIORITIES FOR 2016/17 INCLUDE:

- working with the International Forum of Sovereign Wealth Funds to promote knowledge-sharing between members, collaborate with new Forum research partners and host the Forum's 2016 Annual Meeting in Auckland;
- continuing to collaborate with Treasury and the Reserve Bank of New Zealand on Crown balance sheet modelling; and
- creating a network of strongly aligned capital owners to assist funding New Zealand's key projects.

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

SPONSORSHIP

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

Our sponsorship activities include:

- Auckland Centre for Financial Research at AUT University – Auckland Finance Meeting;
- WriteMark Plain English Awards – Annual Report Award;
- Commission for Financial Capability Conference;
- RIAA Responsible Investment Briefing in Auckland;
- RIAA Responsible Investment Benchmark Report;
- Auckland University New Zealand Superannuation Fund Accounting and Finance Final Year Prize; and
- Auckland University New Zealand Superannuation Fund Accounting and Finance Stage III Prize.

G4-16
G4-25
G4-26
G4-27
G4-EC 1

IFSWF Auckland

2016

01



The Guardians will host the 2016 annual meeting of the International Forum of Sovereign Wealth Funds (IFSWF) in Auckland. Established under the auspices of the IMF in 2009, IFSWF is now an independent body with a London secretariat. Guardians' Chief Executive Adrian Orr was elected Chair last year for a three-year term.

The meeting will bring some of the world's largest and most influential investors to the country. It provides an opportunity to showcase the New Zealand economy as a competitive, well-governed investment destination.

The conference theme is **Investing in a Climate of Uncertainty: The Sovereign Wealth Fund Response**. Specific topics will cover fund management in a low-growth economic environment, and the risks -- and opportunities -- of climate policy for long-term investors.

As well as investment experts and member presentations, the meeting will feature leading international speakers, including respected academics and industry professionals.

IFSWF is the leading global network of sovereign wealth funds (SWFs), with thirty member funds from around the world. Its members manage assets worth an estimated USD4 trillion, about two-thirds of global SWF assets.

IFSWF was established because of the rise in the number and size of SWFs, along with their potential impact on global finance. SWFs may be established by governments to help ease a future taxpayer burden, such as superannuation costs in New Zealand, or to share the benefits of natural resource extraction with future generations. Others have been established to provide economic stability or development. SWFs have similarities to other large funds, but as government-owned institutions with long-term investment horizons, they have special characteristics.

IFSWF's founding purpose is to promote transparency, good governance and the Santiago Principles, 24 guidelines that form a code of good practice. In doing so, it contributes to the maintenance of a stable, open global financial system with free flows of capital and investment between countries. It also works to facilitate international understanding of SWFs' purpose and activities.

IFSWF is a relatively young organisation and is now active in research and education to support improved SWF practice and performance. It has established research partnerships with the Bocconi University's Sovereign Investment Lab, Milan, and the Fletcher School at Tufts University, Boston.

IFSWF meets each year to share knowledge and exchange views on industry issues, from investment strategy, portfolio allocation, risk management and governance to technical and operational aspects of funds management. Discussions cover investing in infrastructure, emerging markets, co-investment opportunities and new investment models.

For the Fund, participation is a way to benchmark activities, collaborate with peers and seek potential investment opportunities.

The Auckland gathering, from 8 to 11 November, will include technical workshops for members, the Forum's eighth annual meeting and conference sessions on topical investment issues. The New Zealand economy and Māori economic development will also feature.

More than 200 delegates are expected to attend the conference, including senior figures from the member sovereign wealth funds, with observers from multilateral institutions such as the International Monetary Fund, the World Bank, academia and international financial services firms. New Zealand Government and business leaders have been invited, along with representatives from Pacific Island SWFs.

The Guardians is working closely with government departments to ensure New Zealand achieves the maximum benefit from the meeting.



Information of IFSWF is available at:
www.ifswf.org

Risk is an important part of doing business for any investment fund. We take investment risk in order to achieve our mission. Understanding and managing those risks helps us ensure that the risks taken are appropriate for the returns anticipated.

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

The Guardians has extensive risk-management policies, procedures and 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 underlying Investment Risk Allocation 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 and the Guardians 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 managing risk is seen as part of the overall business process, and a robust framework of risk identification, evaluation, monitoring and control exists.

The Chief Executive Officer and the General Manager Finance and Risk provide confirmation to the Board 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 (continued)

RISK REPORTING FRAMEWORK

The Board receives an enterprise-risk, dashboard-style report every six months. This report is derived from the top and emerging risks identified by the Guardians' Business Units and is facilitated by the Enterprise Risk team. The Enterprise Risk team was established in 2015/16.

Each Business Unit maintains a Risk Register that identifies the risks that could impact on its specific activities and include related controls and action plans.

This structure is consistent with a suggestion made by Promontory Financial Group in their 2014 Independent Review of the Guardians and Fund.

 The 2014 Independent Review and the Guardians' response is available on our website at www.nzsuperfund.co.nz/publications/papers-reports-reviews/37

The table below summarises our risk identification and assessment process:

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

TOP RISKS

We have identified, through extensive internal consultation, the organisation's top risks. The risks we have identified, along with focus areas for the 2016/17 year, are set out below.

Risk	Current Actions/Focus Areas
Threat to stability of information technology systems or infrastructure	Undertake internal cyber risk threat assessment and ongoing education programme for staff
Change in key stakeholder (including Board) support	Board education programme Stakeholder engagement plan Accurate, clear and consistent reporting
Exposure to fraudulent activity (incl. rogue traders, bribery, etc.)	Ongoing activity to establish improved controls around Fund payables in order to reduce opportunities for duplicate payments
Insufficient Fund liquidity	Review of Liquidity Replenishment System
Failure of systemically important supplier or counterparty	Preparation for central clearing
Failure of investment philosophy	Post implementation monitoring of 2015 Reference Portfolio
Failure of strategy design	Risk Allocation Process design review Review of risk budgeting approach and implementation
Significant breach of legislation or regulation	Regular reviews of our legislative compliance framework
Failure in execution of activities (includes capabilities shortfall and process failure)	Ongoing embedding of 2015 Culture Survey initiatives

DERIVATIVE RISK MANAGEMENT

Where we use derivatives as part of our investment strategy, we have robust control frameworks in place to ensure their judicious and efficient use. Controls include a strong focus on the risks relating to the use of counterparties, liquidity and operational matters, including compliance with investment mandates. See pages 47 and 82 for more information on the Fund's use of derivatives.

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 and simplifying processes to facilitate scalability, while ensuring effective risk management.

In 2015/16, the Risk Committee's activities included:

- operational risk assessments for investment opportunities;
- a review of top risks for the Guardians and Fund;
- a review of risks for each individual business unit;
- performing stress tests on various enterprise activities to test business resilience;
- a review of our Master Custodian, Northern Trust;
- policy reviews;
- conducting an organisational risk awareness survey;
- a review of the Guardians' Risk Appetite Statement and Risk Assessment Framework
- staff rotation risk assessment (see pages 62–63 for more information on this initiative); and
- leading the Guardians' response to cyber security risks through an internal cyber security project.

Risk Management (continued)

MONITORING

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

The following table sets out performance against key Fund risk measures relating to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), strategic tilting active risk, active manager risk limits and target levels of liquidity. 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	2015/16	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	0
Breaches of relative risk limit (rebalancing limits) post-portfolio rebalancing	0	0	0	0	0	0
Breaches of active manager limit	0	0	0	0	0	0
Tilting						
Breaches of strategic tilting active risk limit post-portfolio rebalancing	0	0	0	0	0	0
Breaches of strategic tilting absolute risk limit post-portfolio rebalancing	0	0	0	0	0	0
Breaches of target liquidity level	0	0	0	0	0	0
BUSINESS RISK MEASURES						
Active breaches of compliance with investment mandates*	0	1	0	3	5	4
Loss of data/IT services of more than 30 minutes	0	0	1	0	0	0
Regulatory non-compliance	0	0	0	0	0	0
Reported instances of fraud	0	0	0	0	0	0
Restatement of Fund reporting	0	0	0	0	0	0
Operational incidents or errors rated as potentially high risk**	N/A	3	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 correctly follow a process/instruction). Incidents or errors with potentially medium or high impacts are reported to the Board's Audit Committee as soon as 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.

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 implement 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 that 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 with 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 (49 out of a total of 115 staff members as at 30 June 2016) are eligible for the financial performance component of the incentive scheme.

These payments are calculated over rolling four-year periods, comprising:

- performance compared with the 90-day Treasury Bill return; and
- performance compared with 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.

Payments based on outperforming the Treasury Bill return reach a maximum of 13.33% of base remuneration if the Fund exceeds the Treasury Bill return by 4.00%.

Payments based on outperforming the Reference Portfolio return reach a maximum of 26.67% of base remuneration if the Fund exceeds the Reference Portfolio return by 0.75%.

No additional payments are made if the Fund exceeds the Treasury Bill or Reference Portfolio returns by more than these amounts.

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 64.

Remuneration and Discretionary Incentive Scheme (continued)

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.

BONUS SCHEME STRUCTURE	Maximum Potential Bonus as a % of Base Remuneration	
	CORPORATE STAFF	INVESTMENTS, PORTFOLIO COMPLETION AND LEADERSHIP TEAM
Achievement of individual objectives and individual performance	20%	20%
Financial performance vs. Treasury Bills (4-year moving average)	N/A	13.33%
Financial performance vs. Reference Portfolio (4-year moving average)	N/A	26.67%

INCENTIVE ACHIEVEMENT IN 2015/16

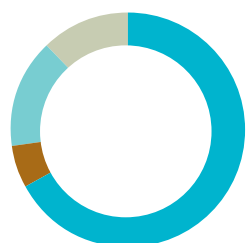
- Total incentives to be paid: NZD6.6 million (NZD6.8 million in 2014/15)
- Average achievement for the individual component of the bonus was 77% (74% in 2014/15)
- For eligible staff who have been employed for the last four full years:
 - payments made in respect of the Treasury Bill return were 10.00% of average base remuneration for the equivalent period, compared to the maximum possible 13.33%;
 - payments made in respect of the Reference Portfolio return were 24.60% of average base remuneration for the equivalent period, compared to the maximum possible 26.67%.
- Over the past four years the Fund has:
 - exceeded the Treasury Bill return by an average 12.68% p.a. (-0.65% in 2015/16)
 - exceeded the Reference Portfolio return by an average 3.05% p.a. (0.52% in 2015/16).

2015/16 Incentive Payments	Total Payments \$000	Average Payment \$000
Corporate Staff	1,262	19
Investments and Portfolio Completion Staff (including Leadership Team members)	5,370	110
Total	6,632	57

CHIEF EXECUTIVE OFFICER REMUNERATION

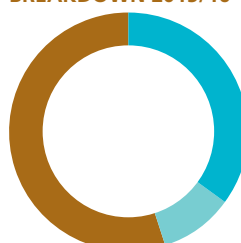
The Chief Executive Officer's remuneration for the 2015/16 year, including base remuneration and accrued incentive entitlements, was NZD1,025,121, compared to NZD830,925 in 2014/15. These pie charts illustrate the components of the CEO's remuneration.

CEO REMUNERATION 2015/16



- Base **67%**
- Bonus – Fund performance vs Treasury Bills **6%**
- Bonus – Fund performance vs Reference Portfolio **15%**
- Bonus – individual objectives and individual performance **12%**

CEO BONUS PAYMENT (\$334,799) BREAKDOWN 2015/16



- Individual objectives and individual performance **35%**
- Fund financial performance – current year **10%**
- Fund financial performance – prior years **55%**

03

INVESTMENT

Report

Performance Report	42
How we think about active risk and adding value – by Chief Investment Officer Matt Whineray	44
Value-Add in 2015/16	46
Case Study – Active Collateral and Direct Arbitrage Strategies	47
Investment Activity – Global	48
New Investments and Portfolio Activities During 2015/16	50
Case Study – View Inc.	51
Investment Activity – New Zealand	52
Case Study – Hobsonville	54
Responsible Investment Report	55
Case Studies	60

1.89%

Total return 2015/16
(after costs and before NZ tax)

Fund size up by

\$0.56b

THE YEAR IN SUMMARY

The Fund again out-performed global markets, returning 1.89% (after costs, before NZ tax) over 2015/16. The Guardians' active investment activities added value of 0.52% (NZD155 million) on top of a Reference Portfolio (market) return of 1.37%.

The Fund finished the year at NZD30.10 billion before New Zealand tax, an increase of NZD0.56 billion.

The overall Fund's out-performance of the Reference Portfolio was due mainly to strong performance by its timber and infrastructure assets offset by losses in its strategic tilting and global macro strategies.

RETURN DRIVERS

Around three-quarters 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. The returns are shown on a hedged to NZD basis.

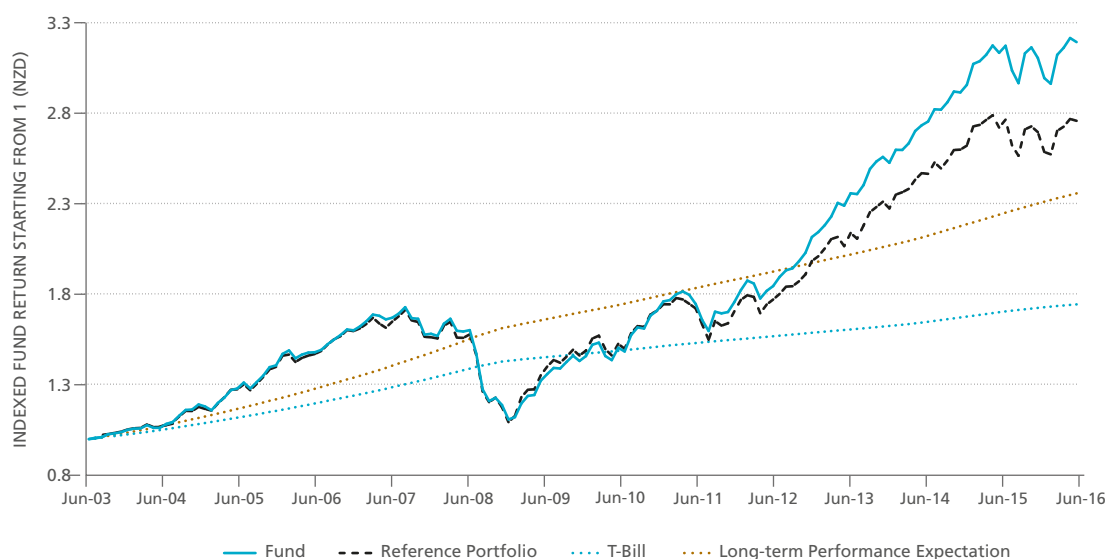
Reference Portfolio	Weight	2015/16 Return
Global Equities – developed markets	65%	-0.86%
Global Equities – emerging markets	10%	-8.65%
New Zealand Equities	5%	20.44%
Global Fixed Income	20%	10.13%
Total	–	1.37%

For more information about how the Reference Portfolio works, and changes to it that became effective on 1 July 2015, see www.nzsuperfund.co.nz/how-we-invest/reference-portfolio.

PERFORMANCE SINCE INCEPTION

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

Fund performance since inception




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

- The Reference Portfolio return
- Treasury Bills – a measure of the 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 2016, Treasury Bill Return + 2.7%).

The gap between the Reference Portfolio return and the actual Fund return, as at 30 June 2016, illustrates the value the Fund's active investment strategies have added since inception (NZD4.3 billion or 1.24% 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 short-term debt (NZD13.3 billion or 5.03% 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. From 1 July 2015, the long-term performance expectation changed from Treasury Bills + 2.5% to Treasury Bills + 2.7%.

 For more information on the Reference Portfolio benchmark, please visit:
<https://www.nzsuperfund.co.nz/how-we-invest/reference-portfolio>

Fund Performance as at 30 June 2016	Fund Size: NZD30.10 Billion Before Tax				
	ONE YEAR	THREE YEARS	FIVE YEARS	10 YEARS	SINCE INCEPTION (SEPT 2003)
Actual Fund Returns (after costs, before NZ tax)	1.89%	11.70% p.a.	12.15% p.a.	8.07% p.a.	9.44% p.a.
Reference Portfolio Return (after costs, before NZ tax)	1.37%	10.08% p.a.	9.53% p.a.	6.64% p.a.	8.20% p.a.
Value-Added (Actual Return – Reference Portfolio Return)	0.52%	1.62% p.a.	2.62% p.a.	1.43% p.a.	1.24% p.a.
Estimated \$ earned relative to Reference Portfolio	\$155m	\$1,287m	\$3,534m	\$4,087m	\$4,270m
New Zealand income tax paid/(recovered)	-\$29m	\$1,594	\$2,722m	\$4,117m	\$4,638m
New Zealand Treasury Bill (T-Bill) Return	2.54%	2.85% p.a.	2.68% p.a.	3.95% p.a.	4.42% p.a.
Net Return (Actual Return – T-Bill Return)	-0.65%	8.85% p.a.	9.47% p.a.	4.12% p.a.	5.03% p.a.
Estimated \$ earned relative to T-Bills	-\$196m	\$6,786m	\$11,252m	\$11,204m	\$13,310m
\$ change in net asset position*	\$562m	\$7,134m	\$11,072m	\$19,996m	\$30,104m

* Excludes provisions for New Zealand tax.

Growth assets comprise 80%

OF OUR Reference Portfolio

Our Reference Portfolio comprises 80% growth assets (developed market equities, emerging market equities and NZ equities) and 20% fixed income assets (debt issued by governments and by companies).



Matt Whineray – Chief Investment Officer

This level of growth assets is a deliberate choice made by our Board in order to meet our mandate – to maximise returns without undue risk.

The high level of growth assets – sometimes called risky assets – brings with it significant volatility. This means that the returns from the Reference Portfolio from year to year will vary – sometimes by a lot. In the last five years, the annual returns from our Reference Portfolio have ranged from -0.23% to 19.47%. The Fund's expected volatility of annual returns is approximately 13.5%. What this means is that 90% of the time, we expect returns to range from -13% to +30%. Or to put it another way, we expect negative annual returns one year in four. So far, the worst year the Fund has had was in 2009, when it recorded -22%.

Of course, we don't expect returns to be negative for a particular year, rather we expect that there will be years where the returns are poor or

negative – and sometimes several in a row. We take this risk because we expect that, over the long term, we will be rewarded by way of returns that exceed what we could achieve by holding a portfolio of bonds, or by simply putting the money in the bank on term deposit. Those types of investment carry much less 'risk' in terms of difference in annual returns, but they also come with much lower long-term expected return.

The Reference Portfolio is our starting portfolio. In the absence of any other investment opportunities, we simply hold the Reference Portfolio and receive the returns that it generates from broadly diversified, low cost market exposures.

13.5%

is the Fund's expected volatility of annual returns

We then aim to improve on the performance of the Reference Portfolio by obtaining the market exposures in it as efficiently as possible and by engaging in various investment strategies. To do this, we need to take some additional risk. In investment jargon, this is known as 'active risk'. The Board provides management with a fixed amount of 'active risk' it can use. The Board then monitors the way management uses that active risk – by making investments in different assets or investment strategies, and the

performance of the actual portfolio against the Reference Portfolio.

We look to allocate active risk to those opportunities where we have the highest confidence of improving the performance of the portfolio. We manage this through the creation of a number of risk baskets – and we divide the active risk among these baskets. Each risk basket is assigned a number of investment opportunities, and each of those opportunities is allocated a share of the total active risk of the Fund. We group similar types of investment opportunities in the different risk baskets so that we can make a sensible allocation of the total active risk. The table on page 46 outlines the five risk baskets and the opportunities within each basket.

So under the Structural risk basket, we consider the attractiveness of investment opportunities including forestry ownership, farm investment, provision of reinsurance against natural catastrophes and life insurance. We believe that these types of opportunities diversify the returns of the Actual Portfolio – reducing the volatility of returns.

Under the Market Pricing – Broad Markets risk basket, we allocate risk to our Strategic Tilting programme and to what we call the global macro opportunity. This latter opportunity seeks to take advantage of mispricing in global investment markets – taking positions in equities, bonds, currencies and commodities. We access this opportunity through two external fund managers; Bridgewater and D.E. Shaw.

The idea of not allocating all of our active risk to a single opportunity is based on a desire to diversify our active risk. There are no sure things in investing – so we look to allocate the risk across a range of opportunities, which we expect will behave differently through time and won't all go up, or down, at the same time. We expect that, in any particular year, some will be positive contributors, while others will detract from the overall performance.

The level of active risk that we run from time to time will reflect the sum of all of our investments under the various investment opportunities. If we think that there are relatively few opportunities to improve the performance of the Fund, our active risk will be low and the returns on the Actual Portfolio will be closer to the returns on the Reference Portfolio. We monitor the ongoing allocation of the active risk closely to ensure that we are close to our desired allocation, and within the limits provided to management by the Board.

Having decided which opportunities we think are more attractive, we then seek to gain access to those opportunities. This is where we talk about 'access points'. Access points are the way we actually gain exposure to different opportunities. An access point might be an external manager managing a portfolio of equities for us, or a direct investment we make ourselves in a farm, for example. We choose what we think is the most efficient access point for a particular opportunity, taking into account where we think our advantages lie and our internal capabilities versus those of external managers, among other things.

When we describe specific investments in case studies in our annual reports, we show how we have gained exposure to the desired investment opportunities to which we have allocated active risk. This is the last step in the investment process that begins with an agreement with the Board to provide management with an

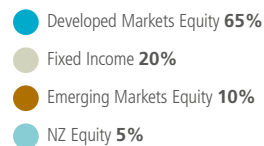
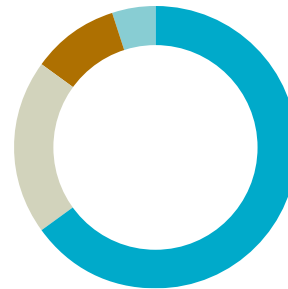
active risk budget so we can improve on the performance of the Reference Portfolio.

Since we began investing, we have been successful in improving on the return of the Reference Portfolio, and we have added NZD4.3 billion over and above what we would have achieved just by holding the passive, low-cost market exposures represented by the Reference Portfolio.

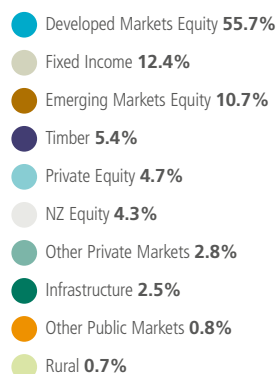
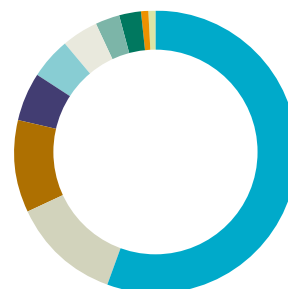
The amount by which we add value will vary from year to year, and the source of the value added will also vary from year to year. That is why diversification of our active risk is so important – what was a winner last year may not be this year. For example, our timber investments detracted from the Fund return last year, but made a significant positive return during the 2016 year; while our global macro investments did the opposite – detracting from 2016, but contributing in 2015. Our infrastructure investments added value over each of the past two years. All of these investment opportunities have been positive contributors to our returns since inception. We aim to add value through exploiting our advantage of being a long horizon investor. As a result, we expect there will be years where we underperform our benchmark because our strategies are geared towards the longer term. Our annual added value over the Reference Portfolio has varied from -3.89% to +7.36% since we began investing. Our annual average value added return over the Reference Portfolio return is 1.24%.

Our goal is to add value of 1% p.a. over the return of the Reference Portfolio, over the long term. This may not sound like a significant amount, but over a 30-year period, it would add NZD88 billion to the Fund, which will significantly reduce the burden on future taxpayers of government superannuation.

REFERENCE PORTFOLIO



ACTUAL PORTFOLIO – 30/6/2016*



*excludes the impact of any strategic tilts.



Matt explains active risk and adding value at: www.ar2016.nzsuperfund.co.nz/active-risk-adding-value

G4-EC1
G4-FS6

NZD155m

in value-add

This year, we have aligned our public reporting on the value added to the Fund by our active investment strategies to the risk budget approach outlined on

pages 44–45 and on our website at:
www.nzsuperfund.co.nz/how-we-invest-actual-portfolio/risk-budgets

The Fund outperformed the Reference Portfolio by 0.52% (NZD155 million) over the year. This compares to a 4.45% (NZD1.15 billion) out-performance in 2014/15.

Risk baskets	Performance vs Reference Portfolio 2015–16
ASSET SELECTION e.g., Opportunistic, Buyout This basket contains opportunities that involve the skill to pick assets. These include internal and/or external mandates such as NZ active equities, or one-off direct investments (e.g. Z Energy and Datacom). Most opportunities in the Asset Selection risk basket produced value-add with the biggest contributors being active NZ equities and NZ opportunistic investments.	0.29%
MARKET PRICING – ARBITRAGE, CREDIT AND FUNDING e.g., Active Collateral, Merger Arbitrage These opportunities are mainly in the area of credit and funding that often draw on the Fund's sovereign status and liquidity endowments. These opportunities tend to have lower risks than those in the other two market pricing baskets since interest rate risks are generally hedged and trades implemented via some arbitrage strategies. Active collateral and our direct arbitrage strategies added the most value in this basket. Some value was detracted from the more recently added merger arbitrage opportunity. See page 47 for case study on Active Collateral and Direct Arbitrage.	0.20%
MARKET PRICING – BROAD MARKETS e.g., Global Macro, Strategic Tilting The opportunities in this basket draw on the Fund's endowment of having a stable risk aversion compared to the market. These opportunities include strategic tilting, one of our internal mandates that systematically takes on risk after markets have fallen and takes risk off again after markets have recovered. In contrast to the high value-add contribution from this basket in the last financial year, most of the opportunities in this risk basket produced a slight negative value-add this year. The main detractors were global macro managers and the strategic tilting programme.	-0.53%
MARKET PRICING – REAL ASSETS e.g., Energy, Infrastructure, Real Estate These opportunities are mainly driven by our views of the pricing attractiveness of real assets in their respective markets, which include infrastructure, real estate, energy investments and expansion capital. Most opportunities produced positive value-add. The most notable value-add contributors came from the infrastructure investments, and to a lesser extent, the expansion capital investments.	0.78%
STRUCTURAL e.g., Emerging Markets Equity Up-weight, Timber This basket includes diversifying assets such as timber, life settlements and catastrophe bonds that are not represented in the Reference Portfolio. The basket also includes opportunities that we intend to maintain an allocation to (e.g. an overweight to emerging market equities) based on our favourable views on the medium to longer term opportunity drivers. The opportunities within this basket experienced a wider variation of performance this year. The most notable value-add came from the timber opportunity due to an increase in value of the Kaingaroa forest investment. The largest negative value-add came from the emerging markets upweight opportunity since emerging markets performed poorly compared to developed markets, and their currencies also depreciated against the NZD. The position is built upon the view that, over the longer term, emerging markets will out-perform developed markets.	0.10%

We will be able to provide year-on-year comparisons of risk basket performance from 2016/17.



ACTIVE Collateral and Direct Arbitrage Strategies

03

We get some of our market exposure synthetically – using derivatives. For example, instead of investing \$100 in physical equity securities, we enter into an agreement to receive the return on that same group of equity securities. Instead of funding the full amount, these contracts require us to provide a smaller amount of collateral, say, 10% of the total exposure. The remaining cash forms what we call the collateral pool. We manage this cash using two internal mandates.

This case study sets out the key features of two value-adding investment mandates managed by our in-house Portfolio Investment team: Active Collateral and Direct Arbitrage.

- Active Collateral – the objective of this mandate is to generate a return above its benchmark by actively seeking credit and liquidity opportunities.
- Direct Arbitrage – this mandate is designed to achieve a positive absolute cash return without taking market directional exposure.

The amount of active risk taken by each mandate is set through the risk budget process (see pages 44–46) and governed under risk limits agreed with the Board.

ACTIVE COLLATERAL

This mandate seeks to invest Fund liquidity through five activities:

- exploiting tight funding conditions;
- regulatory vs economic cost;
- relative value;
- new issue premium; and
- opportunistic investing.

The mandate takes advantage of some of the Fund's endowments (sovereign status, certain liquidity and long horizon) as well as our investment belief that some markets are conducive to active returns.

Examples of the kinds of transactions undertaken within the Active Collateral mandate include:

- opportunities arising from tight funding conditions where we can hedge out (remove) credit, interest rate and foreign exchange risk and earn a premium purely for taking on illiquidity risk. An example is credit default swap bond basis (which exploits the relative value between a bond and a credit default swap).
- provision of short-term funding to enable the issuance of collateralised loan obligations to investors.

These and similar investment opportunities arise from market conditions and regulatory changes in the USA and Europe, which have made it less economic for banks to provide financing for certain products. They are attractive to us because we are not subject to the same regulatory constraints as banks, and they are generally senior obligations (lower risk), provide attractive margins, diversify our portfolio and are generally short-term in nature.

To either hedge out or to take risk, we also use derivative financial instruments such as interest rate swaps, foreign exchange hedges, credit default swap indices or tranches of indices, and single name credit default swaps, within the mandate.

Active positions taken in this mandate are limited by a range of prudential rules that limit the amount of active risk and credit risk permitted in the mandate.

Since inception of the mandate in 2009, the active collateral mandate has added NZD382 million over its benchmark.

DIRECT ARBITRAGE

The mandate has operated since 2009 and is generally implemented using derivatives. The direct arbitrage strategy is designed to achieve a positive absolute cash return and with largely market-neutral positions. Arbitrage is the simultaneous sale and purchase of an asset or derivative to profit from a difference in the price. It exploits the price differences of identical or similar financial instruments on different markets or in different forms.

The mandate aims to take advantage of market dislocations from time to time that create arbitrage opportunities. The strategy plays to our endowment, as a long-term investor, to withstand market volatility when others are unable or unwilling to do so.

The arbitrage strategies used in this mandate include arbitrage on currencies, dual-listed companies, credit default indices and bond future basis (the difference between a cash price and a futures price).

Since inception, of the mandate in 2009, the direct arbitrage mandate has added NZD129 million.

The Guardians' Derivatives Policy is available at: www.nzsuperfund.co.nz/publications/policies.

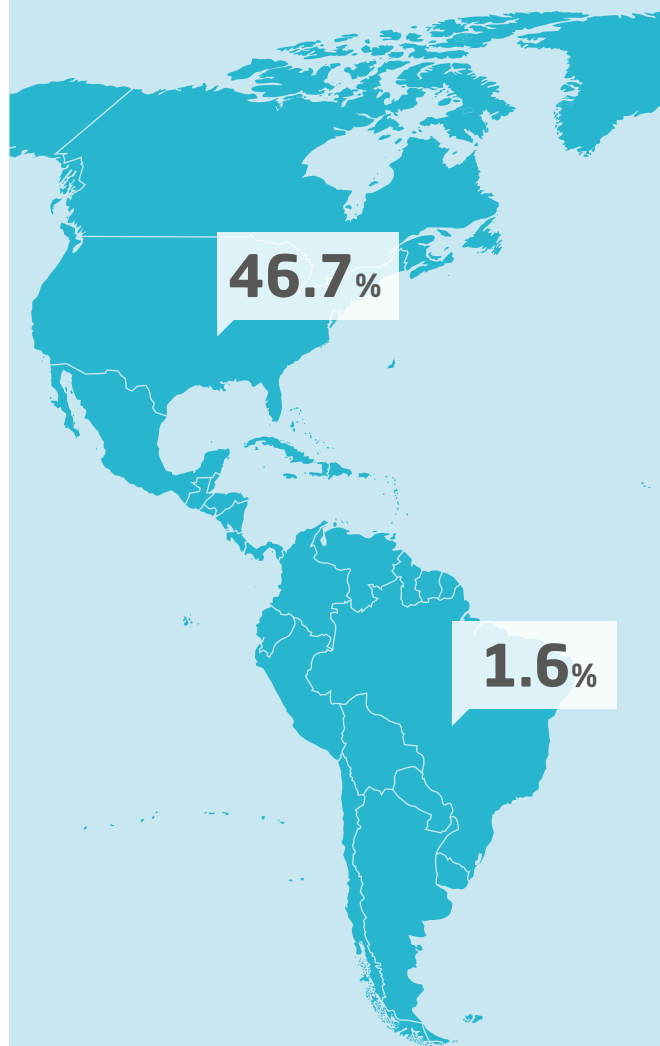
In his 2016/17 Letter of Expectations to the Guardians, the Minister of Finance sets out his expectation that the Crown Financial Institutions use derivatives judiciously. We only use derivatives where we have a clear purpose. Investment risk and expected return is captured and monitored at the mandate and Fund level. Counterparty risk is managed through a counterparty management framework with clear controls in place. As detailed in our 2014/15 Annual Report, liquidity risk is also captured and monitored through a formal system. The Guardians' Board receives regular reports on derivative usage and exposures.

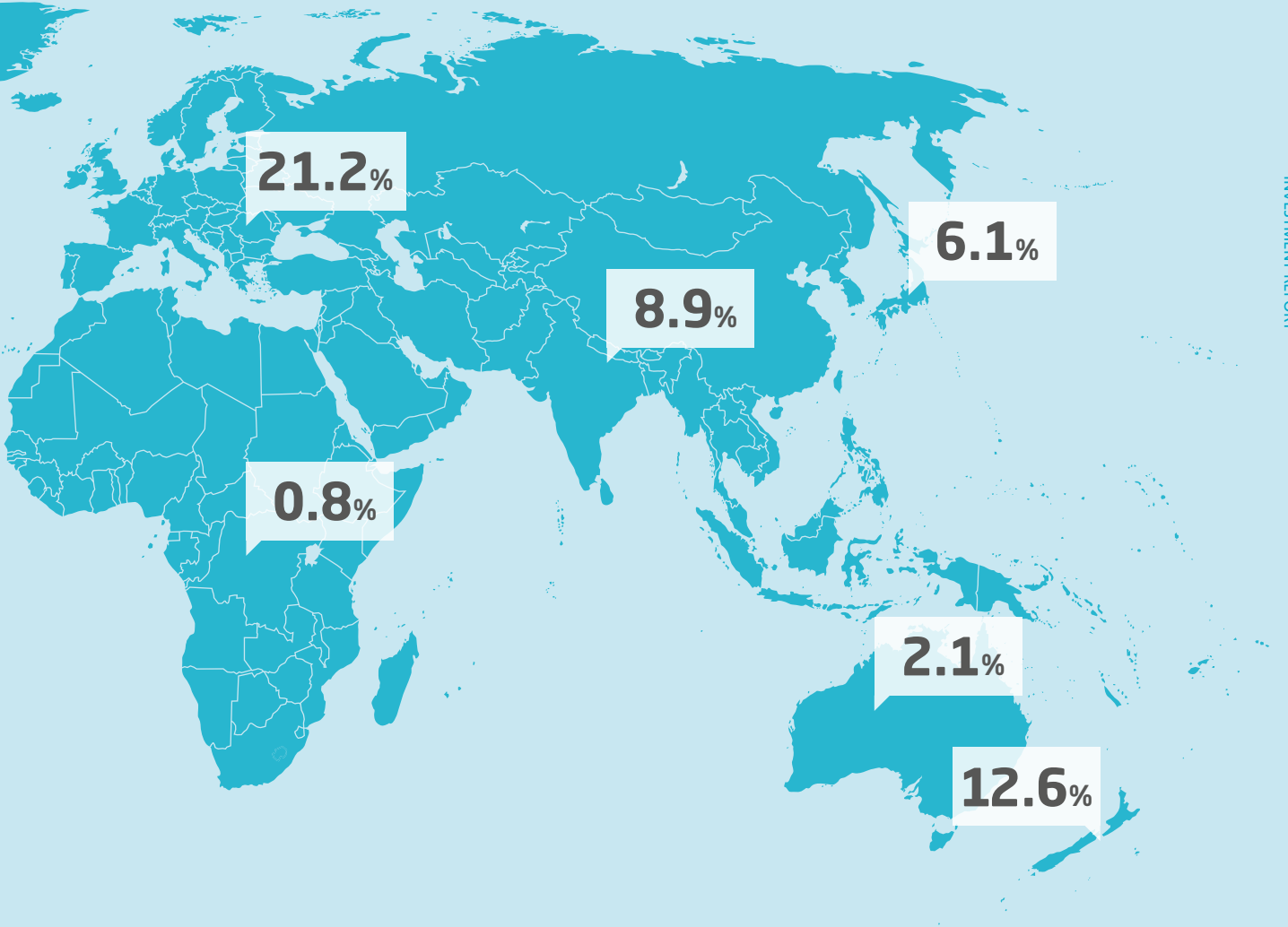
Where we invest

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, private equity, insurance-linked securities and distressed credit.

Exposure	30 June 2016	30 June 2015	30 June 2014
New Zealand	12.6%	13.5%	13.8%
Australia	2.1%	2.7%	2.5%
Africa	0.8%	1.1%	0.7%
Europe	21.2%	20.9%	24.5%
Asia (excl. Japan)	8.9%	9.3%	6.0%
Japan	6.1%	6.2%	6.5%
North America	46.7%	44.3%	44.6%
South America	1.6%	2.0%	1.4%





0.7%

invested in rural land and farms across New Zealand.



\$1.8b

invested in global forestry.



2.4%

invested in natural catastrophe reinsurance and life settlements.



\$1.2b

invested in New Zealand equities.

NEW DIRECT INVESTMENTS

A new expansion capital investment was made in View, Inc. See the case study on page 51.

NEW MANDATES

In March 2016 we appointed Ramius (www.ramiusmutualfunds.com) to manage a USD200 million merger arbitrage mandate. The mandate focuses on investment opportunities arising through merger and acquisition transactions, predominately in listed companies in North America and Europe. This is the Fund's first investment in merger arbitrage, a strategy that aims to earn steady returns over the long-term by realising value from targeted merger and acquisition deals across a broad cross section of industries, and managing any risks, including the potential for any individual deal failure.

INVESTMENT SALES

We took advantage of favourable market conditions to sell our investments in eight offshore funds during the year.

Our investments in three private equity funds, Hellman & Friedman VII, JMI Equity Fund VII and H.I.G Bayside Loan Opportunities Fund II, were sold to a confidential buyer. The following private equity real estate funds were sold to investment funds advised by Partners Group: Orion European Real Estate Fund III, Mountgrange Real Estate Opportunity Fund, MoREOF (Parallel I) Unit Trust, Red Fort India Real Estate Fund II and Gateway Capital Real Estate Fund III.

While private equity and private equity real estate has been a profitable part of the Fund's portfolio, these were relatively small investments, and the sales were consistent with our strategy to have fewer, deeper relationships with our investment managers.

In August 2015, we also ended our long-standing relationship with specialist infrastructure manager CP2, bringing management of the Horizon Roads investment (which manages Melbourne's East Link toll road) in-house. CP2 had previously sold the Fund's interest in DRIVE (an unlisted fund that owns toll roads in the USA). Bringing the Horizon Roads investment in-house is consistent with our preferred operating model of investing as directly as possible.

VIEW INC.

Dynamic glass reduces glare and maximises natural daylight

04



View Inc., a leading manufacturer of dynamic glass, is part of the Fund's portfolio of investments in expansion capital – early stage companies that require capital to grow but are not yet ready for a public listing.

The Fund invested USD75 million in View in August 2015, and a further USD30 million in June 2016.

Based in Silicon Valley, View is a leading manufacturer of 'dynamic glass': a new generation of energy-saving architectural glass that transitions through multiple tint stages to reduce solar glare and maximise natural daylight.

The glass responds intuitively to outside conditions, creating a comfortable indoor environment that conserves energy and cuts down on expensive air conditioning. The system runs automatically – factoring in a building's architectural features, surrounding landscape and real-time weather data – to prevent glare, control heat and let in as much daylight as possible. Occupants can also further customise their lighting, heating and cooling via a mobile app.

Since we first invested in 2015, View has expanded its manufacturing operations and developed a growing pipeline of projects. Its portfolio includes installations in technology companies, corporate offices, hotels, schools, hospitals and government buildings in North America.

EXPANSION CAPITAL STRATEGY

The Fund's stake in View is part of a broader strategy to invest in 'expansion capital', investments at the intersection of venture capital and private equity. It is a strategy with a higher risk-return profile: not every investment will be successful, and some outright failures must be expected. However, investments in expansion capital offer high potential returns and are an appropriate small part of a diversified portfolio.

Investing in expansion capital is well-suited to the Fund's long-term horizon. As a growth-oriented investor with patient capital, we are able to persevere through short-term volatility to realise long-term gains. Expansion capital investments, representing around 1.5% of the overall Fund, are managed both by our in-house team and via external managers. The portfolio includes NZD86 million currently invested in small and medium sized New Zealand companies.

New Zealand companies within the Fund's expansion capital portfolio as at 30 June 2016 are listed below:

- Healthlink
- Healthcare Holdings
- Partners Life
- Bell Tea
- Solarcity
- AranzGeo
- Umbrellar
- BeGroup
- Icebreaker
- K9 Natural
- Magic Memories
- Pet Doctors
- Waikato Milking Systems
- Wherescape
- NZ King Salmon
- Stratex Group
- Fishpond
- Bayleys
- Cavalier Wool Holdings
- George H Investments
- PF Olsen
- Hiway Group
- EnergyWorks

We explored 31 transactions over the 2015/16 financial year (41 in 2014/15), with 14 proceeding to due diligence (eight in 2014/15).

We successfully entered into one new investment, a partnership with Ngāi Tahu Property and New Ground Capital in a new housing development at Hobsonville Point (see the case study on page 54).

We've made an offer to purchase 25% of Kiwi Group Holdings Limited (the owner of Kiwibank) from New Zealand Post. We see this as a rare opportunity to purchase a significant minority stake in a large, unlisted New Zealand company. We believe we can add value to Kiwibank through our access to capital and active approach to investment management. At the time of publication of this report, due diligence into Kiwibank has been completed and key commercial terms agreed. Our investment in Kiwibank remains subject to Reserve Bank approval and the completion of required documentation.

Z ENERGY SELLDOWN

In June 2016, we reduced our 10% share in Z Energy (www.zenergy.co.nz) to approximately 1.5%, reflecting the achievement of our original goals for the Fund's investment in the company. Over the six years of our involvement as a substantial shareholder with the company, Z Energy has grown into one of the country's leading listed companies. It has also been an excellent investment for the Fund, with a gross return as at 30 June 2016 of approximately 48.7% p.a.

The Fund initially invested NZD209.8 million in purchasing Z Energy, alongside Infratil, in 2010. The Fund has now received NZD1,094 million in proceeds from the investment while the value of the Fund's current 1.5% stake was NZD46.5 million as at 30 June 2016. The Fund's remaining shares in Z Energy are managed either by its internal team or by external managers.

SCALES SELLDOWN

In March 2016, our external investment manager Direct Capital sold the Fund's stake in Scales Corporation (www.scalescorporation.co.nz) to China Resources Limited. The investment has been a very successful one, with a net return of 44% p.a. since we entered into it in July 2011.

MANAGER CHANGES

On 1 July 2015, we appointed Mint Asset Management (www.mintasset.co.nz) to a NZD150 million active New Zealand equities mandate, and increased this mandate by NZD70 million in June 2016. We remain committed to using a combination of external managers alongside our internal team to manage the Fund's NZD1 billion plus portfolio of New Zealand equities. Our other external active New Zealand equities manager is Devon Funds Management (www.devonfunds.co.nz). The New Zealand active equities portfolio (internal and external) returned 22.7% for the 2015/16 year. The Active NZ Equities internal team returned 462 basis points (net of costs) above the S&P/NZX50 Index, the benchmark for the mandate.

CHANGES AT KAINGAROA TIMBERLANDS

In December 2015 the Fund and its co-investors in Kaingaroa forest, PSP Investments and Kakano Investments, acquired 100% of forest management company Timberlands from employee shareholders. We see value in owning the expertise and systems that Timberlands has built up. The purchase gives the partnership the benefit of directly owning a high-quality management team in Kaingaroa, which is the Fund's largest single investment. The purchase does not indicate a change in business strategy, and it is business as usual for operations in the forest.

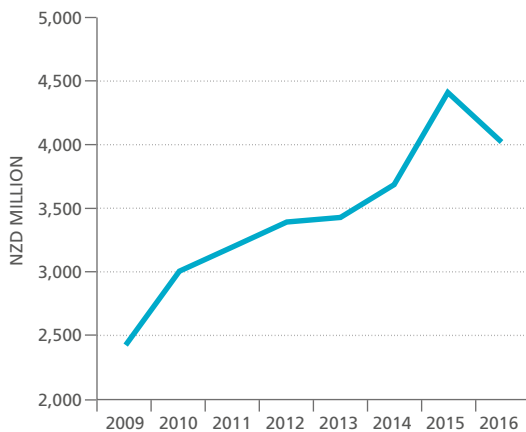
NEW FARMS PURCHASED

We settled the purchase of two new dairy farms during the year, and a further seven settled in mid-July 2016. The purchases bring our total rural portfolio to 21 farms. The new farms were located in Canterbury and in Southland. In our view, the New Zealand dairy sector continues to have very strong long-term potential. We plan to continue to look for rural land opportunities to add to the Fund's portfolio. As at 30 June the rural portfolio, which is managed by FarmRight (www.farmright.co.nz), was valued at NZD204 million.

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 seven years since 1 July 2009, the value of the Fund's New Zealand investments has risen from NZD2.4 billion to NZD4.0 billion.

The value of New Zealand investments dropped in 2015/16 primarily owing to the sell-down of the Fund's stake in Z Energy as discussed on page 52.



PROPORTION OF NEW ZEALAND INVESTMENTS

In the seven years since 1 July 2009, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 14.79%.

In contrast to the exposure analysis provided in the 'Where we invest' section on page 48, this figure is calculated based on the value of 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 in recent years. We have also taken advantage of favourable market conditions in New Zealand to reduce or sell down some of our local investments, such as our holding in Z Energy.

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."

For further information about our approach to investing in New Zealand see: www.nzsuperfund.co.nz/investing-nz.

HOBSONVILLE

05



Roy Thompson (New Ground Capital), David Kennedy (Ngāi Tahu Property), Katja Leitz (Hobsonville Land Company) and Matt Whineray (New Zealand Super Fund) at the blessing and naming ceremony at Hobsonville Point.

In 2015, the Fund partnered with Ngāi Tahu Property and New Ground Capital to invest in a new housing development at Hobsonville Point in Auckland.

The New Zealand Super Fund, together with co-investors Ngāi Tahu Property and New Ground Capital, purchased 1.95 hectares of land from the Hobsonville Land Company in a NZD113 million project that will see 208 new homes developed by late 2018. The development is targeting the ‘affordable’ segment, with 70% of the homes to be priced under the median Auckland house price.

The Fund and Ngāi Tahu Property will each invest 48% of the capital required for the development, with New Ground Capital contributing the remaining 4%.

The Hobsonville development will offer a mix of apartments, terraced housing and stand-alone homes. Three quarters of the developed homes will be sold as they are developed, with the remaining quarter held as market-based rentals that will provide tenants with long term 3–5 year lease contracts – a first in the New Zealand market.

WHY DID WE INVEST?

As the Fund’s first co-investment with Ngāi Tahu Property, this deal aligns with our strategic objective to make commercially driven direct investments in New Zealand alongside likeminded peers. Ngāi Tahu Property is an experienced property developer with similar values and, like the Fund, a long-term investment horizon. Ngāi Tahu Property is also the development manager for the project.

The Hobsonville development is part of the Fund’s strategy to make direct investments in a diverse range of New Zealand businesses. Our in-house team manages a portfolio of investments in forestry, farming and a number of stakes in New Zealand companies, including Datacom and Metlifecare.

Given this is the Fund’s first direct property investment, we were attracted to Hobsonville Point as an established



The NZ Super Fund has compatible values with Ngāi Tahu, and our collective scale has been integral to the feasibility of this investment. We look forward to working with Ngāi Tahu’s highly experienced property development team.”

Matt Whineray, Chief Investment Officer

and successful subdivision west of central Auckland. The Auckland housing market has limited supply and growing demand, and the inclusion of long-term rentals in the development will provide the Fund with exposure to the city’s projected economic and population growth.

Since the deal was signed in late December 2015, good progress has been made on the development. Design concepts have been finalised, resource consents granted and civil works on the sites are near completion. Construction of the apartments and houses is expected to start in late 2016.

The Fund also has investments in the Hobsonville Point primary and secondary schools via an investment in Morrison & Co’s Public Infrastructure Partners (PIP) Fund, and other housing development activities in Hobsonville Point via real estate manager Willis Bond.

QUICK FACTS:

\$113m

project to deliver around 208 new homes by late 2018.

Innovative housing design will provide affordable, quality houses in a growing market.

3–5 year

long-term residential tenancy contracts will be a first in New Zealand market.

The Guardians is acknowledged globally as a leading responsible investor. We believe that environmental, social and governance (ESG) factors are material to long-term returns and have integrated ESG considerations into our investment activities.

Our governing legislation also requires us to have an ethical policy and to avoid prejudice to New Zealand's reputation as a responsible member of the world community.

Extensive information about our approach to responsible investment is available on our website at: www.nzsuperfund.co.nz/how-we-invest/responsible-investment.

Key elements of our programme are summarised below.

INTEGRATION

ESG considerations are integrated across the Fund's investment activities, with the degree of integration varying according to the nature of each investment. ESG factors are considered when we identify investment opportunities, assess investment risk, appoint investment managers, undertake due diligence for direct investments, manage our investments and engage with companies.

ESG screens are applied across 100% of our equity portfolio by MSCI (an independent provider of research-driven insights and tools for institutional investors). The findings are used to inform our engagement efforts. More information is available on page 57.

COLLABORATION

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

- 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.

BENCHMARKING

International standards and initiatives against which we are measured include:

- United Nations Principles for Responsible Investment (UNPRI);
- International Forum of Sovereign Wealth Funds' Santiago Principles (see page 73); and
- Sovereign Wealth Fund Institute Transparency Index (see page 73).

The UNPRI (www.unpri.org) is the internationally accepted benchmark for how institutional investors should manage environmental, social and governance issues, and our responsible investment (RI) work programme is aligned closely to its principles and priorities. On pages 56–59, we provide a report of our activities against the six UNPRI Principles during 2015/16, and on page 59, we outline the Fund's performance in the UNPRI's annual benchmarking process.

We also report against the Global Reporting Initiative (GRI) sustainability reporting guidelines. We publish a GRI Index on our website at www.nzsuperfund.co.nz and our annual report website www.ar2016.nzsuperfund.co.nz, including indicators for the financial services sector.

ACHIEVEMENTS AND PRIORITIES

Key priorities this year were to continue our work to promote good corporate governance in New Zealand and to develop a climate change strategy. Our achievements are reported against the UNPRI Principles on pages 56–59.

Next year, we will focus on:

- commencing the implementation of our climate change strategy;
- reviewing our listed equity voting policy; and
- continuing to embed responsible investment responsibilities, skills and processes in the Guardians' investment team.

G4-14
G4-15
G4-16
G4-DMA
G4-FSII
G4-HRI

Report against UNPRI Principles

INTEGRATION

PRINCIPLE 1

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

What we do:

- 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 that provide environmental and social benefits in addition to the required financial return
- Carry out investment manager due diligence, monitoring and conviction.

Achievements for 2015/16:

- Undertook ESG due diligence on 11 new investment opportunities
- Completed carbon footprint of the portfolio and progressed strategy development to support our response to climate change investment risk
- Ongoing RI training and education for investment personnel and new employees. As at 30 June 2016, 36% of our investment staff have successfully completed the UNPRI's RI academy. Training is in progress for a further three staff.

PRINCIPLE 2

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

What we do:

- 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).

Achievements for 2015/16:

- Participated in collaborative engagements with 5,717 companies and direct engagements with 25 companies during the year (see page 57)
- Integrated Bank of Montreal's engagement service into stewardship activities across our global portfolio
- Chaired and provided secretariat services to the New Zealand Corporate Governance Forum, which has developed guidelines on NZ corporate governance best practice.



NZ | CORPORATE GOVERNANCE | FORUM

BREAKDOWN OF THE FUND'S ENGAGEMENT ACTIVITIES DURING 2015/16				
ESG ISSUES	OBJECTIVE	NUMBER OF FOCUS COMPANIES		OUTCOMES AND ACHIEVEMENTS
		Direct	Collaborative	
Human Rights and Safety				
Oil & Gas, Utilities and Trading Companies & Distributors	Improve the management of environmental and health and safety risks including emergency response and disaster recovery systems, following serious incidents.	3		Engagement ongoing.
Mining	Promote protection of human rights and improved management of local community relations/impacts, following serious incidents.	2		Engagement ongoing.
Human Rights in the Extractive Industries Collaboration	Proactive management of human rights.		48	The Guardians joined this collaboration in April 2016. Engagement ongoing.
Severe Environmental Damage				
Mining	Improve management of environmental risks.	2		Engagement ongoing; company operations are being monitored.
Palm oil	Improve and promote sustainable certification of palm oil, with a focus on both palm oil producers and buyers.		14	Engagement ongoing.
Fracking	Better understand companies' ability to identify and manage risks related to fracking operations and encourage them to improve practices and disclosure.		56	The collaboration has now finished. General findings were that disclosure on fracking is poor. The investor group put out a series of recommendations to help improve disclosure.
Water	Understand the degree of awareness, risk assessment and management within companies to water risks in their agricultural supply chains.		56	BMO* joined this collaborative initiative. Engagement ongoing.
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	This collaboration has now finished. The investor group put out a guide to help investors better engage on anti-bribery and corruption issues.
NZ Engagement				
ESG management	Promote good practice in corporate governance and environmental and social management, including ESG disclosure.	17		Engagement ongoing
Reporting				
Sustainability reporting	Encourage improving disclosure on ESG issues.	1		The company committed to improving environmental and human rights reporting in its 2016 Sustainability Report.
Carbon Disclosure Project (CDP)	As a signatory to CDP's investor climate change programme, increasing the number of companies reporting on climate change emissions and risk management.		5,500 ¹	Over 5,500 companies responded to the CDP's annual climate change questionnaires in 2015. The CDP reports that they have measured an 89% increase in activities that reduce carbon emissions over the last 5 years.
Total: 242 companies in 2015/16 (not including Carbon Disclosure Project)				
*BMO Engagement Programme	Appointing BMO Global Asset Management in May 2015 has expanded our engagement reach. On behalf of the Guardians, BMO conducted in-depth engagement with 1,371 companies on a range of ESG issues over the year ending 30 June 2016. They recorded that 219 milestones were achieved over the period. BMO is also involved in nine thematic engagement projects involving multiple companies on a range of topics spanning labour standards, human rights, climate change, operations in sensitive habitats, natural resources and corporate governance.			

1 The 2015 CDP figure is significantly different from that reported on in 2014 because of a change in CDP's reporting style. This year, they reported figures comparing 2015 against 2010. As a result, we are unable to report comparative figures with last year.

Notes

- One direct engagement covered severe environmental damage and human rights abuses.
- For collaborative engagements, either BMO and/or the Guardians may be involved.

- There may be a small amount of double counting in the BMO engagement figures due to cross over with collaborative engagements they are involved in.
- There were 56 companies targeted in each of the water and fracking collaborations.
- NZ Engagement also includes engagement with international companies operating in NZ.

G4-DMA
G4-S03
G4-FS10
G4-HRI
G4-15
GS-16

DISCLOSURE**PRINCIPLE 3**

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

What we do:

- 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.

Achievements for 2015/16:

- Engaged with eight companies on ESG disclosure (at their request)
- Undertook a review of disclosure by S&P/NZX50 listed companies
- Participated in Carbon Disclosure Project
- Sponsored the 'Best Annual Report' award at the 2015 WriteMark New Zealand Plain English Awards.

BEST PRACTICE AND COLLABORATION**PRINCIPLE 4**

We will promote acceptable 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:

- 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.

Achievements for 2015/16:

- Completed UNPRI benchmarking assessment, achieving A+ rating for strategy and governance and an A or A+ rating for other areas (see page 59)
- Published white paper on 'Why we believe responsible investing pays off'
- 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
- Sponsored Responsible Investment Association Australasia (RIAA) Benchmarking Report
- Sponsored and presented at RIAA NZ Seminar
- Guardians' staff member re-elected to the Board of the RIAA.



G4-15
G4-16
G4-DMA

COMMUNICATION

PRINCIPLE 6

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

What we do:

- 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.

Achievements for 2015/16:

- Finalist and highly commended – 2015 Global RI Reporting Awards
- Completed and published 2016 UNPRI Transparency and Benchmarking Reports (see below)
- Developed RI communications strategy
- Presented on responsible investment, corporate governance, ESG reporting and stakeholder management
- Presented at NZ Treasury event on sustainability frameworks
- Fifth Annual Report against GRI criteria
- Won Gold award – 2016 Australasian Reporting Awards.

UNPRI Benchmarking Report

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

We were very pleased to receive an A+ rating from the UNPRI for overall RI governance and strategy, and A or A+ ratings in all other categories in which we reported. We reported against eight categories this year, compared to three in 2015.



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

UNPRI BENCHMARKING REPORT

MODULE	2015 LEVEL	2016 LEVEL	GLOBAL MEDIAN	NZSF SCORE OUT OF MAXIMUM POSSIBLE
Strategy and Governance	A+	A+	B	29/30
Indirect:				
– Listed equity	A	A+	B	20/21
– Fixed Income (Sovereigns/Supranationals and Agencies)	nr	A	D	14/15
– Fixed Income – Corporate Non-Financial	nr	A	D	14/15
– Fixed Income – Securitised	nr	A	E	12/15
– Private Equity	nr	A	B	14/15
Direct and Active Ownership:				
– Listed Equity – Incorporation	nr	A+	A	Screening: 15/15 Integration: 18/18
– Listed Equity	A	A	B	25/27

nr = not reported

G4-15
G4-16
G4-DMA

TIMBERLANDS

works to protect native falcons

06



The threatened New Zealand falcon or karearea is the subject of conservation efforts by forestry company Timberlands, which manages the Fund's investment in Kaingaroa Forest in the central North Island of New Zealand.

The birds are attracted to pine forests through the selection of food available and the mix of habitats, including open areas that are good for hunting.

Timberlands, wholly owned by Kaingaroa Timberlands partnership, shifts its cultivating machines away from falcon breeding areas and moves harvesting crews into different logging areas during nesting periods. Staff have also helped with rescuing eggs and releasing falcons, and work to eradicate possums, rats, stoats and ferrets.

The company has also sponsored PhD students and supports the work of the Wingspan Birds of Prey Trust, based near Rotorua. Wingspan breeds falcons for release in the wild, as well as looking after injured birds.

Managing the

ENVIRONMENTAL

impact of our farming operations

07



RABBIT-PROOF FENCE AT LOWRY FARM, CULVERDEN

Simon Maxwell of Lowry Farm in Culverden won FarmRight's annual environmental award in 2016. FarmRight manages a large number of farms in New Zealand on behalf of the Fund and other investors.

The Lowry Farm has received an 'A' grade by Environment Canterbury, an outcome largely driven by its excellence in effluent management, and registered a QEII covenant to protect a rare example of Canterbury lowland kanuka vegetation. Registration of the covenant required ongoing control of introduced weeds and construction of a rabbit-proof fence. These measures will protect a rare remnant of kanuka tree land and moss fields and associated native fauna.

The upgrading of effluent systems has been a constant feature of development activity across the Fund's farms. FarmRight is committed to ensuring best-practice effluent management across its entire operation.

SECTION

OPERATIONAL

Report

04

Our People	62
Case Study – Improving Workplace Culture	64
Regulatory Update	69
Environmental Performance	70

In an industry that is highly competitive, our people are our biggest asset. Staff attraction, retention and development are critical to our success.

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.

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.

Achievements during 2015/16

- Winner, Improving Performance through Excellence in Leadership at the 2016 Deloitte IPANZ Awards. See case study on page 64
- Introduction of a new Diversity and Inclusiveness Policy
- Staff workshops on understanding unconscious bias and its impact in the work place
- Flexible work opportunities formalised with information on options and process accessible to all staff
- Introduction of a Talent Plan for each team to give an organisational view of medium term ambitions, necessary development activities and support required for all staff
- Review of Performance Review System completed.

Priorities for 2016/17

- Implement recommendations from the 2015/16 Engagement Survey
- Implement key lessons from Performance Review System introduction including consolidation of questions, simplification of 360 process and training managers on conducting effective performance review conversations
- Implement a new learning and development framework to capture and make visible intended development activities for the coming year
- Conduct a review to benchmark the Guardians' leave and employee benefit offerings.

OUR CULTURE

Developing and strengthening our internal culture continues to be a key focus for the Guardians. Our success in this area was recognised by the Institute of Public Administration of New Zealand awarding us its 2016 award for Leadership Excellence. The case study on page 64 provides more information.

ENGAGEMENT SURVEY

In February 2016, the Guardians engaged CEB to undertake a confidential engagement survey of our staff. This is the second time we have conducted this survey.

By engagement, we mean employee commitment, discretionary effort and intent to stay. Overall, the Guardians achieved an engagement score of 66% in 2016, compared to a global benchmark of 60% and a 71% score in 2014. The drop can be attributed to slightly more neutral forward-looking confidence amongst staff. A range of initiatives are in place and staff engagement continues to be a top priority.

The Guardians met or exceeded global benchmarks on almost all engagement indicators and also achieved the 90th percentile for a number of categories.

INTERNAL PROMOTIONS

During the 2015/16 year, we confirmed four internal transfers and two promotions. The Guardians has highly skilled staff, and it is important to us to be able to offer opportunities in different teams to help our staff continue to grow and develop. Being able to offer staff career progression opportunities and the ability to gain new skills helps us retain valuable institutional knowledge.

STAFF DEVELOPMENT

In 2015/16, we trialled an internal role swap where our Head of IT and Head of Investment Operations switched roles for a two-month period. The initiative was to:

- further develop leadership skills within the business;
- encourage transferable leadership capability across business units; and
- provide development opportunities through increased distribution of responsibility within the IT and Investment Operations teams.

The exercise was a success and a review of the process is being done in order to assess the possibility of providing other staff with similar opportunities.

The Guardians also continued to invest in the organisation-wide Personal Efficiency Program in 2015/16, designing and running group training as part of our wider effort to maximise efficiency, increase productivity and reduce cost.

More than two-thirds of the staff also participated in voluntary workshops on understanding and managing unconscious bias.

We also continued to encourage secondments to improve staff capability and build stronger relationships with peers. The Guardians hosted external secondees from the Cook Islands Pension Fund, Government Superannuation Fund and Stanford University's Global Projects Center. Two of our team were also seconded to other organisations.

SUMMER INTERN PROGRAMME

Continuing to build on the success of previous summer internships at the Guardians, we had six interns join us in 2015/16. Our interns were drawn from a range of academic disciplines including finance, economics, law and information technology. 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 internship programme will next run in 2017/18.

HEALTH AND SAFETY

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

- reduce and, where possible, eliminate any hazards;
- educate employees on health and safety issues;
- prevent injury to people at work; and
- comply with the requirements of the Health and Safety at Work Act 2015, which supersedes 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 physical safety point of view. Identified potential hazards include overseas travel, gradual process injury and stress.

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

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

The Committee meets once a quarter and reports to the Board on a yearly basis. In 2015/16, the Committee's mandate was expanded to include security and environmental issues.

In 2014/15, we achieved a primary-level standard in the Accident Compensation Corporation's (ACC) Workplace Safety Management Practices Programme. Audits are conducted every two years and the next audit will take place in 2016/17.

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 2015/16, we continued to provide stand-up desks to staff as a part of the regular activities undertaken as part of our wellness programme. Other activities include:

- annual health and safety training, including first-aid, CPR and defibrillator training;
- subsidised health insurance;
- workstation assessments available for all employees;
- advice on safe travel practices and international travel support;
- free healthy heart checks and influenza injections;
- 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.

Improving Workplace

CULTURE

02



Improving leadership capability and developing leadership talent across the Guardians' staff has helped to create a high-performing, constructive workplace culture.

Improving workplace culture is a significant challenge for the financial services industry globally, with implications for financial performance, recruitment, retention and ethical behaviour. It is key to our strategic objective to build and maintain a great team. Having a great team leads to good investment decisions and maximising the Fund's returns.

Staff surveys in 2011 and 2013, using the global Human Synergistics methodology (www.hsnz.co.nz), identified a disconnect between our actual operating styles and our aspiration to have a constructive organisational culture. We wanted to shift from 'aggressive', 'defensive' and 'oppositional' behaviours – which are typical in the finance and investment sectors – to a positive, collaborative culture with high staff engagement. To achieve this goal, we focussed on three significant initiatives: talent development, leadership capability and integrating behavioural measures into performance reviews.

TALENT DEVELOPMENT

Our talent strategy was refreshed to encompass all staff and geared towards building a constructive culture at the Fund, including a development programme that enables each staff member to fulfil their personal goals. Our talent development programme includes:

- capturing all staff members in an organisational talent plan;
- internal and offshore secondments;
- proactively rotating committee and other leadership roles;
- encouraging senior staff to mentor others;
- external leadership development courses and coaching;
- encouraging internal transfers and promotions; and
- active participation in global industry events and external leadership courses.

Our talent programme enables our leadership team to have structured discussions to identify successors, mitigate talent-related retention risk and synchronise training activities with departmental and organisational strategic goals. Each staff member has a tailored development plan, which outlines their short- and long-term aspirations, sets specific objectives and ensures individual development activities are aligned with the Fund's broader strategic objectives.

LEADERSHIP CAPABILITY

As part of our culture development initiatives, all members of the Guardians' leadership team have committed to an ongoing programme of leadership coaching, including creating an action plan focused on increasing constructive behaviour. Our executives shared their staff feedback results and personal development plans with the entire Guardians' team. This top-down transparency, championed by our Chief Executive and supported by our leadership team, has increased constructive feedback and communication across the organisation.

360 DEGREE REVIEWS AND BONUS SCHEMES

We have focused on individual accountability by integrating behavioural measures into the Guardians' 360 degree performance review system and staff bonus scheme. Our remuneration system has been realigned to reward staff who demonstrate evidence of positive and constructive working styles. Staff members have the potential to earn a bonus payment linked to constructive behaviour that is worth 20% of their base salary.

RESULTS

We continue to work to develop a high-performing and constructive workplace culture, with increased satisfaction, effort, cooperation, adaptability and motivation throughout the organisation. In our 2015 Human Synergistics culture survey, we achieved scores well above the median for all constructive behaviours; our primary organisational operating styles are supportive, achievement-focused, self-actualising and affiliative.

Overall, we have worked hard to create a culture in which people feel able to challenge decisions; where debate is constructive and group-think is avoided. We want a culture where staff members are focused on achievement at a 'whole of Fund' level, while also being able to realise their personal goals.

Our People (continued)


GOOD EMPLOYER

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

GOOD EMPLOYER REPORTING

The Human Rights Commission rated the Guardians 1st out of 93 New Zealand Crown entities in a 2016 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/sites/default/files/documents-sys/Human Rights Commission - Good Employer Reporting Review.pdf](http://www.nzsuperfund.co.nz/sites/default/files/documents-sys/Human%20Rights%20Commission%20-%20Good%20Employer%20Reporting%20Review.pdf).**

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 Survey 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 Remuneration benchmarked against third-party New Zealand data Incentive programme into its sixth year
Flexibility and work design	IT systems facilitate working from home Flexible working arrangements supported where appropriate
Harassment and bullying prevention	Employee Code of Conduct and relevant policies available and endorsed at all times Performance management process rewards positive and constructive behaviour
Safe and healthy environment	Strong focus on employee health, safety and well-being through provision of support services (see page 63) Primary-level standard in ACC's Workplace Safety Management Practices Programme

Our People (continued)

TEAM PROFILE – INVESTMENT OPERATIONS

Responsible for managing a range of operational risks and the requirements of the investment functions, the Investment Operations team plays a key role in building efficiency and supporting a number of the Fund's strategic objectives.

The team manages the day-to-day administration of the Fund's overall portfolio and the Guardians' internal investment mandates. Involved with transactions through their complete lifecycle, the team's key roles include ensuring the accuracy of trade bookings made by the Fund's custodian, Northern Trust, meeting all collateral and settlement obligations, administering and managing of various controls, as well as oversight at the total Fund portfolio level.

The Fund's Investment Operations team is led by Peter Bennie, Head of Investment Operations, who has 25 years' experience across global custodians and investment managers. Peter has been with the Fund since 2005.

The team is organised into two units – Investment Operations and Derivative Operations.

The Investment Operations unit led by Nikki Bell is responsible for the in-house trade support of cash and securities activity (equities, fixed income and cash/money market). The team also ensure the effective administration of funds under management, including

data validation and generation of the Fund Rebalancing and Currency Hedging Tools that calculate the Fund's risk position and currency exposures.

David Galpin leads the Derivatives Operations team, which includes operations management related to derivatives such as Futures, FX and Swaps. His team support the in-house derivatives trading of our Portfolio Completion Team.

In addition, Senior Advisor Julie Huxford manages the strategic and operational day-to-day relationship with the Fund's custodian and other external service providers. Julie has a strong emphasis on risk mitigation and management, best practice and continual process improvement.

Over the past couple of years, the Investment Operations team has introduced new initiatives to build efficiencies and streamline processes. In 2015/16, the team implemented continuous linked settlement (CLS) to eliminate Herstatt Risk with a large number of our counterparties. Ongoing process efficiencies include the automation of FX trade matching, futures reconciliation and collateral margin prediction, as well as the introduction of internal electronic dashboards.

Herstatt Risk – Named after the well-known failure of the German bank Herstatt, it refers to the risk that one party will fail to deliver the terms of a contract with another party at the time of settlement.

JULIE HUXFORD
REEVES CARDOZ
PETER BENNIE
DAVID GALPIN
MICHAEL DUFF
HUGH FLEMING
CLAIRE MCCORMICK
TANYA BURCH
GEORGE MATTHEWS



Absent: Nikki Bell, Cristina Hou, James Hassell and Daniel McHugh.

WORKFORCE PROFILE

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

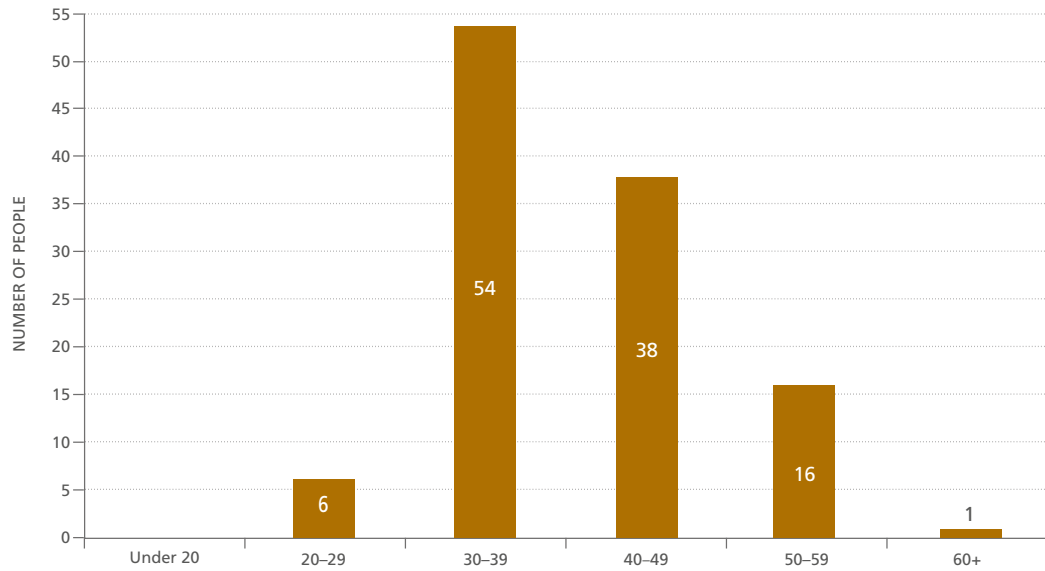
WORKFORCE STATISTICS

COMPONENTS	2016	2015	2014	2013	2012
OUR WORKFORCE					
Full Time Equivalent (FTE) employees	112.2	111	96.6	86.4	75.2
People	115	113	98	89	78
Full time (FTE)	93%	94%	96%	92%	93%
Part time (FTE)	7%	6%	4%	8%	7%
Staff members with disabilities	1%	1%	1%	1%	0%
FEMALE REPRESENTATION					
Female staff members	44 (38%)	40 (35%)	32 (33%)	32 (36%)	26 (33%)
Female Board members	3 (43%)	3 (43%)	3 (43%)	3 (43%)	2 (28%)
Female Leadership Team members and direct reports to CEO	2 (29%)	2 (22%)	2 (22%)	2 (25%)	1 (14%)
Female Heads of Teams	4 (22%)	4 (25%)	4 (25%)	4 (26%)	5 (36%)
Female investment professionals	13 (28%)	11 (23%)	9 (22%)	8 (28%)	7 (22%)
TURNOVER					
Turnover – all staff	10.7%	4.4%	5%	12%	10%
Turnover – male	11.4%	2.7%	5.2%	13%	Not reported
Turnover – female	9.6%	8.3%	4.6%	9%	Not reported
EDUCATIONAL QUALIFICATIONS					
% of staff with a postgraduate tertiary qualification	50%	53%	57%	52%	Not reported
% of staff with an undergraduate tertiary qualification	90%	92%	91%	91%	Not reported
Staff training investment as a % of total Guardians operating expenditure	1.14%	1.44%	1.38%	0.76%	1.02%
RETURN TO WORK AND RETENTION AFTER PARENTAL LEAVE (AS PRIMARY CARE-GIVER)					
Return to work – male	None Taken	None Taken	None taken	None taken	Not reported
Return to work – female	50%	100%	50%	100%	Not reported
Retention as at 30 June 2014 after returning during the year – male	None Taken	None Taken	None taken	None taken	Not reported
Retention as at 30 June 2014 after returning during the year – female	100%	100%	100%	100%	Not reported
HEALTH AND SAFETY					
Lost-time work injuries	0	0	0	0	0
Absenteeism as measured by days of sick leave per FTE	4.1	3.1	3.2	2.4	Not reported

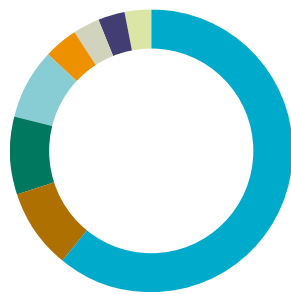
G4-9
G4-10
G4-DMA
G4-LA1
G4-LA3
G4-LA6
G4-LA9
G4-LA12

Our People (continued)

WORKFORCE AGE AS AT 30 JUNE 2016



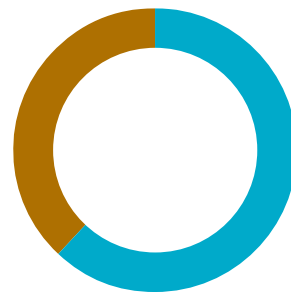
ETHNIC PROFILE AS AT 30 JUNE 2016



- NZ European **71** (61%)
- Chinese **11** (9%)
- Other Ethnicity **10** (9%)
- Other European **9** (8%)
- Indian **5** (4%)
- Pacific Peoples **4** (3%)
- Not stated **4** (3%)
- Māori **3** (3%)

117 total count as two staff identify with two different ethnic groups

GENDER BALANCE AS AT 30 JUNE 2016



- Male staff members **71** (62%)
- Female staff members **44** (38%)

As a global investor, the Fund is subject to 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 these jurisdictions is an important task.

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

HEALTH AND SAFETY IN EMPLOYMENT ACT

The Health and Safety at Work Act 2015 came into force on 4 April this year to replace the Health and Safety in Employment Act 1992. The Guardians and its Board are fully committed to the new legislation and to ensuring that the requirements of the new law are implemented.

OTC DERIVATIVES REGULATION

One of the many reforms to over-the-counter (OTC) derivatives that will affect the Fund over the coming years are the rules on the margining requirements for non-cleared derivatives. Regulators in each of the G20 countries have finalised, or are in the process of finalising, their own rules in order to meet the globally agreed timetable for implementation of the new margining requirements.

The USA was one of the first countries to publish its final rules. For the Fund, entering into non-cleared OTC derivatives transactions with US banks, the compliance date is 1 March 2017 for posting variation margin and 1 September 2020 for posting initial margin.

Across the Atlantic, the position is less clear. European regulators recently informed the market that the European rules will not be finalised until the end of the calendar year. This means that the implementation start date for the margining requirements in Europe will be delayed.

EUROPEAN BANK RESOLUTION AND RECOVERY DIRECTIVE

Although the Bank Resolution and Recovery Directive (BRRD) came into effect in 2014, as a directive, it was then required to be transposed into local law within each European Union (EU) country.

Despite the fact that the BRRD was supposed to promote a harmonised EU resolution process, both English and German courts have so far taken a narrow approach to recognition of the acts of foreign resolution authorities.

OAK FINANCE UPDATE

As reported in our 2014/15 Annual Report, the Guardians filed debt-recovery proceedings in the English courts against the Portuguese bridge bank Novo Banco. These proceedings were initiated to seek to recover a USD150 million loan, made through Oak Finance, to Banco Espírito Santo, and challenge a December 2014 decision by the Bank of Portugal about the loan.

We are continuing to pursue our legal actions both in England and Portugal and expect legal proceedings to take a long time. Until the proceedings are resolved, we have taken a conservative stance and written down the loan to zero. Since the matter is before the courts, we are unable to make further comment on the matter; however, where possible, material updates will be shared with stakeholders and through our website.

For more information on this issue, visit www.nzsuperfund.co.nz/publications-disclosures/oak-finance.

The Guardians’ Environmental Policy highlights our commitment to monitoring and minimising the environmental footprint of our growing organisation.

The policy falls under the remit of the Guardians’ HSSE Committee. The Committee aims to improve staff awareness about the environmental impact of our activities and set achievable targets for minimising this impact.

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 55–59 for more information.

In 2015/16, we identified a gap in our recycling/composting efforts that resulted in items that were to be recycled going to landfill. By bringing all the parties

involved together, we were able to rectify the issue. We used this issue as an opportunity to educate staff and clarify any questions about the sorting of waste.

The error has, however, meant that we no longer have credible data on waste to landfill for the previous years and so have restated these as ‘not reported’ in the table below.

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. A verification report is available on www.ar2016.nzsuperfund.co.nz/downloads.

ENERGY SOURCE	MEASURE	2013/14		2014/15		2015/16	
		QUANTITY	CO ₂	QUANTITY	CO ₂	QUANTITY	CO ₂
Electricity	Kwh	119,958	17.65t	147,845	20.47t	140,932	19.82t
International Air Travel (long haul)	Km	3,275,761	742.05t	3,737,408	785.54t	3,489,400	733.41t
International Air Travel (short haul)	Km	498,244	95.89t	911,188	151.45t	685,707	113.97t
Domestic Air Travel	Km	457,474	149.42t	203,374	59.61t	226,499	66.39t
Mileage (Medium Car) 1.6 – 2.0L	Km	2,591	0.61t	3,589	0.82t	5,628	1.29t
Taxi – Cost	\$	74,826	8.55t	90,223	9.71t	66,967	7.21t
Waste to landfill	Kg	Not reported	Not reported	Not reported	Not reported	2,609	3.10t
TOTAL			1,014.17t*		1027.6t*		947.20t

* The total carbon dioxide emission (CO₂e) has been restated to reflect the change in the waste to landfill data as explained in the text above.

SECTION

STATEMENT

of Performance

05

Statement of Performance	72
Managers and Custodians	76

Statement of Performance

This Statement of Performance (SoP) measures the Guardians' progress against objectives and measurements set out in the Guardians' 2011–2016 and 2014–2019 Statements of Intent and the 2015–2016 Statement of Performance Expectations.

As explained in our Statement of Intent, the single output of the Guardians is managing the Fund. That output comprises five work 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 to meet Board costs and audit fees (this appropriation, NZD428,049 compared with a budget of NZD528,000 in 2015/16, 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 that 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 2032/33.

The 'expected worst-case downside return' is a portfolio volatility measure. It shows the amount of value the Fund could lose in a 1-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 on www.nzsuperfund.co.nz.

Measure	Expected Outcome – 1 Year	Actual Outcome – 1 Year	Expected Outcome – 5 Years	Actual Outcome – 5 Years	Expected Outcome – 10 Years	Actual Outcome – 10 Years
Reference Portfolio returns relative to Treasury Bills (per annum)	+2.7%*	-1.2%	+3.4%	+6.8%	+2.7% p.a.*	+2.7% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.0%	+0.5%	+1.1%	2.6%	+1.0% p.a.	+1.4% p.a.
Expected Reference Portfolio worst-case downside return (1st percentile)	-31.0%	+1.4%	-5.0%	+9.5%	-4.0% p.a.	+6.6% p.a.

* In 2014/15, the Guardians conducted a review of the Fund's Reference Portfolio, resulting in the Reference Portfolio benchmark being increased from +2.5% to +2.7%. The new benchmark came into effect in July 2015. The Reference Portfolio and Treasury Bills measures are discussed on pages 42–43. Further information on these measures and the Reference Portfolio review are also available on our website at www.nzsuperfund.co.nz/how-we-invest/reference-portfolio.

Refer to Investment Report on page 42 for more information.

OUTPUT MEASURES 2015/16

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
INVESTMENT	Reference Portfolio returns above Treasury Bills (per annum) over any 20-year moving average period	2.7% p.a.	Refer to table on page 72.	Pages 42–45 and www.nzsuperfund.co.nz .
INVESTMENT	Actual Fund returns above Reference Portfolio (per annum, net of costs)	1.0% p.a.	Refer to table on page 72.	Pages 42–45 and www.nzsuperfund.co.nz .
COST CONTROL	Costs relative to peers in CEM survey	Achieve a rating of 'median cost, value adding' or better.	Cost (1 year) – Achieved Cost (5 year) – Achieved Value-Add (1 year) – Achieved Value-Add (5 year) – Achieved	See page 85 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 1-in-100 year event, potential Reference Portfolio loss	-31% p.a.	Refer to table on page 72.	See 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 Q2 2016 Transparency Index. No other surveys noted.	Refer to www.nzsuperfund.co.nz/transparency-reporting and www.swfinstitute.org for more information.
RISK MANAGEMENT	Annual updating of response to Santiago Principles	Completed	Completed. Our responses to the Santiago Principles were also assured by EY.	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	A or A+ rating for Strategy and Governance*	Achieved an A+ rating for Strategy and Governance in the 2015/16 UNPRI assessment.	See pages 56–59; www.unpri.org and www.nzsuperfund.co.nz for more information.
RISK MANAGEMENT	Published records of voting, Responsible Investment in Practice Report	Published	Six-monthly voting reports to 31/12/15 and 30/6/16 published. RI Report published.	See www.nzsuperfund.co.nz/performance-esg-management/voting-reports and the Responsible Investment Report at pages 55–59.
GOVERNANCE	Outcome of independent reviews	Ongoing good reviews with the review and our response published. There were no material concerns of the effective and efficient performance of the Guardians' functions.	N/A for 2015/16. The last independent review was completed in 2014/15.	Refer page 43 of the 2014/15 Annual Report.
ORGANISATIONAL CAPABILITY	Key person risks identified and covered; 3–6 month cover in place for all critical roles	Board approval received for our assessment of our key person risks and our plans to mitigate that risk.	Achieved	See pages 62–68.
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 (behavioural component) was 77%. See pages 39–40 for further information on the incentive achievement. Of the three key strategic activities, one was marked at 75% as at 30 June 2016. The remaining two were achieved. Refer to pages 74–75 for more information on these activities. A broader summary of progress is available at pages 14–15.

* The expected outcome for the Guardians' performance in the UNPRI assessments was updated to reflect measures put in place after the 2014/15 pilot assessment. For detailed explanations of these performance measures see our 2016–2021 Statement of Intent and the Performance Section of www.nzsuperfund.co.nz.

Statement of Performance (continued)

KEY 2015/16 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 2015/16 year.

1

INCREASING THE EFFICIENCY OF IMPLEMENTATION

ACHIEVED	100%
WORK PROGRAMME	INVESTMENT, COST CONTROL
STRATEGIC PLAN OBJECTIVE	BEST PORTFOLIO

During 2015/16 we continued to focus on improving implementation efficiency. Firstly we reviewed the merits of introducing options-based rebalancing to improve rebalancing efficiency of our passive beta and strategic tilt positions. Our analysis indicated there was no strong evidence to indicate that options-based rebalancing would improve outcomes for the Fund. The second project was an examination of additional returns that could be gained from our passive and active holdings of equity and fixed income securities. Our analysis concluded that there was merit in establishing a securities lending programme to earn additional fee income and improve liquidity management. An initiative to implement a lending programme will be now be undertaken in 2016/17 within a wider project to improve collateral optimisation.

In addition to these initiatives, we have increased the use of electronic trading platforms in our trading, improved trade straight through processing and added Exchange Traded Funds to the suite of products we use to obtain market exposure.

2

EMBED NEW RISK REPORTING

ACHIEVED	100%
WORK PROGRAMME	INVESTMENT, COST CONTROL, RISK
STRATEGIC PLAN OBJECTIVE	EFFICIENCY, SCALABILITY AND INNOVATION

This project aimed to improve the processes for identifying, managing and reporting on the Guardians' and Fund's top risks.

In 2015/16, a new Enterprise Risk team was established, and Enterprise Risk reporting from business units, through to the Risk Committee and the Board, has been deepened.

By embedding risk reporting throughout the organisation, we have seen an increase in risk awareness and risk identification in a number of decision-making processes. This has also led to a focus on ensuring the effectiveness of controls to the risks we are exposed to.

3

IMPLEMENT THE PORTFOLIO MANAGEMENT SYSTEM PROJECT RECOMMENDATIONS

ACHIEVED	75%
WORK PROGRAMME	INVESTMENT, COST CONTROL, RISK
STRATEGIC PLAN OBJECTIVE	EFFICIENCY, SCALABILITY AND INNOVATION

The Portfolio Management System Project recommended replacing elements of our risk management systems and data warehouse.

We made good progress over 2015/16, conducting a global search, and are in the final stages of selecting a risk management system provider. The system will allow us to reduce operational risk, increase the frequency of risk reporting, improve stress testing capability and access to the outputs of risk monitoring. The system also allows us to aggregate a number of internal models and to more easily run stress tests on a more consistent basis. It will also provide more granular reporting for the Board and management across the key risks.

The data management activity has been split into two key streams to simplify the tools (rebalancing tool, currency hedge tool, cash flow forecast) and speed up processing. We are currently working to complete improvements on the platform that runs our key tools. This stream is due to be completed in the first half of 2017.

The data warehousing stream involves a review of available systems to decide whether we invest in our existing data warehouse or implement a new, purchased system. The review will be completed and a recommendation considered in 2016/17.

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 2016. We also disclose the value of each investment as a percentage of the total Fund.

Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

Managers appointed since 1 July 2015	Year appointed	Fund name and focus areas	Type	Value of amount invested NZDM	% of Total NZSF (pre-tax)
Ramius LLC	2016	Merger arbitrage mandate	Listed	250	0.8%
Mint Asset Management	2015	Bespoke New Zealand active equities	Listed	246	0.8%

Mandates terminated/sold since 1 July 2015	Year appointed	Fund name and focus areas	Type
Capital Partners Pty Limited (CP2)	2011	Infrastructure – Horizon Roads	Unlisted
Clearbell (formerly Mountgrange Investment Management)	2010	Mountgrange Real Estate Opportunity Fund – UK real estate	Unlisted
	2010	MoREOF (Parallel I) Unit Trust – UK real estate	Unlisted
GAW Capital	2010	Gateway Real Estate Fund III – real estate investments in greater China and South-East Asia	Unlisted
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
HIG Capital	2010	H.I.G. Bayside Loan Opportunity Fund II (Bayside II) – stressed/distressed senior debt obligations of US and European small-cap companies	Unlisted
JMI Equity	2010	JMI Equity Fund VII – private equity focused on software, internet, business services and healthcare IT companies, predominantly based in US	Unlisted
Milford Asset Management	2009	Bespoke New Zealand active equities	Listed
Orion Capital Managers	2009	Orion European Real Estate Fund III – private equity real estate	Unlisted
Rising Straits Capital (formerly Red Fort Capital)	2011	Red Fort India Real Estate Fund II – Indian real estate	Unlisted

Incumbent managers as at 30 June 2016	Year appointed	Fund name and focus areas	Type	Value of amount invested NZDM	% of Total NZSF (pre-tax)
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-US Fund – non-US private equity	Unlisted	10	0.0%
AMP Capital Investors	2005	AMP Property Portfolio (APP) – New Zealand property	Unlisted	1	0.0%
Apollo Management	2012	Financial Credit Investment – US life settlements	Unlisted	65	0.2%
	2014	Financial Credit Investment II – US life settlements	Unlisted	271	0.9%
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	25	0.1%
Ascribe Capital (formerly American Securities)	2010	American Securities Opportunity Fund II – US companies experiencing operating or financial stress	Unlisted	34	0.1%
Bain Capital (formerly Sankaty Advisors)	2013	European distressed credit	Unlisted	114	0.4%
BlackRock Investment Management UK	2013	Bespoke passive global listed equities	Listed	1,974	6.6%
	2010	Bespoke passive global fixed income	Listed	2,667	8.8%
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global tactical asset allocation	Listed	268	0.9%
Canyon Capital Advisors	2010	Canyon Distressed Opportunity Fund (Delaware) – distressed credit	Unlisted	13	0.0%
CITP	2011	China Infrastructure Partners V Fund – Chinese infrastructure and related	Unlisted	94	0.3%
Coller Investment Management	2007	Coller International Partners V Fund – global private equity secondaries	Unlisted	0	0.0%
Devon Funds Management	2011	Bespoke New Zealand active equities	Listed	339	1.1%
D.E. Shaw & Co	2012	D.E. Shaw Heliant International Fund – global macro hedge fund	Listed	345	1.1%
Direct Capital	2014	George H Investments Assets (Scales Corporation assets that were not included in the IPO)	Listed and Unlisted	13	0.0%
	2005	Direct Capital Partners III – mid-sized New Zealand expansion capital	Unlisted	4	0.0%
	2009	Direct Capital Partners IV – mid-sized private New Zealand companies that typically require further capital to continue growing their businesses, expand into Australia or to assist with ownership succession	Unlisted	12	0.0%
Elementum Advisers	2010	Natural catastrophe reinsurance	Unlisted	75	0.3%
FarmRight	2010	Rural land in New Zealand	Unlisted	204	0.7%

Managers and Custodians (continued)

Incumbent managers as at 30 June 2016	Year appointed	Fund name and focus areas	Type	Value of amount invested NZDM	% of Total NZSF (pre-tax)
Global Forest Partners	2009 & 2012	AIF Properties – Australian Timber	Unlisted	102	0.3%
	2010	Global Timber Investors 9 – timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	29	0.1%
	2007	Global Timber Investors 8 – timber assets in Australia, New Zealand and South America	Unlisted	94	0.3%
GMO Renewable Resources	2005	Timber assets in New Zealand	Unlisted	3	0.0%
Hancock Natural Resource Group	2005	Timber assets in the United States	Unlisted	40	0.1%
	2005	Timber assets in New Zealand	Unlisted	0	0.0%
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund – non-US private equity opportunities	Unlisted	30	0.1%
H.R.L. Morrison & Co	2006	Global infrastructure mandate, which includes our investment in Retire Australia	Both	421	1.4%
	2009	Public Infrastructure Partners Fund – social infrastructure such as educational and healthcare facilities and student accommodation	Unlisted	82	0.3%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asian Fund – private equity in Asia, including Australasia	Unlisted	24	0.1%
	2008	KKR 2006 Fund – large and predominantly US private equity buyouts with scope to invest in Europe and Asia-Pacific	Unlisted	40	0.1%
	2014	KKR Energy Income and Growth Fund (EIGF) and private equity investments in North American natural gas exploration and production, midstream, downstream and/or energy infrastructure and services	Unlisted	59	0.2%
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	213	0.7%
LSV Asset Management	2005	Emerging markets equities	Listed	320	1.1%
Northern Trust	2013	Bespoke passive global listed equities	Listed	4,352	14.5%
	2015	Bespoke passive global fixed income	Listed	589	2.0%
Pencarrow Private Equity	2005	AMP Pencarrow Private Equity JV Fund – New Zealand management buy-outs and expansion capital	Unlisted	2	0.0%
	2011	Pencarrow IV Investment Fund – small and mid-market New Zealand businesses	Unlisted	30	0.1%
Pioneer Capital Partners	2013	New Zealand expansion capital	Unlisted	24	0.1%
Savanna Real Estate	2010	Savanna Real Estate (PIV) Fund II – private equity real estate in the major markets surrounding New York City, Washington DC and Boston	Unlisted	0	0.0%
Secured Capital	2010	SCJREP IV Loan Fund – non-performing and sub-performing commercial property loans in Japan	Unlisted	0	0.0%

Incumbent managers as at 30 June 2016	Year appointed	Fund name and focus areas	Type	Value of amount invested NZDM	% of Total NZSF (pre-tax)
Sveafastigheter	2011	Sveafastigheter Fund III – real estate assets primarily in Sweden and Finland	Unlisted	3	0.0%
State Street Global Advisors	2009	Bespoke passive global listed equities	Listed	4,120	13.7%
Waterman Capital	2010	Waterman Fund II – small and mid-market New Zealand businesses	Unlisted	14	0.0%
Willis Bond & Co	2010	Willis Bond Institutional Partners – private equity real estate in New Zealand	Unlisted	9	0.0%

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 NZ Equities
- Cash
- Currency Management
- Direct Arbitrage
- Tactical Overlay Strategy
- Infrastructure Transition Assets
- Life Settlements
- Passive NZ Equities
- Portfolio Completion
- Strategic Tilting
- US Transition Assets



Looking forward:

Like the horizon line, retirement can appear a long way off. It can also be expensive. To ease that pressure we stay focussed each step on the way on this long road.

Financial

Statements

06

Financial Report 82

**NEW ZEALAND
SUPERANNUATION FUND**

Statement of Responsibility 90

Statement of Financial
Position 91Statement of
Comprehensive Income 92Statement of Changes in
Public Equity 93

Statement of Cash Flows 94

Notes to the
Financial Statements 95Independent
Auditor's Report 148**GUARDIANS OF NEW ZEALAND
SUPERANNUATION AND GROUP**

Statement of Responsibility 152

Consolidated Statement of
Comprehensive Revenue
and Expense 153Consolidated Statement of
Financial Position 154Consolidated Statement of
Changes in Public Equity 155Consolidated Statement of
Cash Flows 156Notes to the Consolidated
Financial Statements 158Independent Auditor's
Report 177

Balancing **TRANSPARENCY** and complexity



Stewart Brooks – General Manager Finance and Risk

This Annual Report includes financial statements for both the Fund and for the Guardians, the Crown entity that manages the Fund. All Guardians' costs are paid for out of the Fund, except for a small appropriation, funded by Parliament, for Board fees and expenses.

The financial statements for the Fund are among the largest and most complex for a New Zealand reporting entity. In this section, we explain the key elements of the Fund's financial statements and discuss the main financial features of the 2015/16 year.

This year, we have made some changes to the format of the financial statements in order to make them easier for readers to understand. The key changes are listed below:

- removing immaterial disclosures or disclosures that were duplicated elsewhere; and
- re-ordering the notes to align with the financial statements and include accounting policies, estimates and judgement disclosures within the relevant notes.

A five-year financial summary can be found at page 83. The financial statements for the Guardians are at page 150 and the financial statements for the Fund at page 88.

One of the more complex items within the Fund's financial statements is the use of derivatives, which is outlined on pages 128–132 (Note 4(e)). There are three broad concepts that matter when considering derivatives: gross notionals, fair value and net economic exposures.

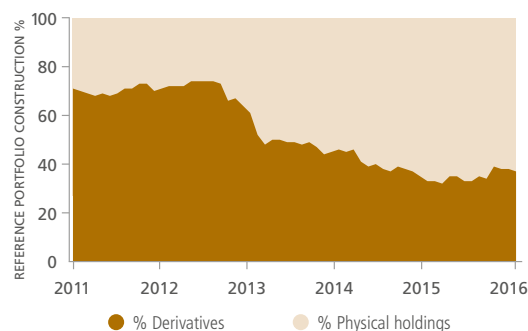
The **gross notional** value of a derivative is the total exposure of a derivative position in dollar terms at the time of investing. The gross notional derivative values are disclosed in absolute terms in the notes to the financial statements irrespective of whether the Guardians are 'long' or 'short' a particular derivative position. As a result, the gross notional derivative values do not present the actual derivative exposure risk of the Fund.

The **fair value** of a derivative is the marked-to-market value of the derivative position at a point in time (i.e. the gain or loss made on a trade since its inception) based on its market price. The fair value may fluctuate considerably through time based on market price movements and does not reflect the realised value of the derivative (as it has not been sold), nor the trading activity of the Guardians during the year (i.e. the buying and selling of derivative positions). The fair value of a position determines the quantity of collateral (cash equivalent assets) we hold for or receive from our derivative counterparties as security.

The **net economic exposure** is the difference between the 'long' and 'short' gross notional positions, thus outlining the 'net exposure' to a particular financial position. The net economic exposure to derivatives is considerably smaller than the gross notional exposures due to our investment strategies. The majority of our net economic exposure to derivatives is made up of our foreign exchange currency exposure being hedged back to NZ dollars.

The graph below shows the proportion of the Reference Portfolio that was accessed through derivatives from 1 July 2011 to 30 June 2016.

METHOD OF OBTAINING REFERENCE PORTFOLIO EXPOSURES



Other specific points of interest within the financial statements include:

- Remuneration information at pages 166-167 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on pages 39-40.
- As above, the Guardians' costs are recovered either from the Fund or funded by Parliament, resulting in a 'zero' net profit/loss for the year.

Fund Five-Year Financial Summary

	2012* (Restated)	2013* (Restated)	2014	2015	2016	
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	
Balance Sheet						
Cash and cash equivalents	3,056,111	6,141,822	3,352,901	1,355,384	2,135,442	Cash and cash equivalents increased – largely due to the timing of settling investment purchases and sales.
Investments	15,848,063	17,349,231	23,487,130	27,998,775	27,973,626	
Other assets	293,945	229,265	392,527	791,447	310,302	
Other liabilities	(183,151)	(728,683)	(795,446)	(603,685)	(314,880)	
Net Assets excluding NZ income tax	19,014,968	22,991,635	26,437,112	29,541,921	30,104,490	
Current NZ income tax	(133,326)	(248,741)	(409,162)	278,223	(247,016)	
Deferred NZ income tax	(159,954)	(179,733)	(203,242)	(278,887)	(305,613)	
Net Assets including NZ income tax	18,721,688	22,563,161	25,824,708	29,541,257	29,551,861	
Contributed capital	14,882,079	14,882,079	14,882,079	14,882,079	14,882,079	Crown contributions to the Fund – suspended in 2009.
Other reserves	3,839,609	7,681,082	10,942,629	14,659,178	14,669,782	Predominantly cumulative net profit after New Zealand tax.
	18,721,688	22,563,161	25,824,708	29,541,257	29,551,861	
Income Statement						
Investment income	549,825	602,714	731,929	723,842	708,141	Interest and dividend income, both of which vary in line with the amount invested and market returns.
Investment gains and losses	(212,590)	4,394,553	3,748,874	3,219,531	(50,103)	Changes in the value of our investments – fluctuates in line with market movements.
Net Operating Income	337,235	4,997,267	4,480,803	3,943,373	658,038	Our biggest expense is external manager and performance fees. These costs vary from year to year in line with investment returns.
Expenses	(110,676)	(168,264)	(134,352)	(115,045)	(98,959)	
Profit before NZ income tax	226,559	4,829,003	4,346,451	3,828,328	559,079	The Fund makes returns to the Crown in the form of tax payments. See pages 86-87 for further discussion.
Tax (expense) / credit	(183,342)	(1,006,280)	(1,094,556)	(122,652)	(537,798)	
Profit after NZ income tax	43,217	3,822,723	3,251,895	3,705,676	21,281	

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

Understanding the Fund's Financial Statements

BALANCE SHEET

The overall size of the Fund's balance sheet is an important measure: it shows how much value is in the Fund at a particular date. This is the money that will ultimately be deployed to help pre-fund New Zealand Superannuation. The key components of the balance sheet are:

+\$11m
vs 2015

- 1) **Cash and cash equivalents** – this includes cash used for collateral against derivative exposures and operating cash used for the day-to-day activities of the Fund;
- 2) **Investments** – this includes our holdings of equities, bonds and other financial instruments held by the Fund;
- 3) **Other assets and liabilities** – amounts due/owed for the settlement of recent transactions, together with the value of land held as part of our rural investments; and
- 4) **Tax** – New Zealand tax amounts owed by the Fund.

As at 30 June 2016 the Fund's balance sheet totalled NZD29.6 billion, made up of NZD14.9 billion contributed by the Crown with a further NZD14.7 billion added (after tax) by the Guardians from investing those contributions. In addition, the Fund has also paid NZD4.6 billion to the Crown via tax payments since investing began.

INCOME STATEMENT

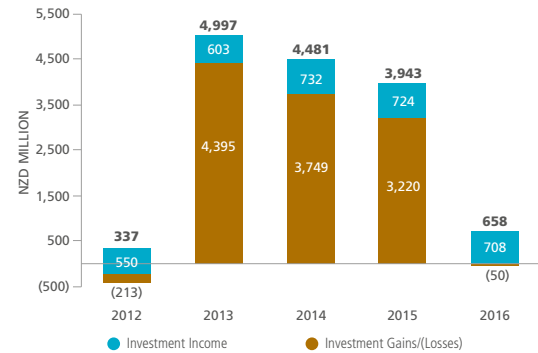
Net Operating Income

Net operating income is the annual income generated by the Fund before expenses have been deducted. There are two key components to net operating income:

-\$3.3bn
vs 2015

- 1) **Investment income** – primarily the income from interest and dividends; and
- 2) **Investment gains and losses** – changes in the value of the Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in other currencies.

NET OPERATING INCOME



In 2016 the Fund's net operating income was NZD658 million. Investment income (interest and dividends) remained broadly in line with prior years. The Fund reported a small marked-to-market loss on the value of its investments. See the Investment Report on pages 42-43 for more information.

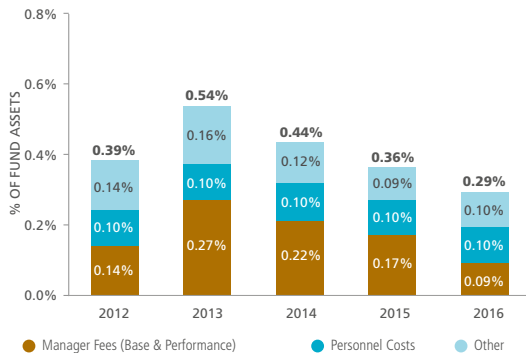
Expenses

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

-7bps
vs 2015

- 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.

FUND EXPENSES AS A PERCENTAGE OF NET ASSETS



In 2016 the Fund's total costs (excluding farm and timber operating costs) were NZD86.9 million. As a percentage of net assets, total costs were 0.29%. The key components were:

- **External Manager Fees of NZD27.3 million.** These fees can vary considerably year-on-year due to performance fees which are only earned by a small number of external managers if they outperform specified benchmarks. Base manager fees also reduced, as a result of the removal of several external managers;
- **Guardians Personnel costs of NZD30.5 million** which remained steady as a proportion of net assets; and
- **Other costs of NZD29.1 million** including (in order of significance) trading fees paid on investment activity, custodian fees, IT costs and other professional fees paid to external parties.

The impact of costs on the Fund's performance remains a key consideration when assessing new and existing mandates and the allocation of funds.

Cost control activities in 2015/16 included:

- Assessing the merits of options-based portfolio rebalancing for potential cost savings on rebalancing
- Continued focus on driving efficiency via the use of the Guardians' intranet and further automation of processes, including implementing an automated foreign exchange matching system and upgrading our futures margin calculations, both completed by our Operations team

- Continuing to monitor and shift between physical and derivative methods of accessing investments in order to achieve the most cost-effective and flexible result.

Priorities for 2016/17 include:

- Implementing new quarterly reporting focused on cost analysis and identifying savings opportunities;
- Streamlining our policy review process to make this more efficient; and
- Implementing a new credit card management system.

As well as monitoring costs internally, the Fund is also benchmarked against other global peers via the annual CEM Cost-Effectiveness survey. This survey covers both value-add (returns) and cost, relative to the global and peer medians.

The most recent survey, of 245 funds representing over USD11 trillion in assets, estimated the Fund's value-add for the five-years to 31 December 2015 to be 3.2%, comparing favourably to a peer median of 0.9% and a global median of 0.2%.

The Fund's five-year net total return of 13.0% was among the highest in its peer group and in the global universe of funds surveyed.

The Fund also performed well in the 2015 calendar year. CEM estimated the Fund's net value-add as 2.8% compared with a peer median of 1.2%.

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 35.6 basis points was below the benchmark cost of 41.8 basis points for 2015. CEM describes this as a 'cost saving' of 6.2 basis points in 2015. For the past five years, the Fund had an average cost savings of 3.6 basis points. The CEM report is available at: www.nzsuperfund.co.nz/performance/cost.

Income Tax

The Fund pays income tax in New Zealand to the New Zealand Government and is also subject to foreign tax depending on the source of its offshore income.

96%
effective
tax rate

Since inception, the Fund has paid NZD4.6 billion in tax to the New Zealand Government. We include New Zealand tax paid in measurements of the Fund's performance because it is a return to the Crown.

The Fund is one of the largest taxpayers in New Zealand, and its income tax expenses can be highly volatile. This is largely driven by the New Zealand tax rules for physical equity investments.

Generally only dividends in relation to physical equity investments are subject to tax. Gains on these investments are not subject to any further tax, and any losses are not tax deductible.

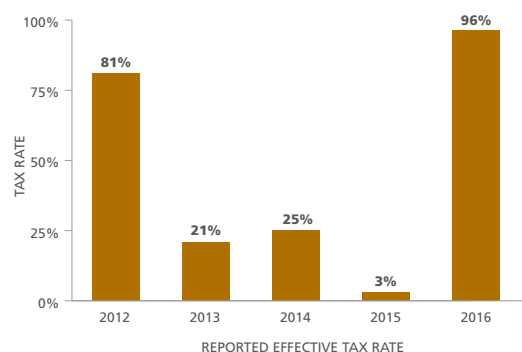
New Zealand tax on dividends from foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' regime. A 'deemed dividend' of 5% per annum of the market value of the foreign equity investment is taxable while actual dividends received are not subject to tax.

Tax is paid on actual dividends received from New Zealand and most listed Australian equity investments.

Income or losses arising from the Fund's other investments, e.g., equity derivatives, bonds and cash deposits are generally subject to 28% New Zealand tax.

The graph below illustrates the tax volatility the Fund has experienced over the past five years.

FUND TAX EXPENSE AS A PERCENTAGE OF NET INCOME



TAX RATE VOLATILITY IN A NUTSHELL

The Fund's tax rate is very volatile.

Our tax affairs are complex, and there are many contributors to this volatility, but the main driver is how our physical global equities are taxed under New Zealand's deemed dividend tax regime.

This regime taxes these assets at the rate of 5% of market value, rather than being taxed based on actual market movements.

In simple terms, this means that in any given year if our return on global equities exceeds 5%, then our tax rate will be lower than 28%, and if our returns are less than 5% then our tax rate will be higher than 28%.

This financial year and the previous year illustrates both of these outcomes.

Income Type	NZ and Listed Australian Shares	Rest of World Shares	Other Assets e.g. bonds, cash deposits, FX contracts, equity and swaps.
Gains/(Losses) on disposal or revaluation	Not taxed or deductible (where a loss)	Not taxed or deductible (where a loss)	Taxed or deductible (where a loss)
Dividends Received	Taxed	Not taxed	NA
Interest Received	NA	NA	Taxed
Deemed (FDR) Dividend (for tax only) calculated as 5% p.a. of the market value of investment	NA	Taxed	NA

In 2015/16, the Fund had an effective tax rate of 96% compared to 3% in 2014/15. On average, the Fund's effective tax rate for the past five years is 21%.

This year's unusual tax outcome was because the losses made on global equities were not tax deductible, while gains from currency hedging due to the upward movement in the New Zealand dollar were fully taxable. The opposite situation occurred in 2015.

NEW ZEALAND

INCOME TAX PAID

\$250_m

on 2015/16 returns. An additional NZD245m in respect of this year was paid in July 2016.

OFFSHORE

WITHHOLDING TAXES

\$14_m

excludes underlying taxes paid by the Fund's investments.

Tax Governance and KPMG Report

The Guardians' Risk Management Policy sets out the Fund's tax management framework.

We also:

- endorse and operate in accordance with the OECD's Business and Industry Advisory Committee (BIAC) Statement of Tax Principles for International Business (available at www.nzsuperfund.co.nz/publications/disclosures/tax); and
- have a co-operative compliance agreement with the New Zealand Inland Revenue (IRD).

Under our agreement with the IRD, tax positions taken by the Fund on its activities, including the tax treatment of new investments, are disclosed to the IRD before our New Zealand tax return is filed. This provides us with real-time engagement with the IRD and enhanced certainty around our tax position before we file our return. As one of New Zealand's largest taxpayers, it is important for the Guardians to be involved in tax policy thought leadership. The Guardians is a member of the Corporate Taxpayer Group in New Zealand and makes submissions, in conjunction with peer funds, to the OECD and foreign Governments in relation to changes to the international tax framework. The Risk Management Policy is available at www.nzsuperfund.co.nz/publications/policies.

Review of Tax Governance and Management

During 2015/16, the Guardians engaged KPMG to review the Fund's tax governance and management.

The detailed review concluded that the Guardians' governance framework is strong and significantly ahead of its peer benchmark group.

KPMG found the Guardians:

- has a high level of knowledge of general tax regimes and Fund-specific tax regimes;
- has robust processes for ensuring compliance with the Fund's tax compliance obligations; and
- is managing the Fund's tax affairs in a low-risk way, in line with the Risk Management Policy.

Contents

Statement of Responsibility	90	Notes to the Financial Statements	95	Section 2 Fair Value	104
Statement of Financial Position	91	Section 1 General Information and Basis of Preparation	95		
Statement of Comprehensive Income	92	This section provides information about the overall preparation of the Fund's financial statements including the accounting treatment of subsidiaries, associates and joint ventures. It also includes a summary of general accounting policies that relate to the financial statements as a whole.		This section describes how fair value is determined for the Fund's assets and liabilities. The majority of the Fund's assets and liabilities are measured at fair value and this section provides additional information to help users understand how the Fund's assets and liabilities might be impacted by market conditions.	
Statement of Changes in Public Equity	93	A General information	95	A Fair value measurement	104
Statement of Cash Flows	94	B Basis of preparation	95	B Determination of fair value	109
		C Significant judgements and estimates	95	C Fair value sensitivity	111
		D Investment entity	96	D Transfers between levels in the fair value hierarchy	111
		E Subsidiaries	96	E Reconciliation of fair value measurement under level 3 hierarchy	112
		F Associates	97		
		G Joint ventures	98	Section 3 Risk Management	113
		H Structured entities	99	This section provides information about the objectives and policies in place for the management of risk including a description of the types of risk to which the Fund is exposed.	
		I Other significant accounting policies	100	A Risk management	113
		J Changes in accounting policies	100	B Market risk	113
		K Standards issued but not yet effective	101	C Credit risk	117
				D Liquidity risk	120
				E Risks associated with structured entities	122

Section 4 Financial Assets and Liabilities	123	Section 6 Management of Fund Capital and Reserves	138	Section 9 Other Information	146
This section focuses on the financial assets and liabilities of the Fund as they are the key drivers of Fund performance and have the most significant impact on the Statement of Financial Position. It provides additional information about the types of financial instruments held by the Fund as well as the relevant accounting policies.		This section outlines how the Fund manages its capital structure.		This section identifies the related parties of the Fund and provides additional information to illustrate the effect of related party transactions on the financial statements.	
A Financial instruments	123	A Fund capital	138	A Related party transactions	146
B Cash and cash equivalents	126	B Reserves	138	B Comparison to budget (unaudited)	147
C Collateral	126	Section 7 Financial Performance	139	Independent Auditor's Report	148
D Trade and other receivables	126	This section focuses on the financial performance of the Fund. It provides additional information about the line items included in the Statement of Financial Performance as well as the relevant accounting policies.			
E Investments	127	A Income	139		
F Offsetting financial assets and financial liabilities	133	B Income received and gains and losses recognised in unconsolidated structured entities	140		
G Trade and other payables	134	C Operating expenditure	141		
H Financial assets and financial liabilities expected to be recovered or settled after more than 12 months	134	D Auditor's remuneration	141		
Section 5 Non-Financial Assets and Liabilities	135	E Income tax	142		
This section provides additional information about the line items included in the Statement of Financial Position that are non-financial assets and liabilities as well as the relevant accounting policies.		F Reconciliation of profit for the year to net cash flows from operating activities	144		
A Property, plant and equipment	135	Section 8 Unrecognised Items	145		
B Provision for performance-based fees	137	This section provides information about items not recognised in the Fund's financial statements that may have an impact on the Fund's financial position and/or financial performance in future periods.			
		A Commitments and contingencies	145		
		B Subsequent events	145		

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 2016 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.



CATHERINE SAVAGE, CHAIR
20 September 2016



ADRIAN ORR, CHIEF EXECUTIVE OFFICER
20 September 2016

Statement of Financial Position

As at 30 June 2016	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2016 NZD'000	2015 NZD'000	2016 NZD'000
ASSETS				
Cash and cash equivalents	2(a), 4(a), 4(b)	2,237,847	1,257,420	3,018,475
Cash pledged as collateral	2(a), 4(a), 4(c)	758,811	403,568	562,748
Trade and other receivables	2(a), 4(a), 4(d)	133,101	653,845	1,087,073
Other current assets	2(a)	924	734	603
Investments				
Investments – derivative financial instrument assets	2(a), 4(a), 4(e)	1,566,708	492,557	1,384,364
Investments – other financial assets	2(a), 4(a), 4(e)	26,475,845	29,160,050	25,380,762
Other financial assets pledged as collateral	2(a), 4(a), 4(e)	56,164	60,536	–
Investments in unconsolidated subsidiaries	2(a), 4(a), 4(e)	386,599	396,807	298,533
Agricultural assets	2(a)	19,040	18,387	44,307
Total investments		28,504,356	30,128,337	27,107,966
Income tax receivable	2(a)	–	278,223	–
Assets held for sale	2(a)	4,072	4,220	–
Property, plant and equipment	2(a), 5(a)	158,070	126,471	199,467
Intangible assets	2(a)	14,135	6,177	201
Total assets		31,811,316	32,858,995	31,976,533
LIABILITIES				
Cash collateral received	2(a), 4(a), 4(c)	861,216	305,604	–
Trade and other payables	2(a), 4(a), 4(g)	298,666	583,851	435,831
Investments – derivative financial instrument liabilities	2(a), 4(a), 4(e)	530,730	2,129,562	–
Income tax payable	2(a)	247,016	–	123,203
Provision for performance-based fees	2(a), 5(b)	16,214	19,834	31,451
Deferred tax liability	2(a), 7(e)	305,613	278,887	220,937
Total liabilities		2,259,455	3,317,738	811,422
Net assets		29,551,861	29,541,257	31,165,111
PUBLIC EQUITY				
Retained surplus		14,631,074	14,609,793	16,209,829
Available-for-sale reserve	6(b)	16,305	27,682	37,232
Asset revaluation reserve	6(b)	22,403	21,703	35,971
Contributed capital	6(a)	14,882,079	14,882,079	14,882,079
Total public equity		29,551,861	29,541,257	31,165,111

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

Statement of Comprehensive Income

For the year ended 30 June 2016	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2016 NZD'000	2015 NZD'000	2016 NZD'000
Net operating income	7(a)	658,038	3,943,373	2,739,006
Operating expenditure	7(c)	98,959	115,045	159,904
Profit for the year before income tax expense		559,079	3,828,328	2,579,102
Income tax expense	7(e)	537,798	122,652	624,266
Profit for the year after income tax expense		21,281	3,705,676	1,954,836
Other comprehensive income – reclassifiable to profit or loss in subsequent periods				
Net fair value gains/(losses) on available-for-sale financial assets		(11,377)	11,923	9,784
Other comprehensive income – not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		867	(726)	10,037
Tax expense on items of other comprehensive income	7(e)	(167)	(324)	–
Other comprehensive income for the year, net of tax		(10,677)	10,873	19,821
Total comprehensive income for the year		10,604	3,716,549	1,974,657

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 2016		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 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	6(a)			11,591,026		11,591,026
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(11,591,026)		(11,591,026)
Balance at 30 June 2015		21,703	27,682	14,882,079	14,609,793	29,541,257
Profit for the year					21,281	21,281
Other comprehensive income		867	(11,377)			(10,510)
Tax expense on items of other comprehensive income		(167)	–			(167)
Total comprehensive income for the year		700	(11,377)	–	21,281	10,604
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			12,267,000		12,267,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(12,267,000)		(12,267,000)
Balance at 30 June 2016		22,403	16,305	14,882,079	14,631,074	29,551,861

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 2016	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2016 NZD'000	2015 NZD'000	2016 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		18,418,840	23,282,588	34,451,007
Cash collateral received		14,026,919	7,933,848	–
Dividends received		427,550	401,391	374,754
Interest received		278,881	262,927	303,287
Income tax received		13,550	–	–
Other income		11,030	35,941	21,877
Total cash inflow from operating activities		33,176,770	31,916,695	35,150,925
Cash was applied to:				
Purchases of investments		(18,515,432)	(25,282,722)	(34,696,581)
Cash collateral paid		(13,542,159)	(8,359,224)	–
Managers' fees		(38,009)	(38,288)	(28,474)
Payments to suppliers		(63,374)	(71,029)	(125,538)
Income tax paid		–	(717,708)	(553,788)
Goods and Services Tax		(3,153)	(4,220)	–
Total cash outflow from operating activities		(32,162,127)	(34,473,191)	(35,404,381)
Net cash provided by/(used in) operating activities	7(f)	1,014,643	(2,556,496)	(253,456)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		26	1	–
Total cash inflow from investing activities		26	1	–
Cash was applied to:				
Purchases of property, plant and equipment		(40,961)	(1,544)	(60,240)
Purchases of intangible assets		(141)	(784)	(240)
Total cash outflow from investing activities		(41,102)	(2,328)	(60,480)
Net cash provided by/(used in) investing activities		(41,076)	(2,327)	(60,480)
Net increase/(decrease) in cash and cash equivalents		973,567	(2,558,823)	(313,936)
Cash and cash equivalents at the beginning of the financial year		1,257,420	3,759,673	3,332,411
Effects of exchange rate changes on the balance of cash held in foreign currencies		6,860	56,570	–
Cash and cash equivalents at the end of the financial year	4(a), 4(b)	2,237,847	1,257,420	3,018,475

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

SECTION 1: GENERAL INFORMATION AND BASIS OF PREPARATION

(a) General information

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

The Fund is a long-term, growth-oriented, sovereign wealth fund that was established to help reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation. The Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to invest the Fund in a commercial, prudent manner consistent with:

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

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

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 187.

The financial statements of the Fund for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 20 September 2016.

(b) Basis of preparation

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

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

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The Fund meets the definition of an investment entity and has applied the exemption from preparing consolidated financial statements available under NZ IFRS 10 Consolidated Financial Statements. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in the Statement of Financial Position. These separate financial statements are the only financial statements presented by the Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2016. The budget figures are unaudited.

(c) Significant judgements and estimates

The preparation of the Fund's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Fund are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Fund and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment as an investment entity (Note 1(d));
- Assessment of control, joint control or significant influence (Notes 1(e) – (g));
- Assessment of investments in structured entities (Note 1(h)); and
- Determination of fair value (Note 2(b)).

For the year ended 30 June 2016

SECTION 1: GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

(d) Investment entity

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

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

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

Key judgement – assessment as an investment entity

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

(e) Subsidiaries

Under Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 (Act), the Guardians must use their best endeavours to ensure the Fund does not control any other entity. However, the Guardians seeks to maximise returns for the Fund and in some cases this includes the use of 'controlled' holding vehicles that are not caught within the provisions of Section 59 but may be considered subsidiaries for accounting purposes. All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

On 23 October 2015, Section 59 of the Act was amended to specifically exclude Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the Fund. A FIV that is controlled by the Guardians is a subsidiary of the Fund for accounting purposes.

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The 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 above, the Board and management have applied the exemption available under NZ IFRS 10 from preparing consolidated financial statements for the Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss and are classified as 'unconsolidated subsidiaries' in the Statement of Financial Position.

The Fund has interests in the following significant unconsolidated subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
				2016 %	2015 %
CNI Timber Operating Company Limited	(i)	30 June	New Zealand	0.0	0.0
Sankaty Managed Account (NZSF) Limited Partnership	(ii)	31 March	Cayman Islands	99.9	99.9
KKR NZSF Energy Investor Limited Partnership	(ii)	31 December	Cayman Islands	100.0	100.0
NZSF Land Holdings Limited	(iii)	30 June	New Zealand	100.0	0.0
NZSF Hobsonville Investments Limited	(iii)	30 June	New Zealand	100.0	0.0

In addition, the Fund has 100% ownership interest in 1 Segregated Account of Bermudan-domiciled Segregated Account Company Horseshoe Re Limited (2015: 1 Segregated Account) and 100% ownership interest in 8 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2015: 31 Segregated Accounts) (Note (iv) below). All Segregated Accounts have a balance date of 31 December.

- (i) The acquisition of CNI Timber Operating Company Limited arose during the purchase of timberland estate. Due to the legislative constraints under Section 59 of the Act, the investment in CNI Timber Operating Company Limited was structured so that legal ownership sits with the Guardians, but, due to certain performance guarantee contracts that exist within the company that have not been transferred, beneficial ownership of the shares is retained by the Fund. As such, the company has been accounted for as an unconsolidated subsidiary in the Fund's financial statements.
- (ii) As a matter of Cayman Islands law, an exempted limited partnership is not a 'legal person'. Even though 'controlled' limited partnerships are treated as unconsolidated subsidiaries of the Fund for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held in these partnerships do not constitute a breach of that section.
- (iii) NZSF Land Holdings Limited and NZSF Hobsonville Investments Limited were established on 11 December 2015 as FIVs for the purposes of providing capital to a residential housing development. As FIVs are excluded from the provisions of Section 59, the interests held in these investment vehicles do not constitute a breach of that section but they are treated as unconsolidated subsidiaries for accounting purposes.
- (iv) Horseshoe Re Limited and Horseshoe Re II Limited, acting for, and for the benefit of, the Segregated Accounts, enter into agreements relating to the Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. As a matter of Bermudan law, a Segregated Account is not a 'legal person' and has no existence separate from the Segregated Account company. In addition, the Fund does not control the Segregated Account company. Therefore, even though the Segregated Accounts are treated as unconsolidated subsidiaries for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

As at 30 June 2016, there are no significant restrictions on the ability of unconsolidated subsidiaries to transfer funds, including dividends, to the Fund.

Further disclosures on unconsolidated subsidiaries are contained in Note 9(a).

Key judgement – assessment of control

The Board and management have assessed the Fund's investments in subsidiaries in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the Fund has no power to direct the relevant activities of these entities and therefore it does not have control of these entities.

(f) Associates

Associates are those entities over which the Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The Fund has an interest in the following associate that is measured at fair value through profit or loss and classified as private equity in the Statement of Financial Position:

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2016 %	2015 %
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.0	42.0

For the year ended 30 June 2016

SECTION 1: GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

(f) Associates (continued)

Kaingaroa Timberlands Partnership is a major North Island forestry business. It is valued in United States dollars and translated into New Zealand dollars for financial reporting purposes.

As at 30 June 2016, there are no significant restrictions on the ability of Kaingaroa Timberlands Partnership to transfer funds to the Fund.

Key judgement – assessment of significant influence

The Board and management have assessed the Fund's investments in associates in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures. The Fund holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. The Board and management have concluded that the Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

(g) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Fund has the following interests in joint ventures that are measured at fair value through profit or loss and classified as private equity in the Statement of Financial Position:

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
			2016 %	2015 %
Datacom Group Limited	31 March	New Zealand	37.6	37.6
RA (Holdings) 2014 Pty Limited	31 March	Australia	50.0	50.0

Datacom Group Limited is an information technology services company with operations in New Zealand, Australia and the Asia Pacific.

RA (Holdings) 2014 Pty Limited is the holding company for the Fund's investment in RetireAustralia, a leading Australian retirement village operator.

As at 30 June 2016, there are no restrictions on the ability of Datacom Group Limited or RA (Holdings) 2014 Pty Limited to transfer funds, including dividends, to the Fund.

Key judgement – assessment of joint control

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Fund's joint arrangements are classified as joint ventures because the contractual arrangements provide the parties with rights to the net assets of the joint arrangements.

Datacom Group Limited – under a Shareholders' 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 the Board's and 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 as a joint venture.

RA (Holdings) 2014 Pty Limited – under a Shareholders' 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 the Board's and 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 as a joint venture.

(h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Fund is principally involved with structured entities through investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, unlisted unit trusts, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The Fund invests in structured entities to assist with the implementation of its overall investment strategy. The Fund does not sponsor any structured entities.

Structured entities have the following business activities:

PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

COLLECTIVE INVESTMENT FUNDS AND UNLISTED UNIT TRUSTS

Collective investment funds and unlisted 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.

INSURANCE-LINKED INVESTMENTS

The Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

SHAREHOLDER LOANS

The Fund may make investments in private equity investment funds, or other private equity investments via shareholder loans. The borrower in the arrangement may be a structured entity. Shareholder loans are classified as fixed income securities in the Statement of Financial Position.

AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are classified as fixed income securities in the Statement of Financial Position.

ASSET-BACKED SECURITIES

The Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are classified as fixed income securities in the Statement of Financial Position.

For the year ended 30 June 2016

SECTION 1: GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

(h) Structured entities (continued)

Key judgement – assessment of investments in structured entities

The Board and management have assessed which of the Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Fund's investments meet the definition of a structured entity because:

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

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

(i) Other significant accounting policies

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure.

STATEMENT OF CASH FLOWS

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

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

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

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

(j) Changes in accounting policies

The Board and management have early adopted Amendments to NZ IAS 1 Disclosure Initiative for the Fund's financial statements. The amendments clarify existing NZ IAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. Adoption of these amendments has impacted on the presentation of the Fund's financial statements as certain accounting policies have been relocated within the notes to the financial statements and immaterial disclosures have been removed. Adoption of these amendments has had no impact on recognition or measurement within these financial statements.

Aside from the above, 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.

(k) Standards issued but not yet effective

The following standards and interpretations that have been issued or amended but are not yet effective, have not been adopted for the year ended 30 June 2016.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
NZ IFRS 9 (2014)	Financial Instruments	<p>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.</p> <p>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.</p>	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.

For the year ended 30 June 2016

SECTION 1: GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

(k) Standards issued but not yet effective (continued)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
NZ IFRS 15	Revenue from Contracts with Customers	<p>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.</p> <p>NZ IFRS 15 supersedes:</p> <ul style="list-style-type: none"> (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 <p>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.</p> <p>An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> (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 January 2018	The new standard may impact 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 16	Leases	<p>NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases.</p> <p>The standard will replace:</p> <ul style="list-style-type: none"> (a) NZ IAS 17 Leases (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease (c) NZ SIC – 15 Operating Leases – Incentives (d) NZ SIC – 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease <p>The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.</p> <p>NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17.</p> <p>Lessees recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately.</p> <p>Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.</p> <p>Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach.</p> <p>Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.</p>	1 January 2019	The new standard will affect the measurement of the Funds financial assets and financial liabilities and disclosures in the financial statements.	1 July 2019

* Designates the beginning of the applicable annual reporting period.

For the year ended 30 June 2016

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the assets and liabilities of the Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 – Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 – Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement as a whole.

The fair value of the Fund's assets and liabilities are categorised as follows:

2016	NOTE	FUND ACTUAL					TOTAL
		QUOTED MARKET PRICE (LEVEL 1) NZD'000	VALUATION TECHNIQUE: MARKET- OBSERVABLE INPUTS (LEVEL 2) NZD'000	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) NZD'000	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE NZD'000	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* NZD'000	
ASSETS							
Cash and cash equivalents	4(a), 4(b)				–	2,237,847	2,237,847
Cash pledged as collateral	4(a), 4(c)				–	758,811	758,811
Trade and other receivables	4(a), 4(d)				–	133,101	133,101
Other current assets					–	924	924
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		1,186,753		1,186,753		1,186,753
Cross currency swaps	4(e)		42,538		42,538		42,538
Asset swaps	4(e)				–		–
Longevity contingent swaps	4(e)			78,802	78,802		78,802
Futures contracts	4(e)				–		–
Total return swaps – equity	4(e)		109,605		109,605		109,605
Credit default swaps	4(e)		125,429		125,429		125,429
Interest rate swaps	4(e)		9,562		9,562		9,562
Other over-the-counter swaps	4(e)			20	20		20
Warrants	4(e)			13,999	13,999		13,999
Total derivative financial instrument assets		–	1,473,887	92,821	1,566,708	–	1,566,708
Other financial assets:							
New Zealand equities	4(a), 4(e)	1,492,275		5,955	1,498,230		1,498,230
Global equities	4(a), 4(e)	10,915,456		5,243	10,920,699		10,920,699
Fixed income securities	4(a), 4(e)		7,240,570	101,070	7,341,640	2,135,389	9,477,029
Collective investment funds	4(a), 4(e)	159,976	887,888	13,347	1,061,211		1,061,211
Reverse repurchase agreements	4(a), 4(e)				–		–
Insurance-linked investments	4(a), 4(e)		72,953		72,953		72,953
Private equity	4(a), 4(e)		19,094	3,425,975	3,445,069		3,445,069
Unlisted unit trusts	4(a), 4(e)			654	654		654
Total other financial assets		12,567,707	8,220,505	3,552,244	24,340,456	2,135,389	26,475,845

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 2: FAIR VALUE (continued)

(a) Fair value measurement (continued)

2016	NOTE	FUND ACTUAL					TOTAL
		QUOTED MARKET PRICE (LEVEL 1) NZD'000	VALUATION TECHNIQUE: MARKET- OBSERVABLE INPUTS (LEVEL 2) NZD'000	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) NZD'000	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE NZD'000	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* NZD'000	
Other financial assets pledged as collateral	4(a), 4(e)		56,164		56,164		56,164
Investments in unconsolidated subsidiaries	4(a), 4(e)			386,599	386,599		386,599
Agricultural assets:							
Forests				410	410		410
Livestock			18,216		18,216		18,216
Crops						414	414
Total agricultural assets		–	18,216	410	18,626	414	19,040
Total investments		12,567,707	9,768,772	4,032,074	26,368,553	2,135,803	28,504,356
Income tax receivable							
Assets held for sale						4,072	4,072
Property, plant and equipment	5(a)			151,173	151,173	6,897	158,070
Intangible assets			13,678		13,678	457	14,135
Total assets		12,567,707	9,782,450	4,183,247	26,533,404	5,277,912	31,811,316
LIABILITIES							
Cash collateral received	4(a), 4(c)					861,216	861,216
Trade and other payables	4(a), 4(g)					298,666	298,666
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		206,522		206,522		206,522
Cross currency swaps	4(e)		2,696		2,696		2,696
Asset swaps	4(e)		94,685		94,685		94,685
Futures contracts	4(e)						
Total return swaps – equity	4(e)		74,064		74,064		74,064
Credit default swaps	4(e)		74,130		74,130		74,130
Interest rate swaps	4(e)		78,633		78,633		78,633
Total derivative financial instrument liabilities		–	530,730	–	530,730	–	530,730
Income tax payable						247,016	247,016
Provision for performance- based fees	5(b)					16,214	16,214
Deferred tax liability	7(e)					305,613	305,613
Total liabilities		–	530,730	–	530,730	1,728,725	2,259,455

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

		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 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				–	1,257,420	1,257,420
Cash pledged as collateral	4(a), 4(c)				–	403,568	403,568
Trade and other receivables	4(a), 4(d)				–	653,845	653,845
Other current assets					–	734	734
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		87,657			87,657	87,657
Cross currency swaps	4(e)		83,449			83,449	83,449
Asset swaps	4(e)		1,995			1,995	1,995
Longevity contingent swaps	4(e)			96,761		96,761	96,761
Futures contracts	4(e)					–	–
Total return swaps – equity	4(e)		18,434			18,434	18,434
Credit default swaps	4(e)		199,756			199,756	199,756
Interest rate swaps	4(e)		4,416			4,416	4,416
Other over-the-counter swaps	4(e)			89		89	89
Warrants	4(e)					–	–
Total derivative financial instrument assets		–	395,707	96,850		492,557	–
Other financial assets:							
New Zealand equities	4(a), 4(e)	2,000,092				2,000,092	2,000,092
Global equities	4(a), 4(e)	12,316,588		14,252		12,330,840	12,330,840
Fixed income securities	4(a), 4(e)		7,727,084	98,310		7,825,394	2,039,692
Collective investment funds	4(a), 4(e)	353,095	761,548	138,758		1,253,401	1,253,401
Reverse repurchase agreements	4(a), 4(e)					–	147,948
Insurance-linked investments	4(a), 4(e)		74,878			74,878	74,878
Private equity	4(a), 4(e)		14,801	3,471,745		3,486,546	3,486,546
Unlisted unit trusts	4(a), 4(e)			1,259		1,259	1,259
Total other financial assets		14,669,775	8,578,311	3,724,324		26,972,410	2,187,640
						2,187,640	29,160,050

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 2: FAIR VALUE (continued)

(a) Fair value measurement (continued)

2015	NOTE	FUND ACTUAL					
		QUOTED MARKET PRICE (LEVEL 1) NZD'000	VALUATION TECHNIQUE: MARKET- OBSERVABLE INPUTS (LEVEL 2) NZD'000	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3) NZD'000	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE NZD'000	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE* NZD'000	TOTAL NZD'000
Other financial assets pledged as collateral	4(a), 4(e)		60,536		60,536		60,536
Investments in unconsolidated subsidiaries	4(a), 4(e)			396,807	396,807		396,807
Agricultural assets:							
Forests				410	410		410
Livestock			17,753		17,753		17,753
Crops						224	224
Total agricultural assets		–	17,753	410	18,163	224	18,387
Total investments		14,669,775	9,052,307	4,218,391	27,940,473	2,187,864	30,128,337
Income tax receivable						278,223	278,223
Assets held for sale						4,220	4,220
Property, plant and equipment	5(a)			121,464	121,464	5,007	126,471
Intangible assets			5,002		5,002	1,175	6,177
Total assets		14,669,775	9,057,309	4,339,855	28,066,939	4,792,056	32,858,995
LIABILITIES							
Cash collateral received	4(a), 4(c)					305,604	305,604
Trade and other payables	4(a), 4(g)					583,851	583,851
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		1,781,672		1,781,672		1,781,672
Cross currency swaps	4(e)		40,863		40,863		40,863
Asset swaps	4(e)		86,194		86,194		86,194
Futures contracts	4(e)						
Total return swaps – equity	4(e)		139,689		139,689		139,689
Credit default swaps	4(e)		46,753		46,753		46,753
Interest rate swaps	4(e)		34,391		34,391		34,391
Total derivative financial instrument liabilities		–	2,129,562	–	2,129,562	–	2,129,562
Income tax payable							
Provision for performance- based fees	5(b)					19,834	19,834
Deferred tax liability	7(e)					278,887	278,887
Total liabilities		–	2,129,562	–	2,129,562	1,188,176	3,317,738

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Assets and liabilities not measured at fair value but for which fair value is disclosed are categorised as follows:

Level 1 – Cash and cash equivalents, cash pledged as collateral and cash collateral received.

Level 2 – Trade and other receivables, fixed income securities, reverse repurchase agreements, crops, income tax receivable, trade and other payables, income tax payable and deferred tax liability.

Level 3 – Other current assets, property, plant and equipment, intangible assets and provision for performance-based fees.

(b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models for significant product categories are outlined below:

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are principally determined using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These instruments are classified within Level 3 of the fair value hierarchy and include longevity contingent swaps and other over-the-counter swaps. The fair value of longevity contingent swaps is provided by the counterparty at balance date. The price is a non-binding bid price based on the fair value of the underlying basket of contracts. The fair value of other over-the-counter swaps is determined using an internally-generated discounted cash flow model, with the key input being interest rates.

LISTED EQUITIES

The fair value of listed equities is determined based on the last quoted bid price on the relevant exchange 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 or trading of the security has been temporarily suspended), the price can also be determined using non-binding broker quotes. These securities have been classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of highly liquid fixed income securities is determined based on the last quoted bid price provided by a reputable pricing vendor (being a financial data provider such as Bloomberg or Thomson Reuters) or broker at balance date. Where the market for fixed income securities is illiquid, fair value is determined by a reputable pricing vendor who uses models to value the securities. The models incorporate various inputs including loan level data, repayment and default assumptions and benchmark prices for similar securities. For illiquid securities, because of the inherent uncertainty of valuation, it is possible that the fair values estimated may differ from those that would have been determined had a ready market for those securities existed and those differences may be significant. These securities have been classified within Level 3 of the fair value hierarchy.

The fair value of unlisted debt instruments, including fixed and floating rate instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities have been classified within Level 3 of the fair value hierarchy.

COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the nature of the underlying instruments.

INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date.

PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation or the price of recent investments.

For the year ended 30 June 2016

SECTION 2: FAIR VALUE (continued)**(b) Determination of fair value** (continued)**UNLISTED UNIT TRUSTS**

The fair value of unlisted unit trusts is determined based on the last bid price of the unit or security provided by the administrators at balance date. The bid price is based on the fair value of the underlying net assets or securities of the unlisted unit trust.

UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the specific investment which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows.

AGRICULTURAL ASSETS

The fair value of 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. Forest assets are valued separately from the underlying freehold land.

The fair value of livestock is determined by an independent valuer at balance date who uses recent observable livestock sales adjusted for the condition and location of livestock where necessary.

PROPERTY, PLANT AND EQUIPMENT

Land and land improvements and buildings are measured at fair value, as determined by Property Advisory Limited and Colliers International, independent registered valuers. The valuers use 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 determined by direct reference to recent transactions for land and land improvements and buildings of comparable size and location as those held by the Fund, adjusted for differences in the nature, location or condition of the specific property.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the Fund owns in relation to its forestry operations are recognised at net realisable value where they have been received, or where the Board and management are reasonably certain they will be received, and a price can be reliably ascertained either through the existence of an observable active market or through pricing obtained from reputable brokers.

Key judgement – determination of fair value

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which principally consist of investments in private equity investment funds, collective investment funds, unlisted unit trusts, fixed income securities and certain derivative financial instruments) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

PRIVATE EQUITY INVESTMENT FUNDS, COLLECTIVE INVESTMENT FUNDS AND UNLISTED UNIT TRUSTS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of private equity investment funds, collective investment funds and unlisted unit trusts is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Fund.

FIXED INCOME SECURITIES WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR

Where the market for fixed income securities is illiquid, fair value is determined by a pricing vendor who uses models to value the securities. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR, BROKER OR COUNTERPARTY

Pricing vendors, brokers or counterparties may use valuation models to price certain derivative financial instruments for which the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors, brokers or counterparties and by periodically calibrating prices against observable market data.

(c) Fair value sensitivity

The following table shows the Fund's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, equivalent to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

	NON-MARKET OBSERVABLE INPUT	FUND ACTUAL		
		MOVEMENT (%)	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE NZD'000	DECREASE NZD'000
2016				
Longevity contingent swaps	Discount rate	2	4,059	(4,330)
Other over-the-counter swaps	Interest rate	0*	–	–
New Zealand equities	Share price	18	1,072	(1,072)
Global equities	Share price	20	1,085	(1,085)
Fixed income securities	Yield	12	8,732	(8,732)
Collective investment funds	Unit price	13	1,711	(1,711)
Private equity	(i)	(i)	457,482	(457,482)
Unlisted unit trusts	Unit price	12	105	(105)
Unconsolidated subsidiaries	Share price	20	31,375	(31,375)
Property, plant and equipment	Price per hectare	5	7,492	(7,492)
2015				
Longevity contingent swaps	Discount rate	2	4,117	(3,695)
Other over-the-counter swaps	Interest rate	0*	–	–
New Zealand equities	Share price	18	–	–
Global equities	Share price	20	3,637	(3,637)
Fixed income securities	Yield	12	8,494	(8,494)
Collective investment funds	Unit price	13	17,786	(17,786)
Private equity	(i)	(i)	470,087	(470,087)
Unlisted unit trusts	Unit price	12	151	(151)
Unconsolidated subsidiaries	Share price	20	32,986	(32,986)
Property, plant and equipment	Price per hectare	5	6,240	(6,240)

* A reasonably likely movement in fair value is 0% as interest rates are fixed (0.75% - 2.0%).

- (i) The fair value of private equity investments is provided by the investment managers or administrators or by independent valuers at balance date. The Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. The Board and management have assessed that the reasonably likely movement in fair value in a one-year period is 20% for private equity investment funds and other private equity investments, 16% for private timber funds, 12% for private infrastructure investments and 6% for life settlements investments based on internal risk modelling.

(d) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

For the year ended 30 June 2016

SECTION 2: FAIR VALUE (continued)

(d) Transfers between levels in the fair value hierarchy (continued)

The following table presents the transfers between fair value hierarchy levels for the year:

	FUND ACTUAL		
	LEVEL 1 NZD'000	LEVEL 2 NZD'000	LEVEL 3 NZD'000
2016			
Transfers between Levels 1 and 3:			
New Zealand equities	(6,124)	–	6,124
Global equities	7,681	–	(7,681)

New Zealand equities transferred out of Level 1 relate to a position whose trading was suspended as at 30 June 2016 but was actively traded in the prior year.

Global equities transferred into Level 1 relate to positions whose trading was suspended in the prior year but was actively traded as at 30 June 2016.

	FUND ACTUAL		
	LEVEL 1 NZD'000	LEVEL 2 NZD'000	LEVEL 3 NZD'000
2015			
Transfers between Levels 1 and 3:			
New Zealand equities	24,361	–	(24,361)
Global equities	(4,299)	–	4,299

New Zealand equities transferred out of Level 3 relate to positions that were listed on the New Zealand stock exchange during the year ended 30 June 2015.

Global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2015 but was actively traded in the prior year.

Key judgement – transfers between levels of the fair value hierarchy

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

(e) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	FUND ACTUAL	
	2016 NZD'000	2015 NZD'000
Opening balance	4,339,855	3,544,807
Unrealised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	(68,229)	738,385
Realised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	197,071	111,312
Total gains and losses recognised in net fair value gains/(losses) on available-for-sale financial assets	–	14,638
Purchases	596,042	844,908
Sales	(71,333)	(302,305)
Settlements	(808,602)	(591,828)
Transfers to other categories	(1,557)	(20,062)
Closing balance	4,183,247	4,339,855

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Fund. While risk is a necessary part of the Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Fund.

The Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Investment and Risk Committees have been established as risk oversight bodies to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

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

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The Fund is also exposed to commodity price risk in relation to its forestry and farming activities.

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or comparable transactions in a listed equity market.

Equity price risk is managed by diversification between asset classes and by imposing investment constraints at a total Fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management of the Guardians on a regular basis.

Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 3: RISK MANAGEMENT (continued)

(b) Market risk (continued)

The following table shows the Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board's and management's assessment of a reasonably possible change in equity prices, equivalent to one standard deviation, based on internal risk modelling.

	ONE STANDARD DEVIATION (%)	FUND ACTUAL			
		PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2016					
New Zealand equities	18	232,829	(232,829)	–	–
Global large cap equities	16	2,401,289	(2,401,289)	–	–
Global small cap equities	20	334,708	(334,708)	–	–
Infrastructure equities	12	109,279	(109,279)	–	–
Emerging markets equities	26	815,408	(815,408)	–	–
Private equity	20	434,017	(434,017)	11,642	(11,642)
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)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total Fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the Fund and the counterparty.

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Australian Dollars	968,282	310,167
Brazilian Real	125,116	159,079
Canadian Dollars	1,101,951	(107,435)
Swiss Francs	(657,496)	(1,404,071)
Chilean Pesos	28,601	25,761
Colombian Pesos	11,352	12,371
Czech Koruny	7,506	7,502
Danish Kroner	5,556	–
Egyptian Pounds	3,798	4,290
European Union Euros	(1,087,636)	(213,893)
British Pounds	1,462,424	(766,039)
Hong Kong Dollars	31,337	785,477
Hungarian Forints	6,378	4,439
Indonesian Rupiahs	63,404	49,127
Israeli New Shekels	45,319	47,693
Indian Rupees	128,099	204,997
Japanese Yen	(827,705)	497,573
South Korean Won	–	26,569
Mexican Pesos	89,994	110,024
Malaysian Ringgits	84,321	94,884
Norwegian Krone	431	–
Philippines Pesos	36,903	28,679
Polish Zloty	32,581	38,910
Russian Rubles	73,867	66,269
Qatari Rial	20,860	20,087
Singaporean Dollars	3,571	–
Thai Baht	61,581	57,755
Turkish New Lira	36,810	36,833
Taiwanese New Dollars	8,977	27,466
United Arab Emirates Dirham	18,750	13,739
United States of America Dollars	1,302,849	969,565
South African Rand	133,158	175,365
	3,320,939	1,283,183

For the year ended 30 June 2016

SECTION 3: RISK MANAGEMENT (continued)

(b) Market risk (continued)

The following table shows the Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The percentages used represent the Board's and management's assessment of a reasonably possible change in foreign currency rates, equivalent to one standard deviation.

	ONE STANDARD DEVIATION (%)	FUND ACTUAL			
		PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2016					
NZD/USD	10	90,949	(90,949)	(2,856)	2,856
NZD/EUR	10	(78,310)	78,310	–	–
NZD/GBP	10	105,295	(105,295)	–	–
NZD/JPY	10	(59,595)	59,595	–	–
NZD/Others	10	178,713	(178,713)	–	–
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)	–	–

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Fund's investments in fixed interest securities and cash and cash equivalents will fluctuate due to changes in market interest rates. The Fund is primarily exposed to changes in New Zealand and United States short-term interest rates.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation.

	ONE STANDARD DEVIATION (BASIS POINTS)	FUND ACTUAL			
		PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2016					
Fixed income securities and other interest-sensitive financial instruments	50	18,567	(18,567)	–	–
2015					
Fixed income securities and other interest-sensitive financial instruments	50	(3,217)	3,217	–	–

COMMODITY PRICE RISK

The Fund is exposed to financial risk in respect of its forestry activities due to the global volatility of log prices, exchange rates and transportation costs. These exposures are managed through adjustments to harvest levels and marketing efforts in order to minimise the risk of financial loss.

The Fund is also exposed to financial risk in respect of its farming activities due to the global volatility of milk prices and the price of key inputs e.g. feed and fertiliser. Dairy prices relative to key inputs are continually monitored so that operations can adapt as required. There are procedures, systems and infrastructure in place to minimise and manage the risks to which the land and livestock assets are exposed that could lead to financial loss. Such measures include ongoing animal health management, detailed planning and cost control systems supported by regular visits by agricultural consultants, along with significant investment in farm infrastructure and technology to deal with risks associated with effluent disposal. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. The Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Capital allocated to internally managed investments is governed by the Investment Risk Allocation Policy and relevant Internal Investment Mandates. The Board and management mitigate the Fund's exposure to credit risk through internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Additionally, investment strategy-specific constraints are imposed, limiting the Fund's net unhedged exposure to individual counterparties; collective unhedged exposure to counterparties with credit ratings of 'BBB' or less; and individual clearing houses.

The use of, and capital allocated to, external investment managers is governed by the Investment Risk Allocation Policy and Externally Managed Investments Policy. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. Specific prudential limits for external investment managers are built into these agreements which restrict the credit risk the Fund is exposed to. External investment managers are monitored individually on an on-going basis as well as being considered in the Fund's overall financial risk management activities.

For the year ended 30 June 2016

SECTION 3: RISK MANAGEMENT (continued)

(c) Credit risk (continued)

CONCENTRATIONS OF CREDIT RISK

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

The following tables analyse the Fund's concentration of credit risk by geographical and industrial distribution. The analyses are based on the Fund's net financial assets at balance date, at the aggregate level of each individual investment, and covers both internally and externally managed investments.

	FUND ACTUAL	
	2016	2015
	%	%
By geography		
New Zealand	12	15
Australia	6	6
North America	36	34
Europe	24	25
Asia	13	14
Other	9	6
	100	100
By industry		
Basic materials	9	9
Communications	5	6
Consumer – cyclical	5	5
Consumer – non-cyclical	11	11
Energy	4	6
Financial	31	33
Funds	3	4
Government	6	6
Industrial	6	7
Technology	4	5
Utilities	3	3
Other	13	5
	100	100

COUNTERPARTY CREDIT RISK

It is the Fund's policy to enter into financial instruments with reputable counterparties. The Board and management closely monitor the creditworthiness of the Fund's counterparties by reviewing their credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset swaps, longevity contingent swaps, total return swaps, credit default swaps, interest rate swaps and other over-the-counter swaps. The table below sets out the net exposures, excluding collateral, by individual counterparty (and, where applicable, specific branch) where instruments have a net positive fair value:

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
ANZ Bank New Zealand Limited	263,345	17,761
ASB Bank	4,326	–
Bank of New Zealand	57,379	14,248
Barclays Bank PLC, New York Branch	551	–
BNP Paribas, Paris Branch	7,273	–
BNP Paribas, New York Branch	5,980	–
Citibank Limited Sydney	625	–
Citibank N.A., New York Branch	185,544	841
Commonwealth Bank of Australia, Sydney Branch	196,560	26,740
Credit Suisse Securities (Europe) Limited	92,989	104,810
Deutsche Bank AG, London Branch	4,576	5,947
Deutsche Bank AG, New York Branch	12,002	–
Goldman Sachs International	134,320	8,317
Her Majesty the Queen In Right of New Zealand (NZ DMO)	35,224	81,726
The Hong Kong and Shanghai Banking Corporation Limited	17,580	–
JP Morgan Chase, London Branch	154,855	187,522
Morgan Stanley & Co. International PLC	68,812	6,012
Nomura International PLC	27,822	20,673
Societe Generale	50,383	11,919
The Northern Trust Company	3	1
Toronto-Dominion Bank	–	15
UBS AG, London Branch	–	100
UBS AG, Singapore Branch	76,215	–
Westpac Banking Corporation, Wellington Branch	156,345	5,925
	1,552,709	492,557

The Board and management restrict the Fund's exposure to loss from derivative financial instruments by entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. These arrangements provide for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the Statement of Financial Position unless certain conditions for offsetting under NZ IAS 32 Financial Instruments: Presentation apply.

For the year ended 30 June 2016

SECTION 3: RISK MANAGEMENT (continued)

(c) Credit risk (continued)

CREDIT QUALITY OF FIXED INCOME SECURITIES

A breakdown of the Fund's fixed income securities, both internally and externally managed, by credit rating is set out below. Ratings are obtained from Standard & Poor's, Moody's and Fitch depending on the availability of data.

	FUND ACTUAL	
	% OF FIXED INCOME SECURITIES	
	2016	2015
Standard & Poor's/Moody's		
AAA/Aaa	11	23
AA/aa	32	36
A/A	29	12
BBB/Baa	9	7
Other credit rating	5	9
Not rated	14	13
	100	100

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Fund's liquidity framework is designed to ensure that the Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

Liquidity risk is managed by:

- forecasting liquidity requirements;
- maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;
- regular review of the liquidity available by senior management;
- periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

	FUND ACTUAL								
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FIXED MATURITY DATES							NON- INTEREST BEARING
		VARIABLE INTEREST RATE	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	NZD'000	NZD'000	NZD'000	
2016									
Financial assets									
Cash and cash equivalents ⁽ⁱ⁾	1.58	2,210,142	–	–	–	–	–	27,705	
Cash pledged as collateral ⁽ⁱⁱ⁾	0.00	758,811	–	–	–	–	–	–	
Fixed income securities	2.66	–	966,897	1,116,458	2,631,872	1,933,260	2,828,542	–	
Other financial assets pledged as collateral	1.00	–	–	–	56,164	–	–	–	
		2,968,953	966,897	1,116,458	2,688,036	1,933,260	2,828,542	27,705	
2015									
Financial assets									
Cash and cash equivalents ⁽ⁱ⁾	3.32	1,005,472	–	–	–	–	–	251,948	
Cash pledged as collateral ⁽ⁱⁱ⁾	0.00	403,568	–	–	–	–	–	–	
Fixed income securities	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	

- (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.

The maturity profile of derivative financial instruments is disclosed in note 4(e).

For the year ended 30 June 2016

SECTION 3: RISK MANAGEMENT (continued)

(e) Risks associated with structured entities

The following table summarises the carrying values recognised in the Statement of Financial Position of the Fund's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Fund's interest in these entities. These values represent the most current available information.

STRUCTURED ENTITY TYPE	FUND ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			TOTAL ASSETS OF THE STRUCTURED ENTITY*
	CARRYING VALUE OF INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS	
NZD'000	NZD'000	NZD'000	NZD'000	
2016				
Fixed income securities:				
Asset-backed securities	773,719	2,883	776,602	148,628,701
Collateralised debt obligations and collateralised loan obligations	74,894	–	74,894	12,262,031
Mortgage-backed securities	1,737,258	63,419	1,800,677	72,246,544
Agency mortgage-backed securities	364,831	–	364,831	N/A ⁽ⁱ⁾
Shareholder loans	130,297	–	130,297	1,380,887
Collective investment funds	1,061,211	–	1,061,211	78,103,071
Insurance-linked investments – catastrophe bonds	72,953	–	72,953	5,345,619
Private equity investment funds	2,367,541	255,024	2,622,565	33,441,727
Unlisted unit trusts	654	–	654	2,500
Unconsolidated subsidiaries	386,599	396,255	782,854	391,236
	6,969,957	717,581	7,687,538	351,802,316
2015				
Fixed income securities:				
Asset-backed securities	533,777	–	533,777	143,841,838
Collateralised debt obligations and collateralised loan obligations	492,956	–	492,956	17,119,891
Mortgage-backed securities	1,347,626	–	1,347,626	49,893,153
Agency mortgage-backed securities	442,428	–	442,428	N/A ⁽ⁱ⁾
Shareholder loans	144,619	–	144,619	662,426
Collective investment funds	1,253,401	–	1,253,401	42,501,741
Insurance-linked investments – catastrophe bonds	74,878	–	74,878	8,255,131
Private equity investment funds	2,484,069	441,788	2,925,857	34,172,158
Unlisted unit trusts	1,259	–	1,259	4,300
Unconsolidated subsidiaries	396,807	427,192	823,999	435,560
	7,171,820	868,980	8,040,800	296,886,198

* Including the value of the Fund's investment.

(i) Information is not available as the securities have not yet been issued.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

2016	FUND ACTUAL						TOTAL
	NOTE	FAIR VALUE THROUGH PROFIT OR LOSS – HELD FOR TRADING NZD'000	FAIR VALUE THROUGH PROFIT OR LOSS – DESIGNATED UPON INITIAL RECOGNITION NZD'000	LOANS AND RECEIVABLES NZD'000	AVAILABLE-FOR-SALE FINANCIAL ASSETS NZD'000	FINANCIAL LIABILITIES AT AMORTISED COST NZD'000	
Financial assets							
Cash and cash equivalents	4(b)			2,237,847			2,237,847
Cash pledged as collateral	4(c)			758,811			758,811
Trade and other receivables	4(d)			133,101			133,101
Investments							
Derivative financial instrument assets	4(e)	1,566,708					1,566,708
Other financial assets:							
New Zealand equities	4(e)		1,498,230				1,498,230
Global equities	4(e)		10,920,699				10,920,699
Fixed income securities	4(e)		7,341,640	2,135,389			9,477,029
Collective investment funds	4(e)		1,061,211				1,061,211
Reverse repurchase agreements	4(e)						
Insurance-linked investments	4(e)		72,953				72,953
Private equity	4(e)		3,386,302		58,767		3,445,069
Unlisted unit trusts	4(e)		654				654
Total other financial assets			24,281,689	2,135,389	58,767		26,475,845
Other financial assets pledged as collateral	4(e)		56,164				56,164
Investments in unconsolidated subsidiaries	4(e)		386,599				386,599
Total financial assets		1,566,708	24,724,452	5,265,148	58,767	–	31,615,075
Financial liabilities							
Cash collateral received	4(c)					861,216	861,216
Trade and other payables	4(g)					298,666	298,666
Investments – derivative financial instrument liabilities	4(e)	530,730					530,730
Total financial liabilities		530,730	–	–	–	1,159,882	1,690,612

FINANCIAL STATEMENTS – NEW ZEALAND SUPERANNUATION FUND
Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Financial instruments (continued)

2015	FUND ACTUAL						
	NOTE	FAIR VALUE THROUGH PROFIT OR LOSS – HELD FOR TRADING NZD'000	FAIR VALUE THROUGH PROFIT OR LOSS – DESIGNATED UPON INITIAL RECOGNITION NZD'000	LOANS AND RECEIVABLES NZD'000	AVAILABLE-FOR-SALE FINANCIAL ASSETS NZD'000	FINANCIAL LIABILITIES AT AMORTISED COST NZD'000	TOTAL NZD'000
Financial assets							
Cash and cash equivalents	4(b)			1,257,420			1,257,420
Cash pledged as collateral	4(c)			403,568			403,568
Trade and other receivables	4(d)			653,845			653,845
Investments							
Derivative financial instrument assets	4(e)	492,557					492,557
Other financial assets:							
New Zealand equities	4(e)		2,000,092				2,000,092
Global equities	4(e)		12,330,840				12,330,840
Fixed income securities	4(e)		7,825,394	2,039,692			9,865,086
Collective investment funds	4(e)		1,253,401				1,253,401
Reverse repurchase agreements	4(e)			147,948			147,948
Insurance-linked investments	4(e)		74,878				74,878
Private equity	4(e)		3,406,082		80,464		3,486,546
Unlisted unit trusts	4(e)		1,259				1,259
Total other financial assets		–	26,891,946	2,187,640	80,464	–	29,160,050
Other financial assets pledged as collateral	4(e)		60,536				60,536
Investments in unconsolidated subsidiaries	4(e)		396,807				396,807
Total financial assets		492,557	27,349,289	4,502,473	80,464	–	32,424,783
Financial liabilities							
Cash collateral received	4(c)					305,604	305,604
Trade and other payables	4(g)					583,851	583,851
Investments – derivative financial instrument liabilities	4(e)	2,129,562					2,129,562
Total financial liabilities		2,129,562	–	–	–	889,455	3,019,017

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Fund is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, derivative financial instruments, investments (excluding agricultural assets), receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Statement of Comprehensive Income.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Fund becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and liabilities not recorded at fair value through profit or loss, transaction costs e.g. trading commission, that are attributable to the acquisition of the financial asset or financial liability.

Purchases or sales of financial instruments that require delivery within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e. the date on which the Fund commits to purchase or sell the financial instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, the Fund's financial assets and financial liabilities are classified into the following categories:

Financial assets and financial liabilities at fair value through profit or loss

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS – HELD FOR TRADING

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All derivative financial instruments held by the Fund are classified as held for trading. The Fund does not designate any derivative financial instruments as hedges in a hedging relationship.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS – DESIGNATED UPON INITIAL RECOGNITION

Financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition include equity and debt instruments. They are designated at fair value upon initial recognition on the basis that they are part of a group of financial instruments that are managed and have their performance evaluated on a fair value basis, in accordance with the financial risk management and investment objectives of the Fund.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables, reverse repurchase agreements

and some unlisted debt instruments. Unlisted debt instruments that are classified as loans and receivables include fixed and floating rate notes and redeemable preference shares.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment.

Available-for-sale financial assets

Available-for-sale financial assets include private equity investments that do not have a quoted market price in an active market or whose fair value cannot be reliably measured. The Board and management have determined that the fair value for certain private equity 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.

Available-for-sale financial assets also include private equity investments in cooperative and processing companies. The Fund is required to hold these investments to facilitate farming investment operations. As such, the Fund is normally unable to sell these investments without disrupting farming investment operations.

After initial recognition, available-for-sale financial assets 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. Available-for-sale assets whose fair value cannot be reliably measured are measured at cost less impairment. Transaction costs are included in the cost of the investment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes cash collateral received and trade and other payables.

DERECOGNITION

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

IMPAIRMENT

The Board and management assess, at each reporting date, whether 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.

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(b) Cash and cash equivalents

Accounting Policy

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

At 30 June 2016, cash of \$181,486,000 (2015: \$281,648,000) had been allocated and was held in Northern Trust's (the Fund's Global Master Custodian) custody awaiting investment by investment managers.

(c) Collateral

In line with standard industry practice, collateral transactions are settled in line with the relevant Credit Support Agreements (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is \$424,989,000 (2015: \$220,687,000). 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 \$333,822,000 (2015: \$182,881,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of \$56,164,000 (2015: \$60,536,000) 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 (2015: \$nil) held by the Fund.

CASH COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under CSAs for derivative positions is \$861,216,000 (2015: \$305,604,000). 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 \$nil (2015: \$147,979,000). The Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

(d) Trade and other receivables

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Trade receivables	5,784	3,980
Allowance for impairment	–	–
Accrued interest	57,725	62,419
Dividends receivable	24,580	30,772
Unsettled sales	44,392	556,223
GST receivable	620	451
	133,101	653,845

Trade receivables are non-interest bearing and have standard 30-day credit terms. An allowance for impairment of trade receivables is recognised when there is objective evidence that the Fund may not be able to collect all amounts due according to the original terms of the receivables.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions.

As a result of their short-term nature, the carrying value of trade and other receivables held at amortised cost approximates fair value.

(e) Investments

	FUND ACTUAL	
	2016 NZD'000	2015 NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	1,186,753	87,657
Cross currency swaps	42,538	83,449
Asset swaps	–	1,995
Longevity contingent swaps	78,802	96,761
Futures contracts	–	–
Total return swaps – equity	109,605	18,434
Credit default swaps	125,429	199,756
Interest rate swaps	9,562	4,416
Other over-the-counter swaps	20	89
Warrants	13,999	–
Total derivative financial instrument assets	1,566,708	492,557
Other financial assets:		
New Zealand equities	1,498,230	2,000,092
Global equities	10,920,699	12,330,840
Fixed income securities	9,477,029	9,865,086
Collective investment funds	1,061,211	1,253,401
Reverse repurchase agreements	–	147,948
Insurance-linked investments	72,953	74,878
Private equity ⁽ⁱ⁾	3,445,069	3,486,546
Unlisted unit trusts	654	1,259
Total other financial assets	26,475,845	29,160,050
Other financial assets pledged as collateral⁽ⁱⁱ⁾	56,164	60,536
Investments in unconsolidated subsidiaries	386,599	396,807
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	206,522	1,781,672
Cross currency swaps	2,696	40,863
Asset swaps	94,685	86,194
Futures contracts	–	–
Total return swaps – equity	74,064	139,689
Credit default swaps	74,130	46,753
Interest rate swaps	78,633	34,391
Total derivative financial instrument liabilities	530,730	2,129,562

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

(ii) For restrictions on other financial assets pledged as collateral, refer to Note 4(c).

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(e) Investments (continued)

DERIVATIVE FINANCIAL INSTRUMENTS

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 derivative financial instruments is governed by the Statement of Investment Policies, Standards and Procedures, including the Derivatives Policy, which provide written principles on the use of derivative financial instruments by the Fund. Compliance with policies and exposure limits is monitored on a continuous basis.

At 30 June 2016, the Fund has positions in the following types of derivative financial instruments:

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. 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.

The contract maturities, notional and fair values for all derivative financial instruments 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
	2016	2016	2015	2015
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(23,050,030)	781,135	(16,463,433)	(1,491,068)
3 to 12 months	(6,746,767)	199,096	(8,598,383)	(202,947)
	(29,796,797)	980,231	(25,061,816)	(1,694,015)

All forward foreign exchange contracts are settled gross.

CROSS CURRENCY SWAPS

2016	BUY/SELL	FUND ACTUAL	
		NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/EUR	77,994	20,369
	NZD/GBP	117,880	14,856
	NZD/USD	153,047	(2,099)
1 to 2 years	USD/JPY	496,821	(109)
2 to 5 years	NZD/EUR	46,797	4,326
	AUD/JPY	417,394	1,118
	USD/JPY	1,530,837	1,381
		2,840,770	39,842
2015			
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

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
	2016 NZD'000	2016 NZD'000	2015 NZD'000	2015 NZD'000
Less than 1 year	–	–	85,236	1,995
1 to 2 years	77,994	(13,160)	–	–
2 to 5 years	155,988	(63,185)	82,375	(15,480)
5 to 10 years	–	–	164,749	(70,714)
Later than 10 years	427,194	(18,340)	–	–
	661,176	(94,685)	332,360	(84,199)

All asset swaps are settled net.

FINANCIAL STATEMENTS – NEW ZEALAND SUPERANNUATION FUND
Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(e) Investments (continued)

LONGEVITY CONTINGENT SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2016	2016	2015	2015
	NZD'000	NZD'000	NZD'000	NZD'000
Later than 10 years	335,580	78,802	368,180	96,761
	335,580	78,802	368,180	96,761

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2016	2016	2015	2015
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	2,127,494	–	2,337,838	–
Fixed interest futures	3,752,037	–	3,833,874	–
	5,879,531	–	6,171,712	–

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS – EQUITY

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2016	2016	2015	2015
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	9,450,970	34,012	9,709,498	(120,640)
1 to 2 years	291,950	1,529	5,517	(615)
	9,742,920	35,541	9,715,015	(121,255)

All equity total return swaps are settled net.

CREDIT DEFAULT SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2016	2016	2015	2015
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	1,646,728	(10,420)	1,277,539	(21,180)
	1 to 2 years	3,428,812	(43,168)	251,368	2,382
	2 to 5 years	7,070,263	(147,820)	7,996,636	(202,002)
	5 to 10 years	—	—	443,590	3,164
		12,145,803	(201,408)	9,969,133	(217,636)
Sell protection	Less than 1 year	1,688,851	13,677	1,015,082	18,345
	1 to 2 years	12,573,015	145,307	1,774,360	11,111
	2 to 5 years	7,786,602	93,723	14,747,895	341,183
	5 to 10 years	—	—	—	—
		22,048,468	252,707	17,537,337	370,639

All credit default swaps are settled net.

INTEREST RATE SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2016	2016	2015	2015
		NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year		437,162	(990)	34,094	(1,103)
1 to 2 years		289,536	(2,961)	88,412	(1,287)
2 to 5 years		801,932	(37,749)	816,241	(18,169)
5 to 10 years		643,507	(27,371)	362,044	(9,416)
		2,172,137	(69,071)	1,300,791	(29,975)

All interest rate swaps are settled net.

OTHER OVER-THE-COUNTER SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2016	2016	2015	2015
		NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps	2 to 5 years	98,287	20	103,504	17
Credit default arbitrage swaps	5 to 10 years	—	—	170,043	72
		98,287	20	273,547	89

All other over-the-counter swaps are settled net.

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(e) Investments (continued)

WARRANTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2016 NZD'000	2016 NZD'000	2015 NZD'000	2015 NZD'000
2 to 5 years	3,078	12,870	–	–
5 to 10 years	35,102	1,129	–	–
	38,180	13,999	–	–

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	FUND ACTUAL				
	LESS THAN 1 YEAR	1 – 2 YEARS	2 – 5 YEARS	5 – 10 YEARS	10+ YEARS
	2016 NZD'000	2016 NZD'000	2016 NZD'000	2016 NZD'000	2016 NZD'000
Net-settled derivative financial instruments	(75,832)	(18,542)	(176,429)	(32,369)	(18,340)
Gross-settled derivative financial instruments – cash inflow	7,737,119	1,281	3,678	–	–
Gross-settled derivative financial instruments – cash outflow	(7,945,740)	(1,390)	(4,166)	–	–
	(284,453)	(18,651)	(176,917)	(32,369)	(18,340)
	2015	2015	2015	2015	2015
Net-settled derivative financial instruments	(143,512)	(2,368)	(78,268)	(82,880)	–
Gross-settled derivative financial instruments – cash inflow	27,397,494	285,860	–	–	–
Gross-settled derivative financial instruments – cash outflow	(29,197,377)	(308,511)	–	–	–
	(1,943,395)	(25,019)	(78,268)	(82,880)	–

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 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 recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

(f) Offsetting financial assets and financial liabilities

At balance date the Fund was subject to multiple master netting arrangements with its derivative financial instrument and 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 there is an intention to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

The following tables present the Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

	FUND ACTUAL					
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET		
	GROSS AMOUNTS	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL	NET AMOUNT
2016	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Derivative financial instrument assets	1,964,963	398,255	1,566,708	–	861,216	705,492
Reverse repurchase agreements ⁽ⁱ⁾	–	–	–	–	–	–
Financial liabilities						
Derivative financial instrument liabilities	(928,985)	(398,255)	(530,730)	–	(424,989)	(105,741)
2015						
Financial assets						
Derivative financial instrument assets	703,313	210,756	492,557	–	305,604	186,953
Reverse repurchase agreements ⁽ⁱ⁾	147,948	–	147,948	147,979	–	(31)
Financial liabilities						
Derivative financial instrument liabilities	(2,340,318)	(210,756)	(2,129,562)	–	(220,687)	(1,908,875)

(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.

For the year ended 30 June 2016

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (continued)

(g) Trade and other payables

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Trade payables	32	49
Accrued expenses	22,158	30,426
Unsettled purchases	268,319	544,210
Amounts owed for reimbursement of the Guardians expenses	8,157	9,166
Trade and other payables	298,666	583,851
Represented by:		
Current	297,652	583,718
Non-current	1,014	133
	298,666	583,851

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. The average credit period on trade payables is 30 days. No interest is charged on overdue balances. The Fund has 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 trade and other payables, all payables are expected to settle within one year. The non-current payable will settle progressively over a four-year period.

Short-term payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

(h) Financial assets and financial liabilities expected to be recovered or settled after more than 12 months

Certain financial assets and financial liabilities combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
ASSETS		
Investments – derivative financial instrument assets	232,619	321,550
Investments – other financial assets	1,216,598	1,786,715
Total financial assets	1,449,217	2,108,265
LIABILITIES		
Trade and other payables	1,014	133
Investments – derivative financial instrument liabilities	246,277	186,167
Total financial liabilities	247,291	186,300
Net financial assets	1,201,926	1,921,965

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Property, plant and equipment

	FUND ACTUAL			
	LAND AND LAND IMPROVEMENTS	BUILDINGS	OTHER	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000
Gross carrying amount				
Balance at 1 July 2014	108,540	15,186	7,034	130,760
Additions	165	330	1,096	1,591
Disposals	–	–	(58)	(58)
Transfer (to)/from assets held for sale	(1,473)	–	–	(1,473)
Net revaluation increments/(decrements)	(1,884)	600	–	(1,284)
Balance at 30 June 2015	105,348	16,116	8,072	129,536
Additions	34,042	4,164	2,800	41,006
Disposals	–	(3)	(255)	(258)
Transfer (to)/from assets held for sale	–	–	–	–
Net revaluation increments/(decrements)	(8,512)	36	–	(8,476)
Balance at 30 June 2016	130,878	20,313	10,617	161,808
Accumulated depreciation				
Balance at 1 July 2014	–	–	2,311	2,311
Depreciation expense	3	495	780	1,278
Depreciation recovered	–	–	(26)	(26)
Transfer (to)/from assets held for sale	(3)	–	–	(3)
Depreciation reversed on revaluation	–	(495)	–	(495)
Balance at 30 June 2015	–	–	3,065	3,065
Depreciation expense	–	551	860	1,411
Depreciation recovered	–	–	–	–
Transfer (to)/from assets held for sale	–	–	–	–
Depreciation reversed on revaluation	–	(533)	(205)	(738)
Balance at 30 June 2016	–	18	3,720	3,738
Net book value				
As at 30 June 2015	105,348	16,116	5,007	126,471
As at 30 June 2016	130,878	20,295	6,897	158,070

For the year ended 30 June 2016

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Property, plant and equipment (continued)

Accounting Policy

RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bringing the item to working condition for its intended use.

Subsequent to initial recognition, plant and machinery, computer and office equipment, motor vehicles and office fit-outs are stated at cost less accumulated depreciation and impairment losses. Land and land improvements and buildings, which comprise farm properties in New Zealand, are measured at fair value less accumulated depreciation on land improvements and buildings and any impairment losses recognised after the date of revaluation. Independent valuations of land and 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 assets' fair value at balance date. The effective date for the latest independent valuation was 30 June 2016.

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 the Statement of Comprehensive Income, in which case the increase is credited to 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 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.

DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Upon disposal, any revaluation reserve relating to the particular asset being disposed of, is transferred to retained surplus. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year in which the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for indicators of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income unless it relates to land and buildings, in which case it is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount 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 and buildings, in which case it is treated as a revaluation increase.

Refer note 7(c) for the accounting policy on depreciation.

Land and land improvements purchased during the year have not been independently valued at balance date. The Board and management believe 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 \$134,731,000 (2015: \$100,689,000).

(b) Provision for performance-based fees

	FUND ACTUAL	
	2016 NZD'000	2015 NZD'000
Opening balance	19,834	13,613
New provision during the year	4,715	20,315
Unused provision released during the year	–	(1,405)
Current portion transferred to accrued expenses	(8,335)	(12,689)
Closing balance	16,214	19,834

Accounting Policy

A provision is recognised in the Statement of Financial Position when the Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A provision is recognised by the Fund for performance-based fees payable to external investment managers where it is uncertain how much cash will be required to settle a liability and therefore an estimate is required. Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

All provisions for performance-based fees are non-current.

For the year ended 30 June 2016

SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES

(a) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the Fund less any liabilities, is the property of the Crown. The Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. The Government announced in the 2009 Budget a reduction in capital contributions to the Fund. As a consequence, no capital contributions have been received during the current year. Full capital contributions are projected to resume from 2020/21 under current Treasury modelling, but this may change based on future Economic and Fiscal Updates. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, no withdrawal of capital is permitted from the Fund prior to 1 July 2020.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. As no capital withdrawals are permitted from the Fund prior to 1 July 2020, the Minister of Finance is obliged to provide funding to meet superannuation entitlements in the interim. The Treasury, through the New Zealand Debt Management Office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the Fund on a prudent, commercial basis and, in doing so, ensure that the Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz.

(b) Reserves

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases and decreases in the fair value of land and land improvements, buildings and intangible assets.

AVAILABLE-FOR-SALE RESERVE

This reserve records movements in the fair value of available-for-sale financial assets.

SECTION 7: FINANCIAL PERFORMANCE

(a) Income

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Interest income	271,941	280,067
Dividend income	423,531	426,452
Net fair value gains on financial instruments designated at fair value through profit or loss upon initial recognition	(121,805)	1,708,505
Net fair value gains on financial instruments held at fair value through profit or loss – held for trading	(517,709)	261,101
Net foreign exchange gains	589,411	1,252,844
Other income	12,669	14,404
Net operating income	658,038	3,943,373
Interest income – financial instruments at fair value through profit or loss	187,606	206,582
Interest income – financial instruments not at fair value through profit or loss	84,335	73,485
Total interest income	271,941	280,067

Accounting policy

Income is recognised when it is probable that economic benefits will flow to the Fund and the income can be reliably measured, regardless of when payment is being made. The following specific recognition criteria must also be met before income is recognised:

INTEREST INCOME

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. For financial instruments not at fair value through profit or loss, interest income is recognised as it is earned using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2016

SECTION 7: FINANCIAL PERFORMANCE (continued)

(b) Income received and gains and losses recognised from interests in unconsolidated structured entities

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through profit or loss recognised in the Statement of Comprehensive Income from interests in unconsolidated structured entities:

STRUCTURED ENTITY TYPE	FUND ACTUAL				TOTAL
	INTEREST INCOME	DIVIDEND INCOME	FAIR VALUE GAINS	FAIR VALUE LOSSES	
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
2016					
Fixed income securities:					
Asset-backed securities	7,035	–	1,500	(184)	8,351
Collateralised debt obligations and collateralised loan obligations	1,080	–	93	(38)	1,135
Mortgage-backed securities	22,165	–	6,683	(21,541)	7,307
Agency mortgage-backed securities	3,512	–	3,987	(1,328)	6,171
Shareholder loans	9,383	–	62	(141)	9,304
Collective investment funds	858	–	58,986	(194,670)	(134,826)
Insurance-linked investments - catastrophe bonds	4,954	–	320	(12)	5,262
Private equity investment funds	–	14,900	301,333	(64,037)	252,196
Unlisted unit trusts	–	–	–	–	–
Unconsolidated subsidiaries	–	80	42,637	(11,768)	30,949
2015					
Fixed income securities:					
Asset-backed securities	947	–	1,974	(15,789)	(12,868)
Collateralised debt obligations and collateralised loan obligations	5,039	–	6,920	(212)	11,747
Mortgage-backed securities	4,027	–	9,802	(13,323)	506
Agency mortgage-backed securities	38	–	644	(2,562)	(1,880)
Shareholder loans	8,575	–	13	(812)	7,776
Collective investment funds	542	–	154,789	–	155,331
Insurance-linked investments – catastrophe bonds	858	–	472	(274)	1,056
Private equity investment funds	–	44,146	510,343	(93,259)	461,230
Unlisted unit trusts	–	–	73,971	(66,896)	7,075
Unconsolidated subsidiaries	–	1,950	20,421	(12,794)	9,577

(c) Operating expenditure

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Reimbursement of Guardians' expenses	37,041	33,812
Managers' fees – base	22,579	26,884
Managers' fees – performance	4,716	21,822
Farm operating expenses	12,347	13,165
Custody fees	5,587	5,151
Depreciation	1,411	1,278
Amortisation	830	1,087
Loss on disposal of property, plant and equipment	41	45
Loss on revaluation of property, plant and equipment	398	63
Revaluation gain on intangible assets	(127)	(1,811)
Auditor's remuneration	427	395
Other expenses	13,709	13,154
Operating expenditure	98,959	115,045

Accounting policy
DEPRECIATION

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to estimated residual value over their estimated useful lives. The estimated useful lives of the major categories of property, plant and equipment are as follows:

Land improvements	15 – 50 years
Buildings	25 – 50 years
Plant and machinery	3 – 17 years
Computer and office 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.

(d) Auditor's remuneration

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Audit of the Fund's financial statements	405	390
Other fees paid to auditor	22	5
Total auditor's remuneration	427	395

The auditor of the Fund is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General. The financial statements of the Fund's unconsolidated subsidiaries are not separately audited by the Fund's auditors. As a consequence, 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 and the assurance review of the annual self-assessment of the Guardians' adherence to the Generally Accepted Principles for Sovereign Wealth Funds (Santiago Principles).

For the year ended 30 June 2016

SECTION 7: FINANCIAL PERFORMANCE (continued)

(e) Income tax

The income tax expense included in the Statement of Financial Performance is analysed as follows:

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Components of income tax expense		
Current tax expense:		
Current period	540,708	68,051
Prior period adjustment	(29,469)	(20,720)
Total current tax expense	511,239	47,331
Deferred tax expense:		
Current period	16,850	73,021
Prior period adjustment	9,709	2,300
Total deferred tax expense	26,559	75,321
Income tax expense	537,798	122,652
Reconciliation of income tax expense and accounting profit for the year		
Profit for the year before income tax expense	559,079	3,828,328
Income tax expense calculated at 28%	156,542	1,071,932
Fair Dividend Regime ⁽ⁱ⁾	512,156	(800,575)
Dividend imputation credits	(22,231)	(23,256)
Portfolio Investment Entities (PIE) Regime	(100,995)	(105,434)
Controlled Foreign Companies (CFC) Regime	4,385	(5,388)
Expenses non-deductible for tax purposes	(523)	(1,055)
Prior period adjustments	(19,760)	(18,420)
Other items	8,224	4,848
Income tax expense	537,798	122,652
Tax expense relating to items charged or credited directly to equity		
Deferred tax on asset revaluation reserve	(167)	(324)
	(167)	(324)

- (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.

The table below sets out the deferred tax liability recognised in the Statement of Financial Position, together with movements during the year:

	FUND ACTUAL			
	RECOGNISED 2015 NZD'000	CHARGED TO PROFIT OR LOSS NZD'000	CHARGED DIRECTLY TO EQUITY NZD'000	RECOGNISED 2016 NZD'000
Deferred tax liability comprises temporary differences attributable to:				
Timber investments – forest revaluation	(276,766)	(38,189)	–	(314,955)
Asset revaluation	(1,927)	–	(167)	(2,094)
Other items	(194)	11,630	–	11,436
Total deferred tax liability	(278,887)	(26,559)	(167)	(305,613)

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived by the Fund is subject to New Zealand tax determined using the rules applying to companies. The income tax expense recognised in profit or loss in the Statement of Comprehensive Income comprises current and deferred tax and is based on accounting profit, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss other than in a business combination; and
- temporary differences relating to investments in subsidiaries, associates and interests in joint ventures where it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable profit will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the Fund intends to settle on a net basis.

For the year ended 30 June 2016

SECTION 7: FINANCIAL PERFORMANCE (continued)

(f) Reconciliation of profit for the year to net cash flows from operating activities

The following is a reconciliation of profit for the year to cash provided by operating activities as per the cash flow statement.

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Profit for the year after income tax expense	21,281	3,705,676
Add/(Deduct) non-cash items:		
Depreciation and amortisation	2,241	2,365
Loss on revaluation of property, plant and equipment	398	63
Revaluation gain on intangible assets	(127)	(1,811)
Fair value changes in investments at fair value through profit or loss	639,514	(1,969,606)
Net foreign exchange (gains)/losses	(589,411)	(1,252,844)
Increase in deferred tax	26,726	75,645
Other non-cash items	7,918	(3,723)
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	41	45
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	520,744	(395,431)
Other current assets	(190)	409
Increase/(Decrease) in liabilities:		
Trade and other payables	(285,185)	(197,982)
Provisions	(3,620)	6,221
Increase/(Decrease) in current tax	525,239	(687,385)
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	(511,831)	388,851
Unsettled purchases	275,892	202,738
Add/(Deduct) net operating cash flows not included in net profit ⁽ⁱ⁾	385,013	(2,429,727)
Net cash provided by/(used in) operating activities	1,014,643	(2,556,496)

(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.

SECTION 8: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

Accounting Policy

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

The Fund has entered into two operating leases for the lease of dairy farm land. These leases have remaining terms of less than one and two years. There are options to extend the less-than-one-year term lease by four renewals of two years each and the less-than-two-years lease by five years. An additional lease expired on 30 June 2016. The right to renew this lease for another three years was taken up subsequent to 30 June 2016 and thus is not included in the current years base future minimum amounts payable disclosed. 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	
	2016	2015
	NZD'000	NZD'000
Less than 1 year	87	119
1 to 5 years	51	138
Later than 5 years	—	—
	138	257

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.

CAPITAL COMMITMENTS

At 30 June 2016, the Fund had outstanding commitments to private equity investment funds (excluding those classified as unconsolidated subsidiaries) totalling \$130,504,000 (2015: \$441,788,000), of which \$1,322,000 has been called but not yet paid (2015: \$2,417,000). 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 \$148,414,000 for follow on capital (2015: \$167,980,000). These commitments are denominated in the foreign currency of the respective investment fund and have been translated at the exchange rate prevailing at balance date.

At 30 June 2016, the Fund had outstanding commitments under loan agreements totalling \$81,803,000 (2015: \$13,623,000). 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 \$2,648,000 determined at 30 June 2016 (2015: \$960,000). Should the Fund harvest, and not replant, all of its post-1989 forests, it would have a liability under the ETS of approximately \$nil (2015: \$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.

(b) Subsequent events

There were no reportable events subsequent to balance date (2015: nil).

For the year ended 30 June 2016

SECTION 9: OTHER INFORMATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, associates and joint ventures. All related party transactions have been entered into on an arm's length basis.

PARENT ENTITY

The Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of the reimbursement to the Guardians for the financial year was \$37,041,000 (2015: \$33,812,000). The related party payable to the Guardians as at 30 June 2016 is \$8,157,000 (2015: \$9,166,000).

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Transactions entered into with subsidiaries, associates and joint ventures during the year are as follows:

	FUND ACTUAL	
	2016 NZD'000	2015 NZD'000
Subsidiaries		
Expenses paid by the Fund on behalf of subsidiaries	91	10
<p>The Fund has made a financial commitment to Sankaty Managed Account (NZSF) Limited Partnership totalling \$241,782,000 (equivalent to EUR 155m) (2015: \$255,361,000), of which \$127,512,000 remains outstanding at balance date (2015: \$126,531,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days notice. This financial commitment expires on 25 February 2017.</p> <p>The Fund has made a financial commitment to KKR Energy Investor Limited Partnership totalling \$351,025,000 (equivalent to USD 250m) (2015: \$369,658,000), of which \$268,743,000 remains outstanding at balance date (2015: \$300,661,000). Up until December 2016, 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 not less than 10 business days notice. This financial commitment expires on 12 February 2019.</p> <p>The Fund has made a financial commitment in the current year to NZSF Land Holdings Limited totalling \$11,815,000, of which \$11,306,000 remains outstanding at balance date. The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 5 business days notice.</p> <p>The Fund has made a financial commitment in the current year to NZSF Hobsonville Investments Limited totalling \$42,924,000, of which \$41,989,000 remains outstanding at balance date. The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 5 business days notice.</p>		
Associate		
Interest income	3,556	2,683
<p>Related party loans to Kaingaroa Timberlands Partnership and associated companies comprise interest bearing loans of \$50,340,000 (2015: \$50,340,000) repayable on 24 May 2043 and an interest-free loan of \$24,521,000 (2015: \$26,246,000) repayable on demand.</p>		

	FUND ACTUAL	
	2016	2015
	NZD'000	NZD'000
Joint ventures		
Dividend income	5,920	8,649
Other income	49	33
Purchase of plant, property and equipment	7	2
Purchases of intangible assets	10	155

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at 30 June 2016 were \$nil (2015: \$1,000). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

OTHER 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 balance date was an asset of \$34,253,000 (2015: asset \$40,033,000). Gains on contracts with the NZDMO recognised in the Statement of Comprehensive Income for the year were \$20,287,000 (2015: gains \$141,036,000).

At balance date, the Fund held fixed income securities issued by the New Zealand Government valued at \$795,000 (2015: \$537,000). Interest income earned from these investments for the year was \$32,000 (2015: \$nil).

At balance date, the Fund held 34,245,000 (2015: 45,937,000) shares in Meridian Energy Limited, valued at \$88,010,000 (2015: \$98,765,000). Dividend income earned during the year from holdings in this entity amounted to \$8,233,000 (2015: \$7,329,000).

At balance date, the Fund held 3,346,000 (2015: 6,383,000) shares in Air New Zealand, valued at \$6,960,000 (2015: \$16,084,000). Dividend income earned during the year from holdings in this entity amounted to \$575,000 (2015: \$2,099,000).

At balance date, the Fund held 36,000 (2015: 4,660,000) shares in Genesis Energy Limited, valued at \$77,000 (2015: \$8,109,000). Dividend income earned during the year from holdings in this entity amounted to \$152,000 (2015: \$609,000).

At balance date, the Fund held 13,326,000 (2015: 18,616,000) shares in Mighty River Power Limited, valued at \$40,043,000 (2015: \$51,473,000). Dividend income earned during the year from holdings in this entity amounted to \$3,042,000 (2015: \$3,312,000).

The Fund places cash on deposit with Kiwibank Limited. The balance on deposit at 30 June 2016 was \$nil (2015: \$150,000,000). Interest income earned during the year on these deposits was \$981,000 (2015: \$9,347,000).

(b) Comparison to budget (unaudited)

During the year ended 30 June 2016 the specific asset mix of the Fund varied from the budgeted figures and market returns were lower 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.

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund on her behalf.

OPINION

We have audited the financial statements of the Fund on pages 91 to 147, that comprise the Statement of Financial Position as at 30 June 2016, 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 2016; 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 20 September 2016. 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 limited assurance engagements in respect of Fund performance and the Fund's self-assessment against the Santiago Principles. Other than these engagements and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.



Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Contents

Statement of Responsibility	152	Notes to the Consolidated Financial Statements	158	Section 2 Financial Performance	161
Consolidated Statement of Comprehensive Revenue and Expense	153	Section 1 General Information, Statement of Compliance and Basis of Preparation	158	This section focuses on the financial performance of the Guardians. It provides additional information about the line items included in the Statement of Financial Performance as well as the relevant accounting policies.	
Consolidated Statement of Financial Position	154	This section provides information about the overall preparation of the Guardians' financial statements including the basis of consolidation and accounting treatment of subsidiaries. It also includes a summary of general accounting policies that relate to the financial statements as a whole.		A Revenue	161
Consolidated Statement of Changes in Public Equity	155			B Expenses	162
Consolidated Statement of Cash Flows	156			C Auditor's remuneration	163
		A General information	158	Section 3 Related Party Transactions and Employee Remuneration	164
		B Statement of compliance	158	This section identifies the related parties of the Guardians and provides additional information to illustrate the effect of related party transactions, particularly employee remuneration on the financial statements.	
		C Basis of preparation	158	A Related party transactions	164
		D Basis of consolidation	158	B Employees' remuneration over \$100,000 per annum	166
		E Subsidiaries	159		
		F Significant judgements and estimates	159		
		G Other significant accounting policies	160		
		H Changes in accounting policies	160		
		I Budget figures	160		

Section 4		Section 6	
Financial Position	168	Unrecognised Items	176
<p>This section focuses on the financial assets and liabilities of the Guardians. It provides additional information about the types of financial instruments held and liabilities due, as well as the relevant accounting policies.</p>		<p>This section provides information about items not recognised in the Guardians' financial statements that may have an impact on the Guardians' financial position and/or financial performance in future periods.</p>	
A Financial instruments	168	A Commitments and contingencies	176
B Cash and cash equivalents	169	B Subsequent events	176
C Receivables	170	C Comparison to budget (unaudited)	176
D Property, plant and equipment	170	Independent Auditor's Report	177
E Payables	171		
F Employee entitlements	172		
G Deferred lease incentive	173		
H Public equity	173		
Section 5			
Risk Management	174		
<p>This section provides information about the objectives and policies in place for the management of risk including a description of the types of risk to which the Guardians is exposed.</p>			
A Risk management	174		
B Market risk	174		
C Credit risk	175		
D Liquidity risk	175		

Statement of Responsibility

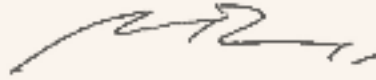
The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

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 2016 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.



CATHERINE SAVAGE, CHAIR
20 September 2016



PIP DUNPHY, BOARD MEMBER
20 September 2016

Consolidated Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2016	NOTE	ACTUAL	ACTUAL	BUDGET
		2016	2015	(UNAUDITED)
		NZD'000	NZD'000	2016
				NZD'000
Revenue	2(a)	37,657	34,326	44,577
Expenses	2(b)	37,657	34,326	44,577
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 2016		ACTUAL	ACTUAL	BUDGET (UNAUDITED)
	NOTE	2016 NZD'000	2015 NZD'000	2016 NZD'000
ASSETS				
Current assets				
Cash and cash equivalents	4(b)	1,861	1,526	280
Receivables from exchange transactions	4(c)	7,534	8,906	8,732
Receivables from non-exchange transactions	4(c)	290	72	–
Prepayments		453	271	–
Total current assets		10,138	10,775	9,012
Non-current assets				
Receivables from exchange transactions	4(c)	1,014	417	–
Property, plant and equipment	4(d)	–	–	–
Total non-current assets		1,014	417	–
Total assets		11,152	11,192	9,012
LIABILITIES				
Current liabilities				
Payables under exchange transactions	4(e)	609	777	785
Employee entitlements	4(f)	8,226	8,902	7,206
Income received in advance		282	–	–
Deferred lease incentive	4(g)	75	75	75
Total current liabilities		9,192	9,754	8,066
Non-current liabilities				
Employee entitlements	4(f)	1,014	417	–
Deferred lease incentive	4(g)	446	521	446
Total non-current liabilities		1,460	938	446
Total liabilities		10,652	10,692	8,512
Net assets		500	500	500
PUBLIC EQUITY				
Accumulated comprehensive revenue and expense		–	–	–
General equity reserve		500	500	500
Total public equity	4(h)	500	500	500

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

Consolidated Statement of Changes in Public Equity

For the year ended 30 June 2016	ACTUAL		
	GENERAL EQUITY RESERVE	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	TOTAL
	NZD'000	NZD'000	NZD'000
Balance at 1 July 2014	500	–	500
Surplus/(Deficit) for the year	–	–	–
Total comprehensive revenue and expense for the year	–	–	–
Balance at 30 June 2015	500	–	500
Surplus/(Deficit) for the year	–	–	–
Total comprehensive revenue and expense for the year	–	–	–
Balance at 30 June 2016	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 2016		ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2016	2015	2016
	NOTE	NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		210	354	528
Receipts from the New Zealand Superannuation Fund		38,050	32,067	40,790
Interest received		73	74	34
Goods and Services Tax		58	–	–
Other receipts		104	121	80
Total cash inflow from operating activities		38,495	32,616	41,432
Cash was applied to:				
Payments to Board members		(281)	(223)	–
Payments to suppliers		(8,247)	(7,260)	(12,226)
Payments to employees		(29,632)	(25,081)	(30,722)
Goods and Services Tax		–	(55)	(32)
Total cash outflow from operating activities		(38,160)	(32,619)	(42,980)
Net cash provided by/(used in) operating activities		335	(3)	(1,548)
Net cash provided by investing activities		–	–	–
Net cash provided by financing activities		–	–	–
Net increase/(decrease) in cash and cash equivalents		335	(3)	(1,548)
Cash and cash equivalents at the beginning of the financial year		1,526	1,529	1,828
Cash and cash equivalents at the end of the financial year	4(b)	1,861	1,526	280

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

Consolidated Statement of Cash Flows (continued)

For the year ended 30 June 2016	ACTUAL 2016 NZD'000	ACTUAL 2015 NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	–	–
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	375	(1,703)
Increase/(Decrease) in liabilities:		
Trade and other payables	35	1,775
Deferred lease incentive	(75)	(75)
Net cash provided by/(used in) operating activities	335	(3)

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 2016

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) General information

These are the financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 187.

The financial statements of the Guardians and Group for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 20 September 2016.

(b) Statement of compliance

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

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

(c) Basis of preparation

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

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Guardians and its subsidiaries as at 30 June 2016.

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

(e) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians. The Guardians controls an entity when it has the power to govern the financial and operating policies of that entity so as to obtain benefits from their activities.

The Guardians has interests in the following subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST AND VOTING RIGHTS	
				2016 %	2015 %
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 Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements. Nominee companies may only act on the direction of the Guardians.
- (ii) 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 Fund. As such, this company is accounted for in the financial statements of the Fund rather than these financial statements.
- (iii) The principal activity of NZSF Aotea Limited is to hold assets and liabilities on behalf of the Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements.

(f) Significant judgements and estimates

The preparation of the Guardians financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used by the Board and management are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Guardians and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Employee entitlements – long service leave (Note 4(f)); and
- Employee entitlements – long-term portion of incentives (Note 4(f)).

For the year ended 30 June 2016

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (continued)

(g) Other significant accounting policies

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

GOODS AND SERVICES TAX (GST)

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

STATEMENT OF CASH FLOWS

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

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

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

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

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

(h) Changes in accounting policies

The Guardians has early adopted Amendments to PBE IPSAS 1 Disclosure Initiative. The amendments clarify existing PBE IPSAS 1 requirements that relate to materiality, order of the notes, subtotals, accounting policies and disaggregation. Adoption of these amendments has impacted on the presentation of the Guardians financial statements as certain accounting policies have been relocated within the notes to the consolidated financial statements and immaterial disclosures have been removed. Adoption of these amendments has had no impact on recognition or measurement within the financial statements.

Aside from the above, 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.

(i) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2016. The budget figures are unaudited.

SECTION 2: FINANCIAL PERFORMANCE

(a) Revenue

		ACTUAL 2016	ACTUAL 2015
	NOTE	NZD'000	NZD'000
Cost reimbursement from the New Zealand Superannuation Fund	3(a)	37,041	33,812
Other revenue		115	114
Interest income		73	74
Revenue from exchange transactions		37,229	34,000
Appropriations from the Crown		428	326
Revenue from non-exchange transactions		428	326
Total revenue		37,657	34,326

Accounting Policy

The Guardians primarily derives revenue through the provision of services to the Crown and to the Fund. Revenue is recognised when it is probable that economic benefits will flow to the Guardians and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Rendering of services

Cost reimbursement from the Fund is recognised by reference to the stage of completion of services provided at balance date when the transaction involving the rendering of services can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to date compared with estimated total costs of the transaction.

Interest income

Interest income is recognised as the interest accrues, using the effective interest method. The effective interest method allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Appropriations from the Crown

Revenue is recognised from the Crown when it is probable that appropriations will be received and the value of those appropriations can be reliably measured and the transfer is free from conditions that require the assets to be refunded or returned to the Crown if the conditions are not fulfilled. To the extent there is a related condition attached to the appropriations that would give rise to a liability to repay the appropriate amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

For the year ended 30 June 2016

SECTION 2: FINANCIAL PERFORMANCE (continued)

(b) Expenses

	ACTUAL	ACTUAL
	2016	2015
	NZD'000	NZD'000
Employee benefits (including salaries, annual leave and long service leave)	22,610	20,922
Employee incentive scheme	7,112	6,333
Employer contributions to KiwiSaver	814	736
Employee entitlements	30,536	27,991

Further disclosures on employee entitlements are contained in Note 4(f).

		ACTUAL	ACTUAL
		2016	2015
	NOTE	NZD'000	NZD'000
Travel and accommodation expenses		1,971	2,066
IT expenses		1,955	1,301
Operating lease expenses		638	604
Professional fees		114	284
Board members' fees	3(a)	290	223
Auditor's remuneration	2(c)	46	44
Other expenses		2,107	1,813
Other expenses		7,121	6,335
Total expenses		37,657	34,326

Operating lease expenses relate to office premises in one location with a remaining term of 7 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non-cancellable lease commitments payable in relation to the the leased asset have been disclosed in Note 6(a).

Accounting Policy

OPERATING LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

(c) Auditor's remuneration

	ACTUAL	ACTUAL
	2016	2015
	NZD'000	NZD'000
Audit of the Guardians financial statements	46	44
Audit of subsidiaries of the Group	—	—
Total auditor's remuneration	46	44

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have audited individual financial statements.

For the year ended 30 June 2016

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions.

All related party transactions have been entered into on an arm's length basis. Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: \$nil).

PARENT ENTITY

The parent entity in the Group is the Guardians which is a wholly owned entity of the Crown. Crown appropriations for the year ended 30 June 2016 were \$428,000 (2015: \$326,000). The related party receivable from the Crown as at 30 June 2016 is \$290,000 (2015: \$72,000).

SUBSIDIARIES

Details of the Guardians interests in subsidiaries are disclosed in Note 1(e). There were no related party transactions with these entities during the year.

OTHER RELATED PARTIES

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. The amount of reimbursement from the Fund for the year ended 30 June 2016 was \$37,041,000 (2015: \$33,812,000). The related party receivable from the Fund as at 30 June 2016 is \$8,157,000 (2015: \$9,166,000).

In addition to the above, the Group purchases services from Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the Fund. These purchases totalled \$930,000 (2015: \$839,000) for the year ended 30 June 2016. The related party payable to these entities as at 30 June 2016 is \$108,000 (2015: \$116,000).

OTHER GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

KEY MANAGEMENT PERSONNEL

Key management personnel of the Guardians comprise members of the Board and the Leadership Team.

The compensation of the Board and the Leadership Team is set out below:

	ACTUAL	ACTUAL
	2016	2015
	NZD'000	NZD'000
Leadership Team		
Number of employees	7	7
Employee benefits (including salaries, holiday pay and long service leave)	2,988	2,692
Employee incentive scheme	1,621	1,225
	4,609	3,917
Board members' fees		
Board members earned the following fees during the year:		
G Walker (Chairman, retired 31 December 2015)	27	54
C Savage (Deputy Chair until 31 December 2015, appointed Chair 1 January 2016)	66	34
L Wright (appointed Deputy Chair 1 January 2016)	44	27
P Dunphy	39	27
S Moir	38	27
C Ansley	38	27
M Tume (retired 30 April 2016)	30	27
D Pearce (appointed 30 May 2016)	4	–
J Williamson (appointed 30 May 2016)	4	–
	290	223

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. Part way through the year, the Minister set the base fees for all Board Members at \$49,000, plus additional amounts for the Chair (a further \$49,000), Deputy Chair (a further \$12,250) and Chair of the Audit Committee (a further \$4,900).

Board Members' and Employees' Indemnity and Insurance

The Guardians has indemnified Board members 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.

For the year ended 30 June 2016

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (continued)

(b) Employees' remuneration over \$100,000 per annum

For a full discussion of the Guardians remuneration framework, please refer to page 39 of the Annual Report.

The total remuneration figures in the following table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after balance date. The remuneration bands and benefits are annual amounts. As some employees commenced part-way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, their actual remuneration paid has been reported, rather than their annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2016	NUMBER OF EMPLOYEES 2015	ACTUAL		
			TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2016	NUMBER OF EMPLOYEES 2015
100 – 110	3	4	100 – 110	3	5
110 – 120	3	5	110 – 120	5	6
120 – 130	11	3	120 – 130	7	2
130 – 140	1	1	130 – 140	2	3
140 – 150	2	7	140 – 150	6	4
150 – 160	8	3	150 – 160	1	–
160 – 170	5	3	160 – 170	4	3
170 – 180	2	9	170 – 180	3	5
180 – 190	5	3	180 – 190	4	3
190 – 200	5	2	190 – 200	2	5
200 – 210	4	7	200 – 210	3	2
210 – 220	1	4	210 – 220	1	3
220 – 230	4	7	220 – 230	4	2
230 – 240	5	–	230 – 240	2	–
240 – 250	5	3	240 – 250	4	3
250 – 260	3	4	250 – 260	–	1
260 – 270	4	3	260 – 270	2	2
270 – 280	2	–	270 – 280	2	1
280 – 290	–	–	280 – 290	4	5
290 – 300	–	–	290 – 300	2	1

ACTUAL

BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2016	NUMBER OF EMPLOYEES 2015	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2016	NUMBER OF EMPLOYEES 2015
300 – 310	2	2	300 – 310	4	4
310 – 320	1	3	310 – 320	2	2
320 – 330	–	2	320 – 330	4	4
330 – 340	2	3	330 – 340	–	–
340 – 350	–	–	340 – 350	2	1
350 – 360	1	–	350 – 360	1	2
360 – 370	4	1	360 – 370	2	4
370 – 380	1	2	370 – 380	2	1
380 – 390	–	–	380 – 390	1	–
390 – 400	1	–	390 – 400	2	1
400 – 410	–	–	400 – 410	2	2
410 – 420	2	–	410 – 420	–	2
420 – 430	–	–	420 – 430	–	1
430 – 440	–	–	430 – 440	–	1
450 – 460	–	–	450 – 460	1	–
470 – 480	–	–	470 – 480	1	–
480 – 490	–	–	480 – 490	–	1
490 – 500	–	–	490 – 500	–	1
500 – 510	1	–	500 – 510	1	2
510 – 520	–	–	510 – 520	–	1
520 – 530	–	1	520 – 530	1	–
530 – 540	–	–	530 – 540	1	–
540 – 550	–	–	540 – 550	3	–
560 – 570	–	–	560 – 570	–	1
580 – 590	–	–	580 – 590	1	–
590 – 600	–	1	590 – 600	–	2
600 – 610	–	–	600 – 610	1	–
620 – 630	–	–	620 – 630	1	–
690 – 700	1	–	690 – 700	–	–
760 – 770	–	–	760 – 770	1	–
820 – 830	–	–	820 – 830	–	1
830 – 840	–	–	830 – 840	–	1
1,020 – 1,030	–	–	1,020 – 1,030	1	–
	89	83		96	91

REDUNDANCY AND SEVERANCE PAYMENTS

During the year ended 30 June 2016 there were three payments made in respect of three individuals who resigned during the year totalling \$63,327 (2015: \$11,154).

For the year ended 30 June 2016

SECTION 4: FINANCIAL POSITION

(a) Financial instruments

2016	NOTE	ACTUAL		TOTAL NZD'000
		LOANS AND RECEIVABLES NZD'000	FINANCIAL LIABILITIES AT AMORTISED COST NZD'000	
Financial assets				
Cash and cash equivalents	4(b)	1,861	–	1,861
Receivables from exchange transactions (excluding GST receivable)	4(c)	7,457	–	7,457
Receivables from non-exchange transactions	4(c)	290	–	290
Total financial assets		9,608	–	9,608
Financial liabilities				
Payables under exchange transactions	4(e)	–	609	609
Total financial liabilities		–	609	609
2015				
Financial assets				
Cash and cash equivalents	4(b)	1,526	–	1,526
Receivables from exchange transactions (excluding GST receivable)	4(c)	8,770	–	8,770
Receivables from non-exchange transactions	4(c)	72	–	72
Total financial assets		10,368	–	10,368
Financial liabilities				
Payables under exchange transactions	4(e)	–	777	777
Total financial liabilities		–	777	777

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, the Group classifies its financial assets and financial liabilities into the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes payables and accrued expenses. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

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

IMPAIRMENT

The Board and management assess, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset 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 that can be reliably estimated. Financial difficulty of a debtor, default payments or receivables of more than 60 days overdue are considered objective evidence of impairment of receivables. The amount of the impairment loss is the difference between the carrying amount of the financial asset and the present value of the estimated cash flows, discounted at the original effective interest rate.

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

(b) Cash and cash equivalents

Accounting Policy

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

For the year ended 30 June 2016

SECTION 4: FINANCIAL POSITION (continued)

(c) Receivables

		ACTUAL	ACTUAL
		2016	2015
	NOTE	NZD'000	NZD'000
Current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	7,143	8,749
Trade receivables		314	21
GST receivable		77	136
		7,534	8,906
Receivables from non-exchange transactions			
Receivable for Crown appropriations		290	72
		290	72
Non-current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	1,014	417
		1,014	417

Receivables are non-interest bearing and have standard 30-day credit terms. The Group does not have a history of default on receivables and accordingly, no allowance has been made for impairment.

(d) Property, plant and equipment

The Group's property, plant and equipment comprises office and computer equipment that are classified as non-cash-generating assets as they are not held for the primary objective of generating a commercial return. These assets are fully depreciated. The Group does not hold any cash-generating assets.

There were no additions or disposals of property, plant and equipment in the current or prior year.

Accounting Policy

RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bringing the item to working condition for its intended use.

Subsequent to initial recognition, property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statement of Comprehensive Revenue and Expense 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, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Consolidated Statement of Comprehensive Revenue and Expense. 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 Consolidated Statement of Comprehensive Revenue and Expense immediately.

DEPRECIATION

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to estimated residual value over their useful lives. The estimated useful lives of the major categories of property, plant and equipment are as follows:

Office equipment	3 years
Computer equipment	1 – 3 years

(e) Payables

	ACTUAL	ACTUAL
	2016	2015
	NZD'000	NZD'000
Payables under exchange transactions		
Trade payables	468	554
Accrued expenses	141	223
	609	777

Trade and other payables represent amounts due to third parties in the normal course of business. The average credit period on trade payables is 30 days. Short-term payables are non-interest bearing and are stated at their nominal value. The Group has risk management policies in place to ensure that all payables are paid within the credit time-frame.

For the year ended 30 June 2016

SECTION 4: FINANCIAL POSITION (continued)

(f) Employee entitlements

	ACTUAL	ACTUAL
	2016	2015
	NZD'000	NZD'000
Current liabilities		
Accrued salaries – key management personnel	–	73
Accrued salaries – other employees	–	470
Annual leave – key management personnel	152	176
Annual leave – other employees	1,078	1,051
Long service leave – key management personnel	49	34
Long service leave – other employees	121	120
Incentives – key management personnel	1,504	1,233
Incentives – other employees	5,322	5,745
	8,226	8,902
Non-current liabilities		
Long service leave – key management personnel	74	60
Long service leave – other employees	297	224
Incentives – key management personnel	161	27
Incentives – other employees	482	106
	1,014	417

Accounting Policy

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Consolidated Statement of Comprehensive Revenue and Expense during the period in which the employee rendered the related service when it is probable that settlement will be required and such employee entitlements are capable of being measured reliably.

Employee entitlements that are due to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee entitlements that are not due to be settled within 12 months are measured at the present value of the estimated future cash outflows. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

LONG SERVICE LEAVE

Employees become eligible for long service leave after five years of service.

INCENTIVES

The Guardians has an incentive scheme in place for all employees. For some employees, a component of their incentive payment is based on the performance of the Fund that vests progressively over a rolling four-year period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the Consolidated Statement of Financial Position reflects the present value of the Guardians' obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of Fund performance.

Key judgement – long service leave

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

Key judgement – long-term portion of incentive

Calculation of the long-term portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption used in the calculation of the long-term portion of the incentive liability, this will impact the employee entitlements expense in the Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Consolidated Statement of Financial Position. The Group manages this risk by using a medium-term expectation of Fund performance.

(g) Deferred lease incentive

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 7 years.

(h) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

For the year ended 30 June 2016

SECTION 5: RISK MANAGEMENT

(a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and Fund reimbursements.

The Board and management of the Guardians is responsible for the management of risk. A separate Risk Committee has been established as a risk oversight body to support the Board with the management of risk.

The Guardians has established risk management policies, procedures and other internal controls to manage the Groups exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Group's cash and cash equivalents will fluctuate due to changes in market interest rates. The Group is primarily exposed to changes in New Zealand short-term interest rates in relation to it's cash and cash equivalents which are held in short-term floating interest rate accounts.

The Group invests cash and cash equivalents, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and does not actively monitor exposure to interest rates or interest rate returns. Derivative financial instruments are not used to manage exposure to movements in interest rates.

The following table shows the Group's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates.

	BASIS POINTS	ACTUAL	
		SURPLUS/(DEFICIT) FOR THE YEAR AND EQUITY	
		2016	2015
		NZD'000	NZD'000
Cash and cash equivalents	+100	19	15
Cash and cash equivalents	-100	(19)	(15)

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Group mitigates its exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. The Group does not require any collateral or security to support its financial instruments.

CONCENTRATIONS OF CREDIT RISK

The Group primarily invests cash and cash equivalents with Westpac New Zealand Limited which had a credit rating of AA- as at 30 June 2016 (2015: ANZ Bank New Zealand Ltd AA-).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Group has a positive cash position as it recovers all expenses from the Crown or the Fund.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

	ACTUAL	
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE
2016	%	NZD'000
Financial assets		
Cash and cash equivalents – no fixed maturity	2.35	1,861
		1,861
2015		
Financial assets		
Cash and cash equivalents – no fixed maturity	3.27	1,526
		1,526

For the year ended 30 June 2016

SECTION 6: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	ACTUAL 2016 NZD'000	ACTUAL 2015 NZD'000
Less than 1 year	727	713
1 to 2 years	741	727
2 to 5 years	2,314	2,268
Later than 5 years	1,621	2,408
	5,403	6,116

CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2016 (2015: nil).

(b) Subsequent events

There were no reportable events subsequent to balance date (2015: nil).

(c) Comparison to budget (unaudited)

	ACTUAL 2016 NZD'000	BUDGET (UNAUDITED) 2016 NZD'000	FAVOURABLE/ (UNFAVOURABLE) VARIANCE 2016 NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred ⁽ⁱ⁾	37,657	44,577	6,920
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 due to recruitment activity being slower than was envisaged in the budget.

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 2016

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, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the group 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 153 to 176, that comprise the Consolidated Statement of Financial Position as at 30 June 2016, the Consolidated Statement of Comprehensive Revenue and Expense, Consolidated Statement of Changes in Public Equity and Consolidated Statement of Cash Flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 72 to 75.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Accounting Standards.
- the performance information:
 - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, 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 20 September 2016. 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.



Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

APPENDIX

07

Compliance Statements	180
Presentation of the Annual Report	180
Glossary	181
Useful Links	186
Corporate Directory	187

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 2015/16 financial year.



CATHERINE SAVAGE, CHAIR



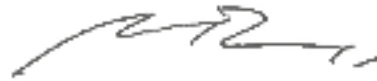
ADRIAN ORR, CEO

Presentation of the Annual Report

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2016.



CATHERINE SAVAGE, CHAIR



PIP DUNPHY, CHAIR - AUDIT COMMITTEE

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 of manager skill (or capability). The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
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 sensible only 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.
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 transaction	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 judgement.
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.
Compensation	Return for taking on risk. Often, the compensation is the risk premium or excess return over cash that the investment offers.
Continuous linked settlements (CLS)	CLS is a systematically important financial market utility that operates a multicurrency cash settlement system to mitigate settlement risk for the FX transactions of its member banks and their customers. CLS mitigates settlement risk through the provision of payment versus payment settlement service.
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.
Counterparty	A counterparty describes a legal entity that 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.

Glossary (continued)

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 and 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 from 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.
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.
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 out-turns.
Foreign exchange	The Fund's exposure to non-NZD cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZD denominated assets (i.e. foreign-funded assets) are hedged back to NZD. Hedging back to NZD essentially replaces foreign cash returns with NZD cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
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.
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 hedge consists of taking an off-setting position in a related security, such as a futures contract.
Herstatt Risk	Named after the well-known failure of the German bank Herstatt, it refers to the risk of one party failing to deliver the terms of a contract with another party at the time of settlement.
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 within Māori culture.
Koha	Koha is a New Zealand Māori custom, which can be translated as gift, present, offering, donation or contribution.
Long	A long or long position is when an entity buys a security, currency or derivative with the view of benefiting from a rising market in the relevant asset.
Net return	Returns over and above the Treasury Bill return – the Government's cost of debt.
New Zealand Corporate Governance Forum	A Forum comprising the institutional investors committed to promoting good corporate governance in New Zealand 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 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 trading 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.
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	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).
Rebalancing	The process of realigning the weightings of one’s portfolio of assets. Rebalancing involves periodically buying or selling assets 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%.
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.
Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds.
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 investments aim to improve the Sharpe Ratio of the Fund.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Short	A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant at a lower price.
Skill	Active investment expertise. The ability to provide active returns in excess of a defined benchmark.
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.
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.

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.

01 | PAGE. 10



Watch a short animation video that explains our purpose at www.ar2016.nzsuperfund.co.nz/our-purpose

01 | PAGE. 12



See Catherine talk about the past year at www.ar2016.nzsuperfund.co.nz/year-review

01 | PAGE. 13



See Adrian talk about the global investment environment at www.ar2016.nzsuperfund.co.nz/year-review

03 | PAGE. 45



Matt explains active risk and adding value at www.ar2016.nzsuperfund.co.nz/active-risk-adding-value

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