Guardians of New Zealand Superannuation

STATEMENT OF INTENT

For the period commencing 1 July 2008 to 30 June 2011

NEW ZEALAND SUPERANNUATION FUND

Contents

1. Statement from the Board

On behalf of the Guardians of New Zealand Superannuation (Guardians) we are pleased to present our Statement of Intent for the three year period commencing 1 July 2008. Our plans outlined in this Statement have benefited from input from international experts, our recent Office of the Auditor General's performance audit, and our own Board and Management strategic planning exercises. However, the final plans are those of the Board.

During this period we intend to complete the development of the Guardians' long-term operating model and to continue to meet our investment objectives.

Our *investment objectives* are set out in section 58(2) of the New Zealand Superannuation and Retirement Income Act 2001, which requires us to invest the New Zealand Superannuation Fund (Fund) on a prudent, commercial basis and, in doing so, 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.

Our Statement of Intent is primarily focused on the ongoing development of a cost-effective, fit for purpose, (i.e., consistent with our investment objectives) portfolio. Incorporated in this are our plans to continue to:

- invest across a wide range of assets in order to gain returns greater than the risk-free rate;
- diversify our investments both across and within various asset classes so that we can improve the efficiency of our portfolio (i.e., maximise the Fund's risk-adjusted return);
- seek returns in excess of the market return by selecting expert investment managers and undertaking our own strategic investment activities; and
- continue to refine, and operate within, our responsible investment framework.

We will continue these activities with a renewed focus on the balance between known costs and expected excess return. In order to do so, we will invest in the lowest-cost passive investment alternative if we are not convinced that an active management strategy justifies the additional expense.

We plan to seek additional returns by further exploiting our inherent investment strengths. These strengths include our long investment horizon, our liquidity, and our wide range of acceptable investment assets. Our planned activities include assessing and, where appropriate, deviating from time-to-time from our long-term strategic asset allocation if we believe the returns are justified.

Finally, we plan to ensure we maximise our contribution to future superannuation payments by closely aligning our assets with the characteristics that drive future superannuation payments. Our plan includes exploring the benefits of increased protection against the effects of inflation, lengthening the duration of our fixed income exposures, and assessing how we can best benefit from the differential between New Zealand and global interest rates.

Our three-year plan is also consistent with the development and exploitation of our *competitive advantages*. The competitive advantages we will strive to develop include: the quality of our decision making; the timeliness in our response to investment opportunities; our specific knowledge of certain asset classes, geographies, and relationships; our position in New Zealand as an employer in this field; and our ability to learn and innovate in order to be an early adopter of investment opportunities.

Finally, we will look for operational efficiencies throughout our activities that add-value on a sustainable basis. Our key priorities are also consistent with us developing the organisational characteristics that will ultimately determine our success as a long-term investor.

As outlined in our financial forecasts, we estimate that if we are successful in implementing this plan, we will be able to increase our expected returns for no additional financial risk. We also believe that we will be able to reduce our overall cost structure as a proportion of funds under management. We will achieve this while expanding our organisation's capabilities and introducing significant new technology platforms for managing the Fund on a sustainable basis.

Our Statement of Intent reflects the Board's collective will to add economic value and develop organisational characteristics that will ensure the Guardians' ongoing success.

David May

DAVID MAY
Chairman

Sir DOUGLAS GRAHAM
Deputy Chairman

2. Background, Nature, and Scope of the Guardians

The Guardians are an autonomous Crown entity established under the New Zealand Superannuation and Retirement Income Act 2001 (Act). The Guardians manage, administer, and invest the New Zealand Superannuation Fund (Fund). The Fund was also established under the Act, and is a pool of financial assets that form part of the Government's core balance sheet. The Fund is designed to act as a 'buffer' to help future Governments make retirement income payments to New Zealanders.

The Act stipulates how capital contributions are calculated for the Fund. Contributions from Government into the Fund will continue according to The New Zealand Treasury's funding model (www.treasury.govt.nz). The capital contributions estimated annually are based on, amongst other things, estimated future superannuation payments and the Fund's actual and expected returns performance.

Based on estimates prepared by The Treasury, and forming part of its May 2008 Budget Economic and Fiscal Update, capital contributions are expected to average $2.2 billion per year over the next three financial years.

During the period of this Statement of Intent, the balance of the Fund (reflecting contributions from Government plus expected investment income earned net of fees and after payment of tax) is estimated by The Treasury as follows:

Actual	Funds under management
As at 30 April 2008	$14.3 billion
Treasury estimates as at 30 June	**Funds under management**
2009	$17.7 billion
2010	$21.2 billion
2011	$25.0 billion

No capital withdrawal is permitted by law until 2020 at the earliest. At present, capital withdrawals are not anticipated until 2027 consistent with The Treasury's funding model. However, the Fund will be a net contributor to the Government balance sheet prior to 2020 due to estimated tax payments.

The Fund will continue to grow in nominal terms for decades to come: that is, the earnings of the Fund will outstrip the capital withdrawals. However, as a percentage of the GDP, the Fund is estimated to peak at around 36.0% by 2037, and then gradually decline over the ensuing decades.

Strategic Asset Allocation

The Fund is managed consistent with a Strategic Asset Allocation (SAA) determined by the Guardians. Our SAA is calibrated to produce an optimal distribution of possible future Fund returns over its long investment horizon.

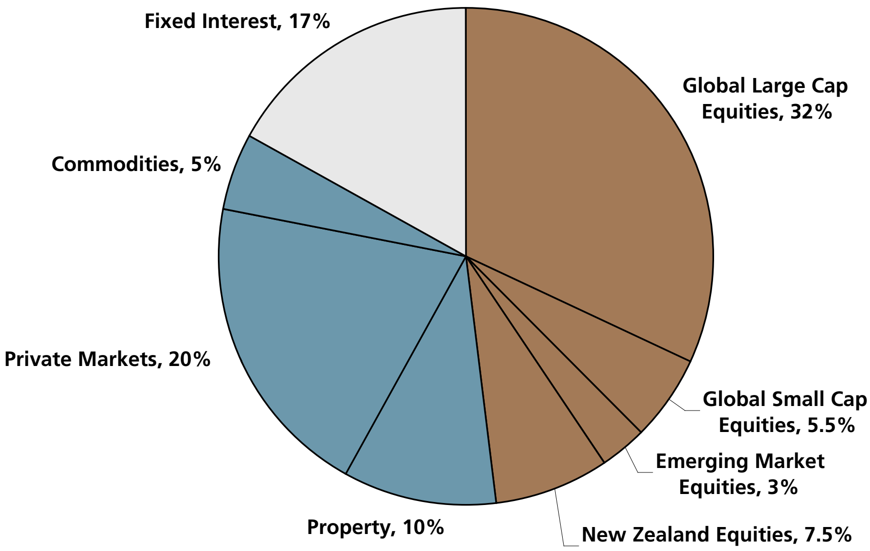
In calibrating our SAA, the Fund outcome we pay attention to is the return we anticipate receiving over and above a 'minimum risk' alternative. The 'minimum risk' alternative can be thought of as a notional long-term, inflation index-linked, New Zealand Government bond return. We use this benchmark as it mirrors in simple terms the key drivers of the cost of providing future Superannuation payments. The New Zealand Superannuation retirement income offering is indexed to the nominal wage, which itself is linked to real economic growth and inflation.

In practice, however, we benchmark our investment performance against the 90-day Treasury bill rate (i.e., a proxy for the Government's 'risk-free' rate or its opportunity cost of raising debt). We have set an internal expectation to deliver a rate of return averaging 2.5% above the 90-day Treasury bill rate over rolling 20-year periods. This is measured on a time-weighted basis and pre-New Zealand tax. However, we also monitor a five-year rolling average period as a useful intermediate target.

Key determinants of our asset selection are the nature of our expected future New Zealand Superannuation costs, the timing of future withdrawals from the Fund, our limited liquidity requirements, and the desirable risk characteristics of the asset choice. Given that the Fund is part of the core Crown balance sheet, we aim to maximise investment returns measured before New Zealand tax but after foreign tax and expenses.

Our current SAA is illustrated below. The rationale behind this selection of assets is set out in the 2007 review, which is available on the Fund's website (www.superfund.co.nz).

Strategic Asset Allocation



The private markets category includes alternative investments and investment vehicles such as timber, private equity, and infrastructure.

The financial assets in the Fund comprise a broadly diversified portfolio of financial assets. The majority are in publicly listed equity markets, although a growing proportion is invested in non-listed private markets. This implies that we have a deliberate high exposure to equity assets whose returns, while potentially volatile in the short term, provide longer-term economic reward for taking risk.

Our SAA and investment approach is such that we have exposure to considerable market (or 'beta') risk for which we expect to gain a return in excess of the risk-free rate on average over time (i.e., advantage from an equity risk premium). We increase our portfolio efficiency (i.e., increase return with no additional risk) by diversifying the Fund across and within various asset classes. We also have exposure to alternative asset classes other than listed equities, where we believe these can further diversify our market risk and add to total portfolio returns.

Our SAA represents the mix of investments to which the Fund aspires. However, our actual mix of investments may vary at any point in time, due to factors such as the availability of investment opportunities and pricing of the respective assets. We use a system of proxies to keep the overall risk of the SAA consistent with our desired asset mix.

In accessing the investments within each asset class we generally concentrate on selecting expert external managers in that field. These external investment managers are incentivised to consistently achieve investment returns in excess of the usual market return (i.e., alpha), with long-term performance fees often part of our contract arrangements. We also have a number of specialist advisory relationships covering investment strategy, research, proxy voting, and portfolio monitoring for compliance with our responsible investment standards.

Currently we have 41 investment manager mandates as well as several advisor relationships. We also have outsourced custodial and internal audit arrangements.

Our initial SAA was announced in August 2003, and in September 2003 the Fund's investment commenced. We have updated the SAA twice: most recently in December 2007 (refer to our website www.nzsuperfund.co.nz).

The Fund's annualised return on investments since September 2003 was 10.50% as of 31 March 2008. This compares to 6.67% for the 90-day Treasury bills over the same period. The Fund's assets reached $13.5 billion by March 2008.

Responsible investment

Our legal requirement to follow best-practice portfolio management and avoid prejudice to New Zealand's reputation as a responsible member of the world community has led us to develop and operate within a responsible investment framework.

Our framework includes policies, standards, procedures, and monitoring activities that embed responsible investment activities into our management of the Fund. In terms of international best-practice standards, we are a founding signatory to the United Nations Principles for Responsible Investment (UN PRI) and have adopted the UN Global Compact as a benchmark for monitoring companies on the portfolio. We employ external agencies to screen the Fund holdings for any significant breaches of these standards. Where such breaches occur, we consider our actions in line with our responsible investment framework.

Also consistent with the UN PRI, we support shareholder engagement with companies who may have responsible investment issues. We prefer shareholder engagement, rather than divestment or exclusion, as we believe our success in responsible investing is in large part related to how we utilise our influence as a shareholder. However, if we believe engagement will be ineffective in promoting a desirable change in corporate behaviour then we may still choose to divest from a company and/or exclude it from the Fund. The UN PRI also provides a framework, which we use, for global investors to work together to improve the effectiveness of shareholder action.

We have an active history in responsible investment despite the Fund being invested for only a little over four years. We have a voting programme as a shareholder and we have engaged with companies on issues ranging from human rights to environmental management, either directly or collaboratively through the UN PRI. We have also chosen to divest from, or exclude, companies involved in cluster munitions and landmine manufacture, whaling, and tobacco. We are currently reviewing companies involved in the manufacture of nuclear weapons.

We are actively working towards being recognised as an authority on responsible investment in this region and a best-practice organisation internationally. Our Statement of Intent includes planned activities aimed towards achieving this goal.

Box 1 – The Guardians' Core Investment Beliefs

- It is important to be clear about the Fund's return objectives, risk tolerance, and the timeframe over which the Guardians will measure results.
- Risk and return are strongly related, and diversification reduces total risk.
- Risk and return characteristics vary over time, and include both a random component and a partly predictable component based on current pricing compared to long-term averages. The longer the time horizon, the greater the predictable component.
- The Fund's long-term investment horizon, combined with the fact that no outflows are required until at least after 2020, means that the organisation is extremely well positioned to capture illiquidity premium.
- Different types of risks can be unbundled to make the portfolio more efficient. Examples include the separation of market risk (beta) and active risk (alpha), and the decoupling of foreign currency exposure and international assets.
- Investment opportunities must be examined on a risk-adjusted basis, post-expenses and foreign taxation, and excluding any benefit from leverage. Individual investments will be assessed on their expected impact upon the total portfolio, rather than the characteristics of the particular sector of transaction.
- There is value in pursuing excess returns in public markets. The Guardians will focus on the expected after-cost benefit on an investment.
- Principal-agent conflicts must be minimised in the Fund's relationship with investment managers. This can be done using financial incentives, transparency around related party transactions, and appropriate governance to promote investors' interests.
- Long-term financial performance can be affected by environmental, social, and governance (ESG) issues. The Guardians have encouraged and will continue to encourage the companies they invest in to meet international standards in these areas.

3. Key Outcomes, Activities, and Performance Assessment

3.1 Current Investment Environment

Since mid-2007, investing in global financial markets has proved very volatile. This follows several years of returns coming in well above our median expectation. The recent decline in returns has been driven in large part by weak global listed equity and property market prices. The near-term outlook for investment returns also remains skewed to the downside compared to recent years. So, while we continue to anticipate long-term reward for investing in risky assets, we cannot rule out ongoing lower-than-average returns over the near term.

Such periods of volatility are relatively common events for a long-term investor, with similar price declines having occurred seven times since 1970 alone. While relatively extreme, the recent market movements remain within our 68% confidence interval for forecast returns.

Our SAA is designed to provide maximum financial return for the appropriate risk over the next 20+ years. We anticipate short-term financial market volatility to be a regular feature and manage the associated risks in large part through investment diversification and our liquidity requirements. In addition, we actively seek to benefit during volatile periods, assessing opportunities to invest at better entry prices and higher expected rewards.

Over recent months, following the downward correction in global assets prices, the equity risk premium (i.e., reward for investing in riskier assets) has risen. This is a positive situation for a long-term investor such as the Guardians, especially since we still have the majority of Crown capital contributions to invest ahead of us.

3.2 Key Outcomes

In this context, our Statement of Intent is focused on two key outcomes (or priorities). These outcomes are to ensure a cost-effective, fit-for-purpose, portfolio, and to maintain public and Government confidence in our capability and integrity.

These outcomes will best ensure we are successful in achieving our investment objective and developing the organisational characteristics that will ensure our ongoing success. Our two key outcomes are directly related to meeting our mandate.

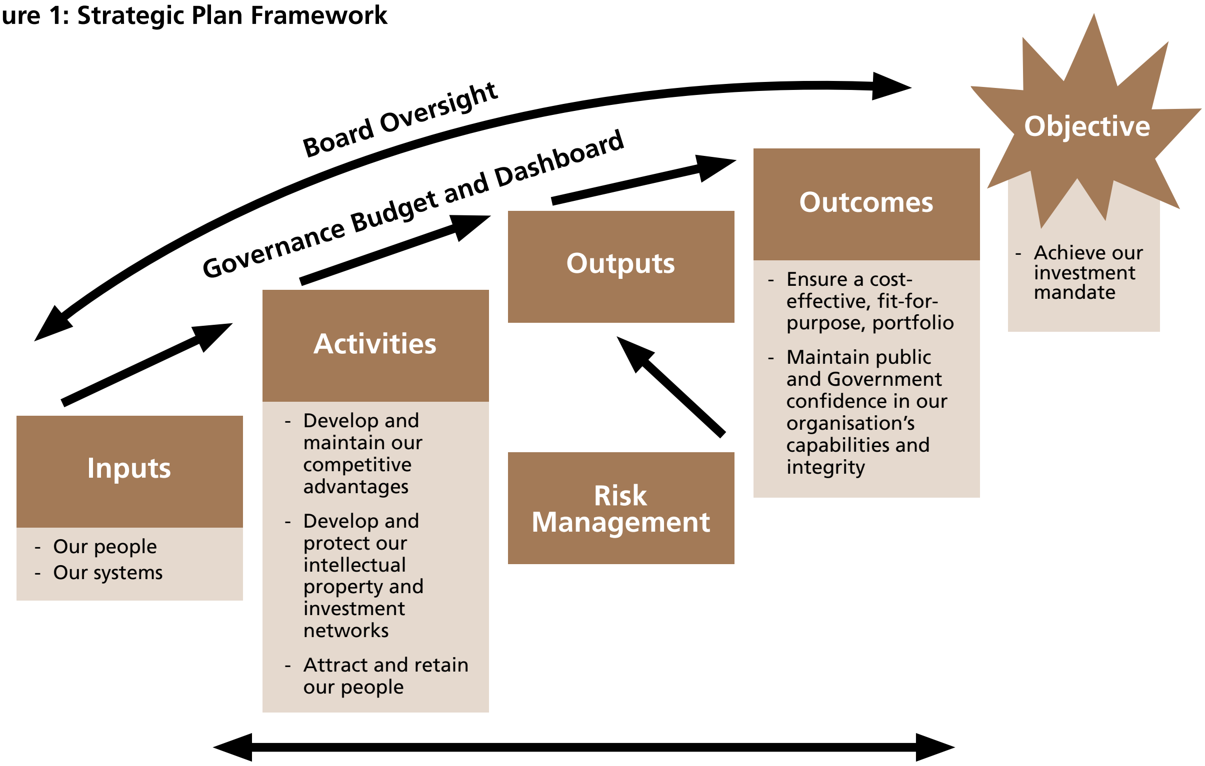
In this section we outline:

- how we intend to meet our *investment objectives;*
- the *outcomes* that we see as most consistent with achieving our investment objectives;
- the *outputs* that we see as most consistent with achieving our desired outcomes, and the *performance benchmarks* that we will measure these against; and
- the *resources* (people and financial) that are necessary for us to succeed.

The *risk management* strategy that will best ensure we achieve our goals is discussed in Section 4.

Outlined below in Figure 1 is a stylised version of our plan that enables the reader to step through the important components of the Statement of Intent, linking outputs to outcomes, and the benchmarks against which we will assess our performance.

Figure 1: Strategic Plan Framework



Features: Cost-effective; Intelligent; Technology driven; Relationship based

Endowments: Horizon; Liquidity; Scope; Location; Knowledge; Sovereign status

Competitive Advantages: Quality decisions; Timeliness; Specific knowledge; New Zealand position; Learn and first-mover

Outcome #1: Ensure a cost-effective, fit-for-purpose, portfolio

We will continue to develop the most cost-effective, fit-for-purpose, portfolio to meet the Fund's investment objective.

By cost-effective we mean that we will pay minimum cost for passive market (beta) exposure, and only pay additional costs when we have a high level of confidence of receiving excess market return (alpha). It also means we will maintain an efficient operational model and we will monitor the efficiency between optimal internal and external service delivery.

By fit-for-purpose we mean that the Fund will meet our investment mandate as outlined in section 58 of the Act. This mandate involves maximising our expected risk-adjusted return without undue risk. Undue risk can be considered as any risk that is detrimental to the Fund as a whole making its maximum contribution to future New Zealand Superannuation payments.

Our investment activities will include the ongoing selection of investments and investment managers that can generate excess returns, continued search for the lowest cost passive market exposures, continued investment diversification, and revenue increasing opportunities through strategic investment tilting, alternative benchmarks, and liquidity provision.

The main activities we will undertake to achieve this outcome are:

- exploring the benefits, and implementing if appropriate, a more 'liabilities-driven' approach to investing;
- evaluating, and implementing if appropriate, a strategic tilting framework when investing;
- evaluating, and implementing if appropriate, systematic beta exploitation opportunities within the Fund's equity market exposures;
- improving efficiencies in the Fund by both raising the hurdle on expected alpha and accessing only the most cost-effective beta exposures through passive mandates or derivatives; and
- exploring and implementing if beneficial an investment strategy that pursues macroeconomic trends.

The outcomes of our activities (i.e., our Fund's return) will be measured against the risk-free rate of return and value-add against a passive portfolio alternative. We will also compare our cost-to-funds under management performance against international peer group funds.

Outcome #2: Maintain public and Government confidence in our organisation's capabilities and integrity

We will develop reputation characteristics that best ensure the Guardians' success as a long-term investor. These characteristics are being:

- *able to identify and manage a cost-effective, fit for purpose, portfolio* i.e., appropriately benchmarking our investment activities;
- *intelligent*: i.e., being able to identify our competitive advantages, having a clear strategy and motivation to pursue it, and being capable of doing so;
- *technology driven*: i.e., being willing and powerful users of technology that enhances our productivity and best captures our intellectual property; and
- *relationship based*: i.e., having strong relationships with those best able to further our investment interests.

The activities we will be undertaking include developing and maintaining our competitive advantages, developing and protecting intellectual property and investment networks (including completing our Information Technology (IT) architecture and application development), embedding our risk management framework, and implementing our communications strategy. We will also complete the implementation of our human resources framework.

We will also complete embedding our responsible investment activities into the Fund. This involves, amongst other activities, extending the monitoring of responsible investment issues across all asset classes where possible, working with other Crown Financial Institutions on shared service provision and intellectual property, and continuing to develop an active engagement programme with other UN PRI investors where we believe a responsible investment issue exists and that we can make a difference.

The outcomes will be measured by our Fund's financial performance against both the risk-free rate and value-add measure, our cost-to-funds under management comparisons, operational and legislative compliance measures, internal and external audit reviews, benchmarking our responsible investment activities against the UN PRI standards, and monitoring our communications effectiveness.

3.3 Key Activities

In order to achieve our outcomes we will be undertaking prioritised activities as well as strengthening our internal capabilities, both in terms of people, skills, and technology. Our key prioritised activities are as follows:

Activity #1: Develop and maintain our competitive advantages

Our inherent investment strengths include our sovereign status, and our liquidity, and investment horizon and breadth. We also consider our relatively unique position as an employer and investor in New Zealand as a strength. However, many of these strengths are shared by investment organisations globally. Hence, we need to identify and use our competitive advantages when managing the Fund.

When investing, we compete for access to the financial and real assets that best enable us to act as a buffer to future Superannuation payments; access to the best investment managers and investments; and the resources we need to manage the Fund on a sustainable basis, in particular people. In doing so, we compete against the passive investment alternative to the assets we select; other investors seeking the same assets; other funds seeking access to the best investment managers; and other employers seeking similar talent.

In order to be successful we plan to undertake several activities that will assist us develop the following competitive advantages:

- high quality and timely decision making;
- specific knowledge (e.g., of certain asset classes, geographies, and investor relationships);
- strong position in New Zealand as an employer in this field; and
- an ability to learn and constantly innovate in order to be an early adopter of investments.

Such competitive advantages will best enable us to leverage our inherent strengths and make the maximum contribution towards achieving our investment objectives.

In order to develop these competitive advantages, we plan to undertake over the course of the next three financial years the following activities:

- a global benchmarking study that identifies our peer group and the features and benchmarks the Guardians should develop;
- embedding a holistic framework for the allocation of capital that ensures all investments meet our investment objectives and remain consistent with our operational model;
- enhancing our derivative risk managing capabilities; and
- developing specific knowledge of key asset classes and regions.

Activity #2: Develop and protect our intellectual property and investment networks

As we develop our competitive advantages and ongoing investment experience it will be important to capture and protect this intellectual property. It is also important for us to develop a relationship-based investment model, where we can share global expertise and work with other aligned investors.

We plan to develop the technology systems necessary to manage this process, as well as refine our own decision-making, monitoring, and reporting frameworks. Some of the prioritised activities include: developing and implementing our IT strategy, and developing and potentially implementing a portfolio management system that can include a general ledger financial reporting capacity.

Overall, our IT strategy provides for the following:

- enterprise relationship management – having one system to record how we interact, manage, and record our activities with our investment managers and other advisors;
- business process management – documenting key business processes to better measure our process activities, manage risk, enable process improvements and workflow development;
- business intelligence tools – to improve our ability to collect, integrate, analyse and present business information with the ultimate goal of improving decision making; and
- enterprise content management – to improve our document and intranet management.

Some of these activities are ‘must do’ related to our statutory obligations and to meet our operational risk standards. In addition, however, we will gain productivity advantages, improve our ability to capture knowledge and become a ‘learning’ institution, and enhance monitoring and reporting.

The scoping and potential implementation of a portfolio management system is necessary to ensure that we have the operational capability to manage increased derivatives exposure, as well as develop enhanced financial (e.g., transfer pricing) and portfolio risk reporting.

We also plan to continue to actively pursue external investment experts that we can work with and learn from. This will be achieved through our ‘business as usual’ search for ‘best-in-class’ investment managers, as well as further developing networks of similar investment organisations and undertaking a peer group benchmarking exercise.

Activity #3: Attract and retain our people

Our people are our most valuable resource and we must compete to attract and retain them. As at May 2008, we employed 39 full-time employees (refer to Section 6). Our staff numbers are estimated to grow to around 70 by June 2011, where we anticipate they will peak – consistent with our long-term operational model. Even at this peak, the Guardians will be a small organisation relative to our global peers, and will remain highly dependent on outsourced service providers.

The growth in our staff numbers is focused largely in the areas of investment strategy and implementation (i.e., in the Portfolio Strategy, Private and Public Markets, and the Risk business units). The final headcount will be in part dependent on the business cases for strengthening our internal capabilities on derivatives management and the associated technology needs. Any decision to bring activities in-house will continue to be compared to the most cost-effective outsourced alternative that meets the service standards we require.

To attract and retain people, we see as necessary, over the next three years, to complete the implementation of a human resources framework that maximises our opportunities. This framework will include:

- developing a leadership model;
- refreshing and embedding our values in our work practices;
- ensuring a performance review process is embedded;
- maintaining succession and retention plans;
- ensuring staff personal development plans are executed as agreed;
- ensuring regular staff communication;
- embedding health and safety and well-being practices; and
- ensuring a competitive remuneration framework.

We will also develop staff specialisation in specific business units (e.g., Operations) to support and implement our new investment strategies.

3.4 Summary of our Activities, Outputs and Performance Assessment

We will monitor our progress on achieving our two outcomes through regular Management and Board committee reporting. We will also report progress in our Annual Report.

For each of these Outcomes, there are several work streams that are multi-year. Table 1 below outlines the Key Outcomes, Activities, Outputs, Performance Measures, and implementation timing.

TABLE 1: Summary of our Activities, Outputs and Performance Assessment

Outcome #1: Ensure a cost-effective, fit-for-purpose, portfolio					
Activities	**Outputs**	**Performance Measures**	**Implementation**		
			2008 /09	**2009 /10**	**2010 /11**
• Explore the benefits, and implement if appropriate, a more 'liabilities-driven' approach to investing that more closely aligns our assets with the characteristics that drive future Superannuation payments.	• Implementation of a 'liabilities-driven' investment strategy.	• Fund's return benchmarks (risk-free rate of return and value-add against a passive portfolio alternative). • Cost-to-funds under management comparisons. • Quantity and quality of external investment relationships.	✓	✓	
• Evaluate, and implement if appropriate, a strategic tilting framework.	• Implementation of a strategic tilting framework.		✓	✓	
• Evaluate, and implement if appropriate, systematic beta exploitation opportunities within the Fund's equity market exposures.	• Implementation of revised investment benchmarks.		✓	✓	
• Improve cost efficiencies in the Fund by both raising the hurdle on expected alpha and accessing only the most efficient beta exposures through passive mandates or derivatives.	• Implementation of more passive investment exposure and increased use of derivatives.		✓	✓	
• Explore, and implement if beneficial, an investment strategy that pursues macroeconomic trends.	• Implementation of a revised, targeted investment strategy.		✓	✓	

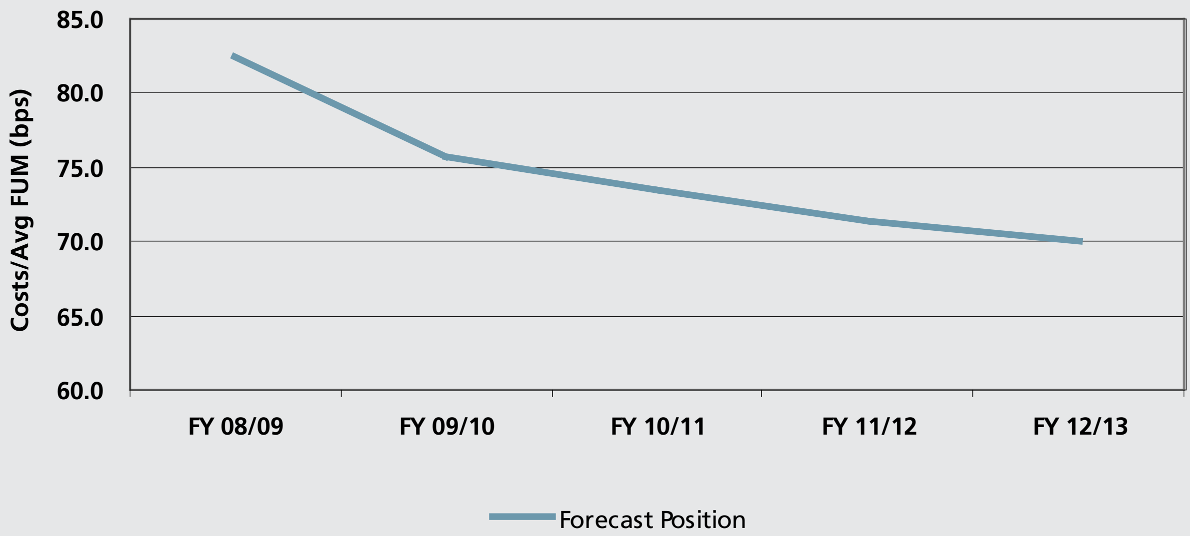
Outcome #2: Maintain public and Government confidence in our organisation's capabilities and integrity					
Activities	**Outputs**	**Performance Measures**	**Implementation**		
			2008 /09	**2009 /10**	**2010 /11**
• Develop and maintain competitive advantages in our investment and organisation management.	• Production of a global benchmark study. • Implementation of a framework for the efficient allocation of capital across competing investments. • Finalisation of global and New Zealand private equity, and property investment strategies. • Continuous monitoring of responsible investment activity through the UN PRI.	• Cost-to-funds under management comparisons. • Operational and legislative compliance measures. • Responsible investment activities against our standards and policies and against UN PRI benchmark. • Internal and external audit review findings or ratings. • Communications effectiveness metrics. • IT service availability and reliability metrics. • Staff turnover and average time in role. • Staff satisfaction/engagement survey. • External employer comparisons. • Staff competencies benchmarks. • Remuneration comparisons.	✓	✓	✓
• Develop and protect our intellectual property and investment networks.	• Implementation of our IT strategy. • Implementation of enhanced derivatives management capabilities. • Implementation of an in-house portfolio management and general ledger system.		✓	✓	✓
• Complete embedding our Responsible Investment policy into our investment processes and the Fund.	• Extending the monitoring of responsible investment issues across all asset classes where possible; • Work with other Crown Financial Institutions on shared service provision and intellectual property, • Continue to develop an active engagement programme with other UN PRI investors.		✓	✓	✓
• Build a framework for non-investment due diligence of investment managers; and identify relevant portfolio risk measurement requirements and integrate these into our risk management framework.	• Implementation of a refined risk management framework and strategy.		✓	✓	
• Embed our risk management framework.	• Implementation of automated business and portfolio risk monitoring and reporting.		✓	✓	
• Implement our communications strategy.	• Publication of key documents and analysis. • Updates of our website. • Engagement with key audiences for greater transparency and understanding of our business.		✓		
• Attract and retain our people.	• Implementation of a human resources framework. • Development of staff specialisation. • Development of a leadership model.		✓	✓	✓

3.5 Cost Efficiencies

Achieving our key outcomes will reduce the organisation's total cost structure. Cost efficiencies are expected to come from the increased use of passive investments (including both derivatives and long-only equity portfolios) as a proportion of total funds under management. We also anticipate developing more in-house knowledge and expertise over the three-year period, thus reducing the cost of external advice.

These efficiencies are summarised in Figure 2 below. This graph shows our total expected costs as a percentage of average funds under management (FUM)*.

Figure 2: Total expected costs as a proportion of total funds under management*



* Costs exclude those that are not directly in the control of the Guardians, being timber operating costs and trade expenses incurred by investment managers.

Information on our Cost Allocation Model is available in Section 8 of this Statement of Intent.

4. Risk Management Strategy

Our approach to enterprise risk management involves the Board of Directors, Guardians' staff, and our external partners.

We have developed risk management policies, procedures, and other internal controls for application by our staff, external investment managers, and other expert service providers. We monitor compliance with the relevant policies and procedures as well as compliance by external managers.

Risk management is further supported by our Code of Conduct and conflict of interest procedures, defined roles and responsibilities and individual and collective accountability processes.

Our five major risk categories are:

- **Investment risk**: The risk inherent in achieving investment goals and objectives, including market, credit, and liquidity risk.
- **Strategic risk**: The risk that we make inappropriate strategic choices or are unable to successfully implement selected strategies.
- **Legislative and regulatory risk**: The risk of loss due to non-compliance with actual or proposed laws, rules and regulations and prescribed industry practices.
- **Operational risk**: The risk of loss from inadequate or failed internal processes, people or systems, or from external factors.
- **Reputation risk**: Risk of loss of reputation or credibility due to internal or external factors.

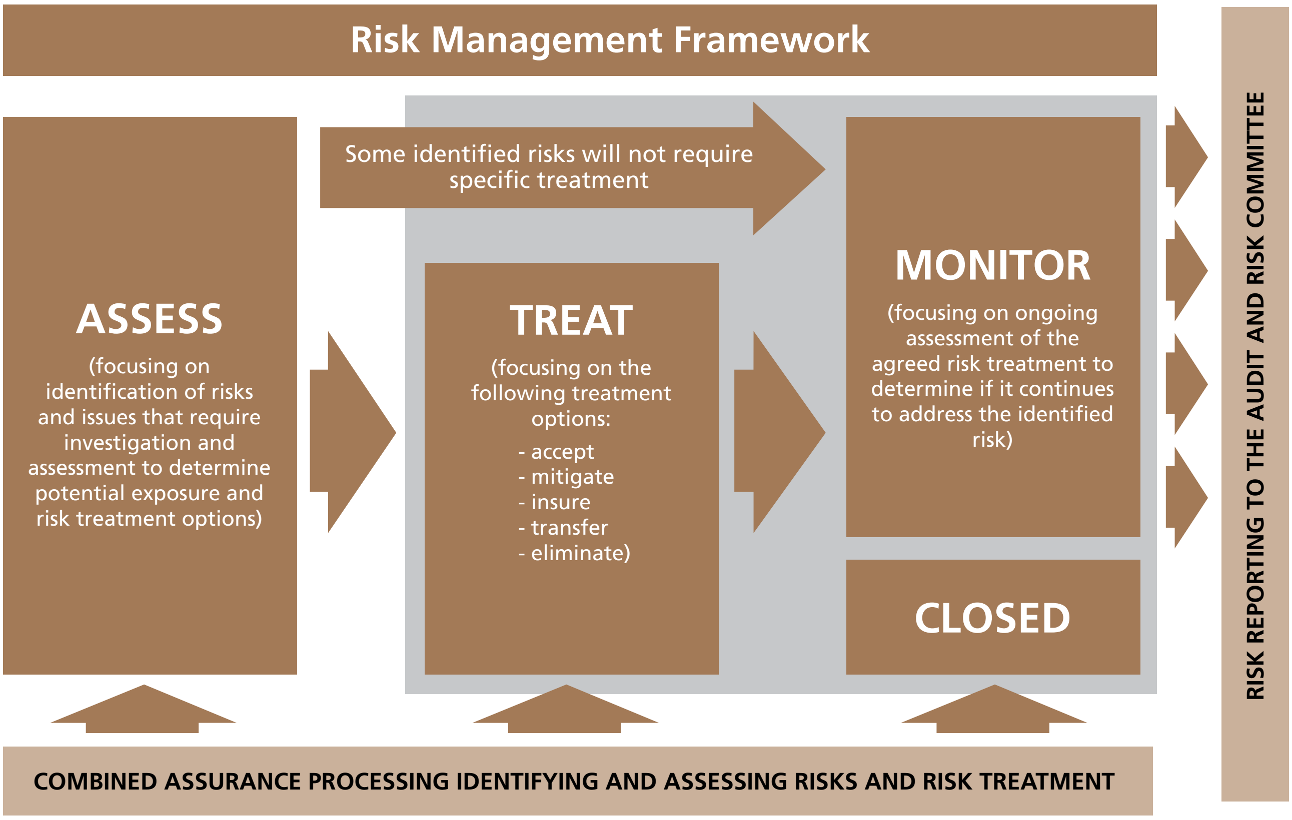
Recently, we reviewed and assessed the Guardians' risk management framework. Twenty-five risks were identified and reviewed in detail. The primary purpose of the risk management framework is to:

- identify the major risks that could prevent us from realising our objectives;
- understand the activities applied by us to manage these risks and determine the adequacy of the activity;
- link the risk management activity to the operation business processes;
- provide ongoing measurement of the effectiveness of the risk management activity; and
- ensure that assurance from management and independent assurance providers over major risks and their related management activities is aligned with controls.

The risks continue to be reassessed to ensure that they remain an appropriate measure of the threats to the non-achievement of the 2008/09 Key Outcomes. The table below maps the risk categories against the key outcomes.

RISK CATEGORY	KEY OUTCOMES #
Investment risk	1
Strategic risk	1
Legislative and regulatory risk	2
Operational risk	1; 2
Reputational risk	1; 2

The diagram below explains the risk management framework we are working with.



5. Estimated Returns for the Fund

5.1 Estimating a Return for 2008/09

We are legally required to outline our expectations of the performance of the Fund over the next financial year. Predicting short-term financial market returns with any useful accuracy over such a near-term horizon is virtually impossible. At best we can only provide a range, or confidence interval, for likely outcomes and outline the mid-point of this range.

In practice, our predictive confidence with regard to market returns improves the longer the investment horizon. The mid-point of our estimated Fund return for 2008/09 is thus derived from our expectations for market returns over the next decade as a whole. We use our modelling techniques to identify a range of estimated returns and select the mid-point of this range. An example of this range, and how wide it can be even over a 10-year period, is provided in Figure 3 below. We also provide numerical examples for each component.

- ***The risk-free rate at 6.2%***

This is our estimate of the yield on 90-day New Zealand Treasury bills measured fortnightly in line with contributions to the Fund. This estimate is based on subtracting a 0.2% term premium from the New Zealand Government 10-year bond yield as at 31 March 2008.

- ***The reward for market risk (beta) at 2.9%***

The reward for market risk is defined as the margin between the risk-free rate and the return that would be generated if the portfolio was invested in line with the SAA and all of the Fund's investments performed in line with their benchmarks.

The Guardians' modelling generates an expected beta return over the next 10 years of 2.9% (expressed as an annual compound rate for the period consistent with the way the Guardians report their returns). This estimate has a volatility of around 3.0% (i.e. a two-thirds probability of falling in the range of 0.1% below the risk-free rate to 5.9% above it).

- ***The reward for active management (alpha) at 0.5%***

The return from active management is any return gained independent of the performance of the underlying asset markets.

This means the mid-point of our estimated range for the nominal average return over the next 10 years is 9.6% p.a.

Again, it is important to note there is considerable uncertainty around our mid-point estimate for expected financial market returns. Our modelling suggests only a two-thirds chance (or 68%) of returns finishing in the range of 6.6% p.a. to 12.6% p.a. We have a 95% chance of returns falling in the range of 3.6% to 15.6% over any 10-year period.

As mentioned above, these confidence intervals are wider still over any single year. For example, over a one-year horizon the two-thirds probability range is around +/-10% either side of the mid-point range. The 95% range is around +/-20% either side of the mid-point. Figure 3 below highlights this wide confidence interval.

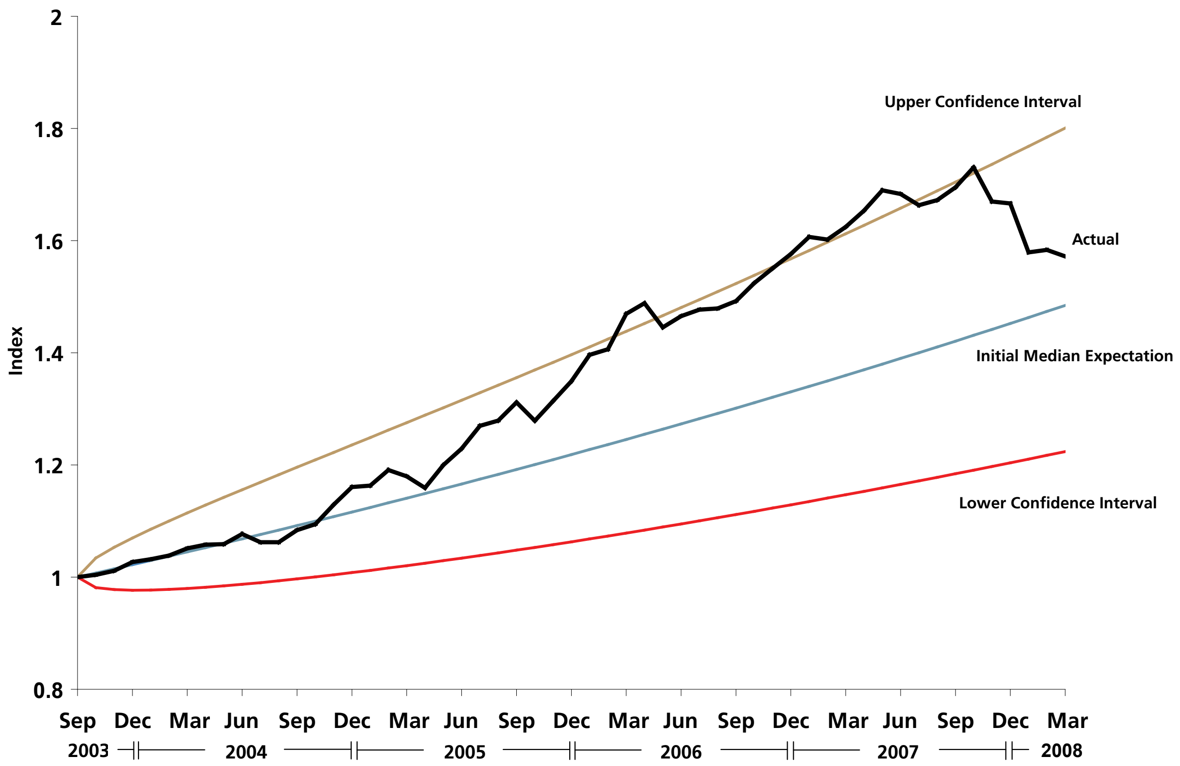
Our 9.6% estimate for the long-term nominal average return is above our 2007/08 estimate of 8.1%. The increase reflects a rise in the New Zealand 10-year bond yield and a rise in risk premiums associated with declining equity markets over recent months.

5.2 Performance Comparison

In the four and a half years since the Guardians began investing, the excess return over the risk-free rate has been 3.83% (i.e., annualised returns of 10.50% against the risk-free rate of 6.67% for the same period). The Guardians had previously estimated the average expected excess return would be around 3.5% over this period. The difference is well within a two-thirds' confidence range around the central expectation.

The model set up by The Treasury to calculate contributions to the Fund, and to estimate its balance, assumes a long-term earning rate of 8.65% (pre-tax but post-fees). This lies within a +/-1 percentage point range of the Guardians' current estimate. A link to The Treasury model is on the Fund's website (www.nzsuperfund.co.nz).

Figure 3: Actual versus expected cumulative returns to 31 March 2008



6. Governance and Management

6.1 Governance

The Board of the Guardians is the governing body of the Fund: it has the authority to "undertake any activity … or enter into any transaction" in order "to manage and administer the Fund". The Board has the power to delegate any of the functions or powers it has to a committee of the Board, or any person, but may not delegate the power to grant a power of attorney or the power to appoint investment managers and custodians.

The Board has developed a Code of Conduct for both itself and Guardians' staff members. This covers a diverse range of circumstances and sets minimum standards of behaviour. There is also a commitment to professional development for Board and staff members to ensure the organisation keeps up with emerging best-practice trends.

The Board operates four Board Committees:

- **Audit and Risk Committee:** This committee oversees the financial reporting of the Fund, internal and external audit of the Fund, the internal risk management framework and its application, compliance (including tax compliance), the accuracy of key financial statements, and other governance systems.
- **Responsible Investment Committee:** This committee oversees the implementation of the ethical investment policy (under section 61(d) of the Act) and the policy for the exercise of voting rights (under section 61(i) of the Act).
- **Employee Policy and Remuneration Committee:** This committee oversees the development of employment and remuneration policies.
- **Private Markets Committee:** This committee considers investment opportunities in unlisted assets on an as 'required basis'.

In addition, from time-to-time, the Board may establish specific sub-committees to address a particular matter or a particular purpose. Such sub-committees may have certain decision-making powers delegated to them by the Board, and will report back to the Board in a manner consistent with agreed terms of reference of the particular sub-committee.

While ultimate responsibility rests with the Board, the objective of the Board's committees is to assist and advise the Board.

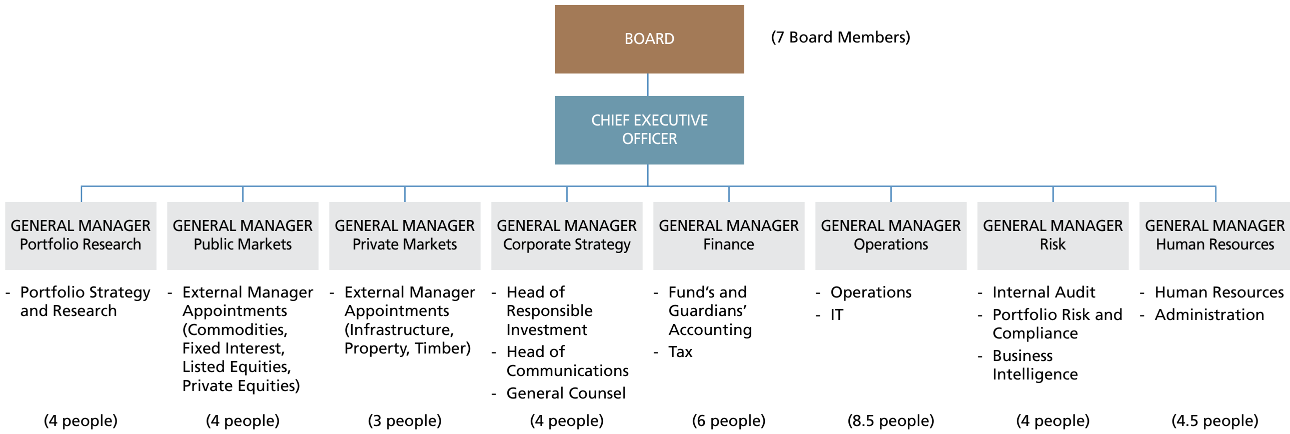
6.2 Management Structure

The Board has a formal delegation agreement with the Chief Executive Officer who, with the Board's approval, has further delegated some powers to other staff members of the Guardians.

The Guardians are committed to investing in a talented and dedicated team of people. As at May 2008, we employ 39 full-time employees (refer to organisation chart below). At the commencement of the 2008/09 year, it is expected that we will have the equivalent of 42 full-time employees. The Board has recognised that the level of internal resources in the organisation needs to increase to effectively respond to the investment opportunities available to the Fund and to manage the business challenges. Therefore, we expect to recruit additional staff over the 2009/11 period.

The management team is fully accountable to the Board for all aspects of the Fund's investment and business performance, and for compliance and control. Our organisation chart below provides a snapshot of the organisation's structure as at May 2008.

Organisation Chart as at May 2008 – 39 full-time employees



We ensure that staff accountabilities, competencies, and key performance indicators are aligned to achieving our overall strategic direction. Our recent review of the organisation and skill needs was part of the process to ensure the Guardians' structure:

- is aligned to our strategies and mandate;
- is focused on performance and accountability;
- is simple – people understand what they are to do and are empowered;
- spreads the workload evenly;
- builds capability and intellectual property;
- supports clear governance;
- enables economies of scale; and
- is cost effective.

Much of the business of the Guardians is conducted through internal executive committees. These committees include the:

- **Management Committee:** dealing with the business operations of the Guardians;
- **Investment Committee:** advising on the investment decisions of the Guardians;
- **Portfolio Committee:** advising on the performance of the Fund and the Guardians' service providers; and
- **Communications Committee:** advising on all internal and external communication issues.

Each of the committees has a dedicated executive chairman and secretary, and the committees meet regularly. The Guardians' risk management framework (including policies and procedures) maps into these committee structures. The role of the committees is to ensure all key business decisions are robust and appropriately reported and acted upon.

The investment facing teams include the Portfolio Research, Public Markets, Private Markets, and Risk business units. In simple terms:

- Portfolio Research is responsible for ensuring the SAA is appropriate and adhered to, and appropriate investment hurdles and disciplines are applied. The General Manager of Portfolio Research chairs the Investment Committee;
- Public and Private Markets are involved in assessing appropriate investment managers, and at times, investments. The Public Markets team focuses a lot of time assessing their conviction in a particular investment manager and whether they believe the investment manager can provide excess return (or alpha) on a sustainable basis. The Private Markets team is involved in assessing investments in alternative assets such as timber, property, and infrastructure; and
- the Risk unit is involved in both portfolio monitoring and internal audit, in addition to managing and monitoring the execution of the derivative instruments.

Our Corporate Strategy team is primarily involved in analysing best-practice funds management globally and ensuring that any of the desirable features are captured and embedded in our own practices and benchmarked accordingly. Its activities also include our responsible investment, legal, and communications activities.

Our Operations, Finance, and Human Resource teams undertake a range of business activities, as outlined in our organisation chart.

7. Reporting and Legal Requirements

7.1 Reporting to the Minister of Finance

The Board provides a quarterly report on the progress of the Fund to the Minister of Finance in addition to its public disclosure on its website (www.nzsuperfund.co.nz).

The legislation clearly gives the Board of the Guardians responsibility for setting the investment strategy for the Fund. Accordingly, the Board would not expect to consult the Minister of Finance on the development or implementation of strategy. From time-to-time, exemptions from restrictions in broader public sector legislation have been sought and granted from the Minister. Examples include the ability to operate offshore bank accounts to hold Crown assets as part of the portfolio and to use derivatives as part of the investment strategy.

The Minister of Finance may, after consultation with the Board, give directions regarding the Government's expectations as to the Fund's performance, including the Government's expectations as to risk and return. The Act notes that such a direction must be in writing, signed and dated, and not be inconsistent with the Guardians' duty to invest the Fund on a prudent commercial basis. The Guardians must have regard to any such direction and must notify the Minister how they propose to do this as well as report any such directions in their Annual Report.

To date, no directions from the Minister of Finance have been received by the Board.

7.2 Avoiding Substantial Interest in Another Entity

Section 59 of the Act prohibits the Fund from taking a controlling interest in any other entity. Section 100 of the Crown Entities Act carries a similar restriction.

The Guardians are very conscious of this obligation. The investment guidelines with managers place strict limits around the proportion of a company's market capitalisation each manager can own. We actively monitor the proportion of issued market securities that the Fund owns through its investment managers to ensure they are not deemed to hold a controlling interest. We also ensure that, where the threshold for notifying the market of change in our holding in a company is reached, we do this promptly.

From time-to-time, opportunities to purchase privately traded assets carry associated obligations to take over operating entities specific to that asset. In these cases, the Guardians need to balance the benefit to the Fund of progressing with the transaction against the restriction on taking control of the operating entity.

In the past, we have had the opportunity to purchase timberland estates which came with existing commercial obligations. Our approach is to continue to consider transactions, and if some investment merits are identified, we will aim to change the ownership structure of the operating entities 'as soon as practicable' as is required under the Act. The Guardians seek and follow professional legal and taxation advice on these transactions and ensure that the Minister of Finance is kept informed.

8. Financial Projections for the 2008/09 Year

8.1 Cost Allocation Model

Our Cost Allocation Model is made up of two main components – The Guardians and the Fund.

The costs incurred by the Board of the Guardians (comprised of Board fees, the cost of travel to and from Board meetings, and the cost of external audit for the Guardians) are met from Parliamentary appropriation. These expenses amount to $0.49 million p.a. (GST exclusive) in 2008/09.

The Fund costs are those incurred in the establishment and implementation of investment policy, the management of the organisation, and the financial and risk management of Fund assets. These costs are recovered from the Fund and include remuneration, staff expenses such as office services, travel, and professional development. These costs amount to $17.65 million in 2008/09.

Together, the total costs of the Guardians in 2008/09 are expected to be $18.22 million (GST exclusive). This is equivalent to 0.11% of expected funds under management over 2008/09.

All operating costs, irrespective of whether they are sourced from appropriation or Fund assets, are consolidated in the financial statements of the Guardians and subject to the reporting and disclosure obligations of the Crown Entities Act.

The Guardians have prepared prospective financial statements for the Fund. The estimates assume that earnings will be broadly in line with their medium-term estimate (i.e. 9.6% p.a. after costs but before New Zealand tax). Some costs are fixed (e.g. audit costs and most advisory services) and can be easily estimated, but the majority are variable (i.e. base and performance fees paid to investment managers or transaction fees paid to the custodian). The Guardians have prepared estimates of these variable costs based on their expectations of the portfolio over the year.

8.2 Prospective Financial Statements

The Guardians have prepared prospective financial statements for both the Guardians (in their role as manager and administrator of the Fund) and for the Fund consistent with this Statement of Intent.

These prospective financial statements should be read within the context of the Statement of Intent. Information in these prospective financial statements may not be appropriate for purposes other than those described.

The Board has authorised the issue of these prospective financial statements by way of resolution on 5 May 2008. The Board is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

The assumptions used in preparing the prospective financial statements have been disclosed following the accounting policies of each entity.

Actual financial results have not been incorporated into the prospective financial statements. It is not the intent of the Board to update these prospective financial statements subsequent to presentation.

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Prospective Income Statement
For the year ending 30 June 2009

	$000
Revenue from parliamentary appropriation	487
Revenue from New Zealand Superannuation Fund	17,650
Other income	87
Total revenue	**18,224**
Board-related expenses	(824)
Employee remuneration	(12,759)
Depreciation	(59)
Other expenses	(4,582)
Total expenses	**(18,224)**
Net surplus/(deficit)	**-**

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Prospective Balance Sheet
As at 30 June 2009

	$000
Assets	
Current assets	
Cash and cash equivalents	1,430
Trade and other receivables	2,064
Non-current assets	
Property, plant, and equipment	2
Total assets	**3,496**
Liabilities	
Current liabilities	
Trade and other payables	463
Accrued employee benefits	595
Non-current liabilities	
Accrued employee benefits	1,784
Provisions	154
Total liabilities	**2,996**
Net assets	**500**
Equity	
Accumulated surplus	-
General funds	500
Total public equity	**500**

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Prospective Statement of Changes in Public Equity
For the year ending 30 June 2009

	$000
Balance at 30 June 2008	**500**
Profit for the year	-
Total recognised revenue and expense for the year	**-**
Balance at 30 June 2009	**500**

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Prospective Statement of Cash Flows
For the year ending 30 June 2009

	$000
Cash flows from operating activities	
Cash was provided from:	
Receipts from the Crown	647
Receipts from New Zealand Superannuation Fund	16,354
Interest received	87
Goods and Services Tax	380
Cash was applied to:	
Payments to suppliers	(5,500)
Payments to employees	(11,508)
Net cash provided by/(used in) operating activities	**460**
Net increase in cash and cash equivalents	**460**
Cash and cash equivalents at the beginning of the year	970
Cash and cash equivalents at the end of the year	**1,430**

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies

GENERAL INFORMATION

These are the prospective financial statements of Guardians of New Zealand Superannuation (Guardians), a Crown entity in terms of the Crown Entities Act 2004.

The Guardians are domiciled in New Zealand and the address of their principal place of business is AMP Centre, 29 Customs Street West, Auckland.

STATEMENT OF COMPLIANCE

The Guardians are a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for public benefit entities.

The prospective financial statements of the Guardians of New Zealand Superannuation and Subsidiaries for the year ended 30 June 2009 were authorised for issue in accordance with a resolution of the Board on 5 May 2008.

BASIS OF PREPARATION

The prospective financial statements have been prepared in accordance with the Crown Entities Act 2004 and comply with *Financial Reporting Standard No. 42: Prospective Financial Statements.*

The prospective financial statements have been prepared on an historical cost basis and are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars ($000s).

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

The following particular accounting policies which materially affect the measurements in the prospective income statement and prospective balance sheet have been applied:

(a) Budget figures

The budget was approved by the Board at the beginning of the year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Guardians for the preparation of the financial statements.

(b) Consolidation of subsidiaries

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

Subsidiaries are those entities that are controlled by the Guardians. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies (cont.)

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

(c) Revenue and income

The Group primarily derives revenue through the provision of outputs to the Crown and to the Fund, and also derives income from its investments. Revenue and income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion.

Fund reimbursement of costs:

Stage of completion is measured by the proportion of costs incurred to date, compared to the total costs of the outputs.

Crown appropriations:

Revenue is recognised on a straight line basis over the period the appropriations relate to, because the services are performed by an indeterminate number of acts over a specified period of time.

Other service revenue:

Where outputs cannot be measured reliably, revenue is recognised only to the extent that the expenses recognised are recoverable.

Interest

Interest revenue is recognised as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(d) Goods and Services Tax (GST)

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

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

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies (cont.)

(e) Taxation

The Guardians are a public authority in terms of the Income Tax Act 2004 and consequently are exempt from income tax.

(f) Receivables

Short term receivables are stated at their expected realisable value after providing for doubtful and uncollectible debts.

(g) Subsidiaries

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

(h) Property, plant, and equipment

Initial recording

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

Subsequent expenditure

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

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

Subsequent measurement

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

Disposal

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

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

Impairment

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

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

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies (cont.)

Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

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

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

Held for sale

Items of property, plant, and equipment classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Items of property, plant and equipment are classified as 'held for sale' if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

(i) Depreciation

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

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

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

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

(j) Intangible assets

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

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, employee incentives and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies (cont.)

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of the settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(l) Operating leases

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

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

(m) Foreign currency transactions

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

Monetary assets and liabilities denominated in a foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised in the income statement. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

(n) Financial instruments

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

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

Except for items covered by a separate accounting policy, all financial instruments are shown at their amortised cost.

(o) Provisions

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

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Summary of Significant Accounting Policies (cont.)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

(p) Payables

Short term payables are not interest bearing and are stated at their nominal value.

(q) Equity

Equity is the Crown's interest in the Guardians and is measured as the difference between total assets and total liabilities.

(r) Statement of cash flows

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

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

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

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

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

Changes in accounting policies

There have been no changes in accounting policies. All policies are consistent with prior year.

GUARDIANS OF NEW ZEALAND SUPERANNUATION AND GROUP

Significant Assumptions Adopted in the Preparation of Prospective Financial Statements

The Guardians' forecast is based on the key assumption that the headcount for the Guardians will increase from 42 to 58 full-time equivalent employees.

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

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

NEW ZEALAND SUPERANNUATION FUND

Prospective Income Statement For the year ending 30 June 2009

	$000
Revenue	386,668
Share of profit/(loss) of investments accounted for using the equity method	38,376
Other income	1,059,113
Expenses	
Manager fees	(91,529)
Custody fees	(6,000)
Guardians' operating expenses	(17,650)
Other expenses	(42,634)
Profit for the year before income tax expense	**1,326,344**
Income tax expense	(319,594)
Profit for the year after income tax expense	**1,006,750**

NEW ZEALAND SUPERANNUATION FUND

Prospective Balance Sheet
As at 30 June 2009

	$000
Assets	
Investments	
Cash and cash equivalents	1,651,947
Derivative financial instruments	7,679
Other financial assets	15,092,027
Investments accounted for using the equity method	609,098
Timber investments	386,846
Total investments	**17,747,597**
Trade and other receivables	95,757
Property, plant, and equipment	83,385
Total assets	**17,926,739**
Liabilities	
Trade and other payables	112,210
Provisions	66,991
Deferred tax liability	39,769
Total liabilities	**218,970**
Net assets	**17,707,769**
Equity	
Retained surplus	3,091,115
Foreign currency translation reserve	(24,133)
Land revaluation reserve	10,734
Contributed capital	14,630,053
Total public equity	**17,707,769**

NEW ZEALAND SUPERANNUATION FUND

Prospective Statement of Changes in Public Equity For the year ending 30 June 2009

	$000
Balance at 30 June 2008	**14,461,019**
Gain/(loss) on revaluation of land	-
Net income for the year recognised directly in equity	**-**
Profit for the year	1,006,750
Total recognised revenue and expense for the year	**1,006,750**
Fund capital contributions from the Crown	2,240,000
Balance at 30 June 2009	**17,707,769**

NEW ZEALAND SUPERANNUATION FUND

Prospective Statement of Cash Flows
For the year ending 30 June 2009

	$000
Cash flows from operating activities	
Cash was provided from:	
Dividends received	267,871
Interest received	118,807
Receipts from customers	37,337
Cash was applied to:	
Manager fees	(73,621)
Payments to suppliers	(62,665)
Income tax paid	(319,594)
Net cash provided by/(used in) operating activities	**(31,875)**
Cash flows from investing activities	
Cash was provided from:	
Proceeds from the sale of investments	15,112,545
Cash was applied to:	
Payment for the purchase of investments	(16,188,529)
Net cash provided by/(used in) investing activities	**(1,075,984)**
Cash flows from financing activities	
Cash was provided from:	
Capital contributions from the Crown	2,240,000
Net cash provided by/(used in) financing activities	**2,240,000**
Net increase/decrease in cash and cash equivalents	**1,132,141**
Cash and cash equivalents at the beginning of the year	519,806
Effects of exchange rate changes on foreign currency cash	-
Cash and cash equivalents at the end of the year	**1,651,947**

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies

GENERAL INFORMATION

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

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

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

The Fund is domiciled in New Zealand and the address of its principal place of business is AMP Centre, 29 Customs Street West, Auckland.

STATEMENT OF COMPLIANCE

The Fund is a profit-oriented entity. The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (IFRS).

The prospective financial statements of the Fund for the year ended 30 June 2009 were authorised for issue in accordance with a resolution of the Board on 5 May 2008.

BASIS OF PREPARATION

The prospective financial statements have been prepared in accordance with the Act and comply with *Financial Reporting Standard No. 42: Prospective Financial Statements.*

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

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

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

The following particular accounting policies which materially affect the measurements in the prospective income statement and prospective balance sheet have been applied:

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

a) Budget figures

The budget was approved by the Board at the beginning of the year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Fund.

(b) Capital contributions

(i) Fund capital contributions

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

(ii) Superannuation entitlement payments

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

(c) Capital withdrawals

(i) Fund capital withdrawals

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

(ii) Superannuation entitlement payments

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

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

(d) Income tax

In accordance with section 76 of the Act, the Fund is treated as if it is a body corporate for tax purposes and is therefore subject to income tax on any income derived from investments, and that income is treated as gross income of the Fund under the Income Tax Act 2004.

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

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

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

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

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

- except for a deferred income tax liability arising from the initial recognition of goodwill;
- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except that deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(e) Financial instruments

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

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

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

(f) Investments

Investments are represented by the following:

- Loans and receivables at amortised cost – i.e. cash
- Financial assets designated as at fair value through profit or loss, and held for trading at fair value through profit or loss:

• Equities	i)
• Fixed interest securities	ii)
• Forward foreign exchange contracts	iii)
• Futures contracts	iii)
• Equity swaps	iii)
• Commodity swaps	iii)
• Multi-strategy funds	iv)
• Private equity funds	v)
• Unlisted unit trusts	vi)

– Financial assets “available for sale” at cost:
private equity (for which fair value is not reliably measurable) vii)

– Investments accounted for using the equity method (refer accounting policy (g) below)

– Investment properties (refer accounting policy (h) below)

– Timber investments – forests (refer accounting policy (i) below)

Financial instrument investments (other than investments accounted for using the equity method) are initially recognised at fair value on a trade date basis. Transaction costs, for example trading commission, are expensed immediately in the income statement. Subsequent to initial recognition, investments are recorded at fair value and are classified in the category “at fair value through profit or loss” except for certain private equity investments as outlined below. The Fund manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy and information about the investments is provided internally on this basis to the Fund’s key management personnel. Changes in fair value are recognised in the income statement.

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

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

ii) Fixed interest securities are valued at the last quoted bid price on the relevant exchange as of the close of business at balance date.

iii) Fair value for over-the-counter derivatives is outlined under “Derivatives” below.

iv) Investments in multi-strategy funds (unlisted investment funds) are valued at the last bid price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying securities of the fund.

v) Investments in private equity funds (unlisted investment funds) are valued at the last price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of underlying portfolio company investments in the fund. These fair values are determined using a variety of methods, including independent valuations, valuation models based on the price of recent investments, earnings multiples or discounted cash flows. Where no reliable fair value can be estimated using such techniques, private equity investments are carried at cost less any provision for impairment as outlined under vii) below.

vi) Investments in unlisted unit trusts are stated at the last bid price of the unit or security as provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying securities of the fund.

vii) Certain private equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured using the valuation methods outlined above and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment. Transaction costs are included in the cost of the investment.

Derivatives

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

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

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the balance sheet date using discounted cash flow analysis or option pricing models taking into account current market conditions and the current creditworthiness of the counterparties.

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

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

The fair value of commodity swaps and equity swaps is provided by the investment manager and is calculated by reference to the movement in the underlying index. Commodity swaps and equity swaps are settled net in cash.

(g) Investments in associates

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

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

At inception, the Fund's associates are either designated at fair value through profit or loss under *NZ IAS-39 Financial Instruments: Recognition and Measurement* (in accordance with paragraph 1 of *NZ IAS-28 Investments in Associates*) or are designated as associates and equity accounted in accordance with *NZ IAS-28 Investments* in Associates.

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

(h) Investment properties

Initially, investment properties are measured at cost including transaction costs.

Subsequent to initial recognition, investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on the derecognition of an investment property are recognised in the income statement in the year of derecognition.

The fair value of investment properties is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value unless there is evidence of a significant change in value.

(i) Timber investments - forests

Forest assets are predominantly standing trees. These are recognised in the balance sheet at fair value less estimated point of sale costs at harvest. The costs to establish and maintain the forest assets are included in the income statement together with the change in fair value for each accounting period.

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

The fair value of the forest assets is measured as the present value of cash flows from one growth cycle based on productive forest land, taking into consideration environmental, operational, and market restrictions. Forests are valued separately from the underlying freehold land.

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

(j) Receivables

Short term receivables are stated at their estimated realisable value after providing for doubtful and uncollectible debts.

(k) Property, plant, and equipment

Initial recording

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

Subsequent measurement

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

Land is measured at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate).

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

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

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

Independent valuations of land are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Disposal

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

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

Impairment

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

Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down to its recoverable amount. The write-down is recognised in the statement of financial performance unless it relates to land, in which case it is treated as a revaluation decrease.

NEW ZEALAND SUPERANNUATION FUND

Summary of Significant Accounting Policies (cont.)

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

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

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

Held for sale

Items of property, plant, and equipment classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Items of property, plant, and equipment are classified as 'held for sale' if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The sale of the asset is expected to be completed within one year from the date of classification.

(l) Depreciation

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

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

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

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

(m) Intangible assets

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

(n) Payables

Short term payables are not interest bearing and are stated at their nominal value.

Summary of Significant Accounting Policies (cont.)

(o) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

(p) Income recognition

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

For financial instruments measured at fair value, interest income is recognised on an accrual basis, either daily or on a yield to maturity basis.

Dividend income is recognised when the shareholders' right 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 income statement.

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

Stock-lending fees are recognised as earned.

Rental income is recognised on a straight-line basis over the lease term, taking into account any lease incentives.

(q) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currency at balance date are translated at the rate of exchange ruling as at that date. The resulting exchange differences are recognised in the income statement. Foreign exchange gains and losses for fair value through profit or loss investments are included within the change in their fair value.

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

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

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

On disposal of an independent foreign operation, the accumulated amount of the exchange differences taken to the foreign currency translation reserve that relate to the foreign operation are transferred out of the foreign currency translation reserve and recognised in the income statement when the gain or loss on disposal of the foreign operation is recognised.

(s) Statement of cash flows

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

- *Operating activities* include all transactions and other events that are not investing or financing activities.
- *Investing activities* are those activities relating to the acquisition, holding, and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.
- *Financing activities* are those activities relating to capital contributions and to payments of superannuation entitlements (from 2020). As the current funding of superannuation entitlements by the Crown flows directly from the Treasury to the Ministry of Social Development it is not considered cash flow of the Fund and is accordingly not recorded in the statement of cash flows.
- *Cash and cash equivalents* include cash balances on hand, held in bank accounts, demand deposits, and other highly liquid investments with an original maturity of three months or less.

(t) Goods and Services Tax (GST)

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

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

Changes in accounting policies

There have been no changes in accounting policies. All policies are consistent with prior year.

NEW ZEALAND SUPERANNUATION FUND

Significant Assumptions Adopted in the Preparation of Prospective Financial Statements

Capital contributions from the Crown are determined using The Treasury's funding model which in turn relies on a number of macroeconomic and government budgetary factors, and the past performance of the Fund.

Investment returns for the forecast period are based on internal modelling of 10-year returns.

The distribution of investments between various categories is driven by the Fund's SAA, last updated in November 2007.

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

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

Material differences between the forecast and actual returns will occur due to two major factors:

1. investment markets generate returns at a level that is greater or lesser than the rate assumed in this forecast; and
2. foreign currency movements.

APPENDIX – GLOSSARY

New Zealand Superannuation and Retirement Income Act 2001 (Act): This Act defines current entitlements to New Zealand Superannuation; establishes the New Zealand Superannuation Fund (Fund) with sufficient resources to meet the present and future cost of New Zealand Superannuation; provides for Crown contributions to the Fund; establishes a Crown entity to manage and administer the Fund called the Guardians of New Zealand Superannuation; establishes a process for signalling political agreement on parameters for New Zealand Superannuation entitlements and fundings; and brings together in one Act all of the provisions for each of those matters.

Crown entity: A type of organisation that forms part of New Zealand's state sector, which is managed consistent with the requirements of the Crown Entities Act 2004.

Guardians of New Zealand Superannuation (Guardians): An autonomous Crown entity which manages, administers, and invests the New Zealand Superannuation Fund (established under the New Zealand Superannuation and Retirement Income Act 2001).

Board of the Guardians of New Zealand Superannuation (Board): A body responsible for setting the investment policies of the New Zealand Superannuation Fund and for overseeing its operations. The Board must consist of at least five, but not more than seven members appointed by the Governor-General on the recommendations of the Minister of Finance (established under the New Zealand Superannuation and Retirement Income Act 2001).

New Zealand Superannuation Fund (Fund): A Crown-owned fund financed by capital contributions from the Crown, to assist future Governments to meet the cost of providing retirement income to New Zealanders (established under the New Zealand Superannuation and Retirement Income Act 2001).

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

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

Active return: Return relative to a benchmark. If a portfolio's return is 5.0%, and the benchmark's return is 3.0%, then the portfolio's active return is 2.0%.

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

Asset classes: Categories of assets, such as shares, bonds, real estate.

Asset mix: The proportion of assets held in the portfolio in percentage terms.

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

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

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

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

GLOSSARY (cont.)

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

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

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

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

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

Fixed interest securities: Fixed interest securities generate a predictable stream of interest, and include bonds, bank bills, floating rate notes, and negotiable certificates of deposit.

Fund manager (also asset manager): Invests and manages the assets of others.

Governance issues: Issues relating to corporate governance or business ethics relevant to companies and their shareholders, boards, managers, and employees.

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

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

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

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

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

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

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

Private market: A market where capital is raised by specific agreement between investors. The terms of each transaction are negotiated separately, and usually remain private and are not disclosed to third parties. These markets tend to transact infrequently, so prices are not readily observable. Private markets can encompass collective vehicles, including both open- and closed-end funds, as well as directly owned investments. Almost all private equity falls under this definition, but private markets also includes many investments in other areas, such as real estate, infrastructure, and timber.

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

Public market: Any financial market, open to most or all investors, where securities or related derivatives are traded.

GLOSSARY (cont.)

This would include, for example, any recognised stock exchange, most bond, currency, and futures markets. It will also extend to over-the-counter markets where related derivative products are transacted. Public markets usually include a governing body, prescribed rules, regulations, and form in which transactions are conducted.

Responsible investment: The integration of environmental, social, and governance considerations into investment management processes and ownership practices.

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

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

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

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

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

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

Strategic tilting: Altering asset allocation weights as expected returns change over time.

Swaps: Agreements between counterparties to exchange (swap) cash flows of their respective notional obligations so as to manage cash flows more effectively.

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

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