

DBP Contributors Scheme

On behalf of the Board of Trustees of the National Provident Fund, set out below is a report on the performance and activities of your Scheme for the year ended 31 March 2023. Further information on the National Provident Fund's activities, and commentary on investment markets, is set out in the Chair's letter.

Your Scheme

CROWN GUARANTEE

The DBP Contributors Scheme is a defined benefit scheme. The benefits payable by your Scheme are guaranteed by the Crown.

INVESTMENT PERFORMANCE

The asset class returns (before tax and expenses) and the comparative performance of the benchmark indices are shown in the table below.

Asset Class	Return*	Index
Fixed interest (global)	(5.49%)	(4.89%)
Fixed Interest (New Zealand) *	(3.66%)	(5.79%)
Overseas shares	0.13%	(2.77%)
Cash*	3.16%	3.11%

* The asset allocation for the Scheme was changed effective 1 July 2022. The annual returns for these two asset classes for the year ended 31 March 2023 include index returns for the period 1 April 2022 to 1 July 2022 and actual returns from 1 September 2022 to 31 March 2023.

The investment return (after tax and expenses) earned by the Scheme for the year ended 31 March 2023 was (3.07%) (2022: 0.44%). In dollar terms, this represents investment loss of \$673,000 (2022 investment gain: \$384,000).

Around the world the ongoing impacts of the Covid-19 pandemic, central banks' response to address rising inflation and heightened geo-political instability, most noticeably evident in the ongoing conflict in Ukraine, have led to a significant economic slowdown and financial

market volatility. The impact of these factors is likely to continue into the foreseeable future with flow on impact on the returns from the Scheme's investments. The Board continues to monitor the impact of the movements in the market, and the implication for investment strategy, on an ongoing basis.

See the comparison over the page for the key statistics of your Scheme over the last 10 years. For an overview of the financial performance of the Scheme, refer to the tables on the following pages.

Annual Report for the year ended 31 March 2023

SUMMARY FINANCIAL STATEMENTS

The summary financial statements included in this Annual Report have been extracted from the full financial statements for the year ended 31 March 2023.

The summary financial statements cannot be expected to provide as complete an understanding as the full financial statements.

Members are welcome to view the full financial statements on our website - www.npf.co.nz/members/schemes - or contact the Scheme administrator, Datacom (see details on back page), for a free copy of the Scheme's full financial statements.



DBP Contributors Scheme

EMPLOYER CONTRIBUTION RATE

Each year the Board's Actuary carries out a review of the Scheme to determine an employer contribution rate sufficient to meet the accrued and future liabilities of the Scheme.

The employer contribution rate applicable from 1 April 2023 is four times contributors' contributions. The rate will be reviewed again at 31 March 2023 and any change would be implemented from 1 April 2024.

FUNDING POSITION

The Actuary has advised the funding level of the Scheme, as at 31 March, was:

	2023 Zero Sovereign Bond Curve Basis (\$000)	2022 Zero Sovereign Bond Curve Basis (\$000)	2023 Funding Basis (\$000)	2022 Funding Basis (\$000)
Net assets	21,340	34,165	21,340	34,165
Past service liabilities	(21,515)	(35,454)	(21,107)	(34,760)
Funding level*	99.2%	96.4%	101.1%	98.3%

* The funding level has been calculated on two bases. The funding basis used a discount rate of 4.1% p.a (2022:3.1% pa) net of tax and investment related expenses. The zero Sovereign bond curve basis uses the zero Sovereign bond yields net of tax and investment expenses, which have increased between 31 March 2022 and 31 March 2023, reducing the value of the liabilities.

WHO INVESTS YOUR MONEY

Cash

Macquarie Asset Management (NZ) Limited
(terminated 7 March 2023)

Fixed Interest Managers

Brandywine Global Investment Management, LLC
Macquarie Asset Management (NZ) Limited
Pacific Investment Management Company, LLC
PGIM, Inc.

New Zealand Equity Managers

Devon Funds Management Limited
Harbour Asset Management Limited

Overseas Equity Managers

Arrowstreet Capital, Limited Partnership
Lazard Asset Management, LLC

Russell Investment Management Limited
(terminated 14 June 2022)

T. Rowe Price Australia Limited

Foreign Exchange Currency Hedging Manager

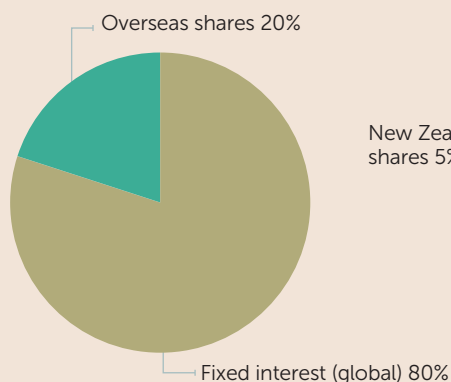
Bank of New Zealand Limited

HOW YOUR MONEY IS INVESTED

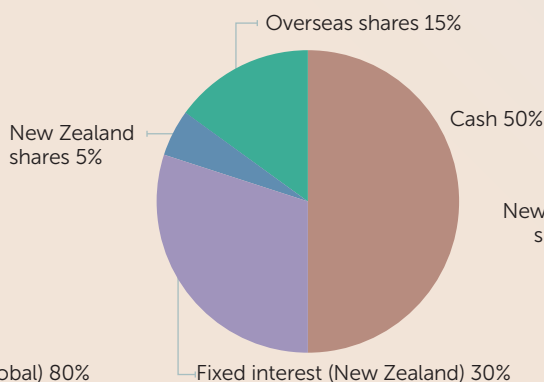
The Scheme's strategic asset allocation is set by the Board and reviewed regularly. The asset allocation strategy for the Scheme was reviewed during 2022 and the Board determined to adopt a new asset allocation from 1 July 2022. The asset allocation was further reviewed in December 2022 and amended as shown below effective from 1 February 2023. The pie charts below show the Scheme's asset allocation strategy as at 31 March 2022, amended strategy effective from 1 July 2022 and the new asset allocation strategy effective from 1 February 2023 (and current as at 31 March 2023).

The Board's Statement of Investment Policies, Standards and Procedures (SIPSP) is reviewed regularly by the Board. During the year the SIPSP was updated and there were no significant changes to the SIPSP relating to the Scheme, other than to reflect new asset allocation strategy effective from 1 February 2023. See our website, www.npf.co.nz, for more information about your Scheme, including the Board's SIPSP and the Scheme trust deed.

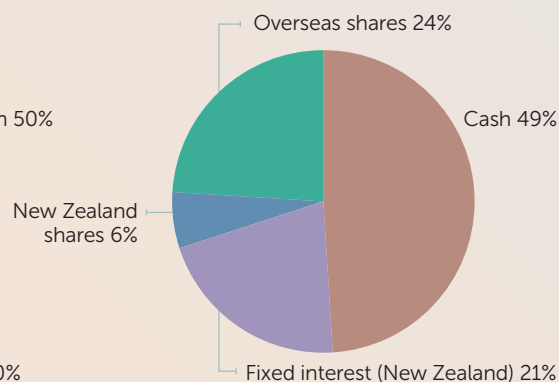
**Asset Allocation Strategy from
31 March 2022**



**Asset Allocation Strategy from
1 July 2022**

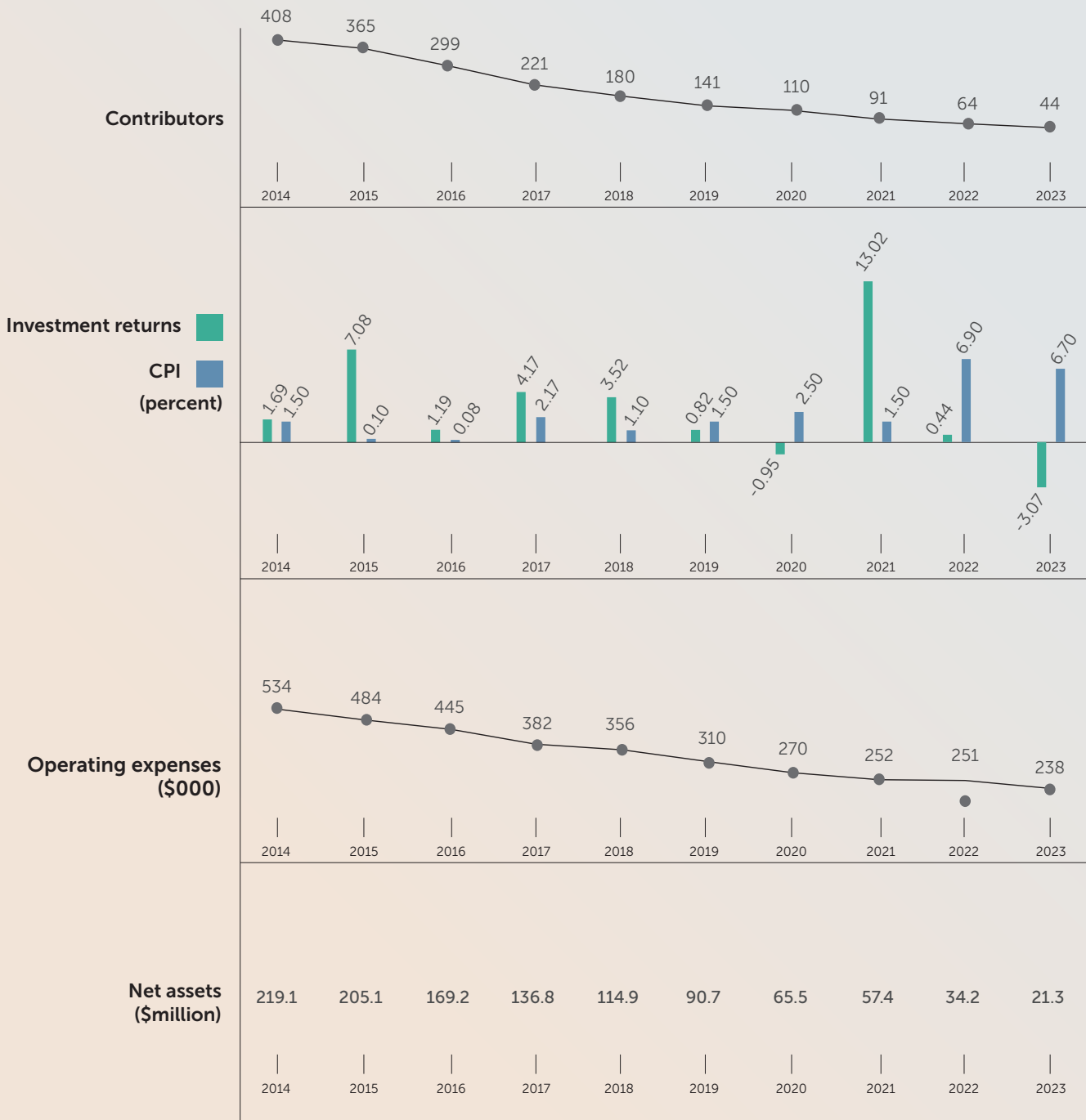


**Asset Allocation Strategy from
1 February 2023 (and current
as at 31 March 2023)**



DBP Contributors Scheme

10 year comparison



DBP Contributors Scheme (the Scheme)
Statement of Changes in Net Assets
for the year ended 31 March 2023

	Note	2023 (\$'000)	2022 (\$'000)
Investment income			
(Loss)/income from unit funds	5	(742)	370
Interest received		69	14
Total investment (loss)/income		(673)	384
Operating expenses			
Actuarial fees		85	82
Audit fees		22	20
Bank fees		-	1
Board member expenses	6	34	33
Management expenses	6	97	115
		238	251
Net (loss)/income before tax and membership activities		(911)	133
Income tax credit	7	47	67
Net (loss)/income after tax and before membership activities		(864)	200
Scheme receipts	1		
Contributor contributions		210	319
Employer contributions		526	835
Total scheme receipts		736	1,154
Scheme payments			
Transfers to DBP Annuitants Scheme	4	10,342	12,863
Transfers to other schemes		2,354	11,687
Withdrawals		1	8
Total scheme payments		12,697	24,558
Net membership activities		(11,961)	(23,404)
(Decrease) in net assets for the year	10	(12,825)	(23,204)
Net assets available to pay benefits at beginning of year		34,165	57,369
Net assets available to pay benefits at end of year		21,340	34,165

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

DBP Contributors Scheme (the Scheme)
Statement of Net Assets
as at 31 March 2023

	Note	2023 (\$000)	2022 (\$000)
Investment assets at fair value through profit or loss	3		
Units held in:			
Cash unit fund		9,850	-
Fixed Interest unit fund		-	29,396
New Zealand Equity unit fund		1,186	-
Overseas Equity unit fund		4,938	7,266
Fixed Interest No 2 unit fund		4,201	-
		20,175	36,662
Financial assets at amortised cost			
Cash		1,196	(2,505)
Contributions receivable - employers		10	36
Deferred Tax	7	47	-
Other receivables	9	17	9
Receivable from the Global Asset Trust	8	-	67
		1,270	(2,393)
Total assets		21,445	34,269
Current liabilities at amortised cost			
Other payables		105	104
Total liabilities		105	104
Net assets available to pay benefits		21,340	34,165

Authorised for issue on 6 July 2023

On behalf of the Board of Trustees of the National Provident Fund.



Edward Schuck
Board Chair



Louise Edwards
Chair
Audit and Risk Review Committee

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

DBP Contributors Scheme (the Scheme)
Statement of Cash Flows
for the year ended 31 March 2023

	Note	2023 (\$'000)	2022 (\$'000)
Cash flows from operating activities¹			
Cash was provided from:			
Contributor contributions		217	352
Employer contributions		543	918
Interest received		69	14
		829	1,284
Cash was applied to:			
Operating expenses		178	110
Transfers paid to DBP Annuitants Scheme		10,342	12,863
Transfers paid to other schemes		2,352	11,689
Withdrawals		1	8
		12,873	24,670
Net cash flows used in operating activities	10	(12,044)	(23,386)
Cash flows from investing activities²			
Cash was provided from sale of units in:			
Cash unit fund		6,275	-
Fixed Interest No 2 unit fund		2,628	-
Fixed Interest unit fund		29,263	12,494
New Zealand Equity unit fund		402	-
Overseas Equity unit fund		4,130	5,877
		42,698	18,371
Cash was applied to purchase units in:			
Cash unit fund		15,912	1
Fixed Interest No 2 unit fund		6,820	-
Fixed Interest unit fund		871	2,500
New Zealand Equity unit fund		1,573	-
Overseas Equity unit fund		1,777	1,136
		26,953	3,637
Net cash flows from investing activities		15,745	14,734
Net increase/(decrease) in cash held		3,701	(8,652)
Add opening cash brought forward		(2,505)	6,147
Closing cash carried forward³		1,196	(2,505)

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- 1 Operating Activities: Includes any activities that are the result of normal business activities not classified as investing activities.
- 2 Investing Activities: Comprises acquisition and disposal of units in the GAT.
- 3 Cash: Comprises cash balances held with banks in New Zealand.

The notes to the financial statements on pages 4 to 14 form an integral part of these financial statements.

**DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023**

1 DESCRIPTION OF THE SCHEME AND FUNDING ARRANGEMENTS

The Scheme is a defined benefit scheme, governed by a Trust Deed. The Scheme is deemed to be registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 (FMCA).

The Scheme is funded on the principle of aggregate funding. Under this principle, the value of the employer's future contributions is the balancing item between the actuarial value of the contributors' current and future benefits, and the value of contributors' future contributions and the market value of the Scheme's net assets.

The Scheme Trust Deed sets out the rates of contributors' contributions. In general, for former contributors to:

- The Local Authorities Standard section of the Scheme, the Fire Service section of the Scheme and the Nursing Services section of the Scheme, contribution rates range from 6% to 11% of the contributor's salary (as defined in the trust deed), depending on the contributor's age of joining the Scheme, and
- The Defined Benefit Plan, the contribution rate is 6.5% of the contributor's salary (as defined in the trust deed).

The employer contribution rate applicable from 1 April 2023 is four times contributors' contributions. The rate will be reviewed again at 31 March 2023 and any change would be implemented from 1 April 2024.

2 RELATED PARTIES

Under the terms of the National Provident Fund Restructuring Act 1990 (the Act), the Board is Trustee of the Scheme. Members of the Board are appointed by the Minister of Finance.

The Board and the Government Superannuation Fund Authority (the Authority) have formed a joint venture company, Annuitas Management Limited (Annuitas). Each organisation has entered into a management services agreement with Annuitas. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

Edward Schuck and Sarah Park are the two Board appointed directors of Annuitas.

The Board is also the Trustee of the Global Asset Trust (the GAT), which holds the assets of all the National Provident Fund Schemes. The GAT is divided into separate unit funds, representing various asset classes, which have issued units to the Board, as Trustee of the Scheme, according to the Strategic Asset Allocation Strategy (refer note 3).

There were no transactions between members of the Board or management, as individuals, and the Scheme.

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

3 STRATEGIC ASSET ALLOCATION (SAA) - INVESTMENT

The Scheme is authorised to invest only in the Global Asset Trust (the GAT) or in bank deposits. The GAT is divided into separate unit funds representing various asset classes.

Investment assets have been designated at fair value through profit or loss upon initial recognition. These are managed and their performance evaluated, on a fair value basis. This is consistent with the Scheme's documented investment strategy. The assets are investments in units in the GAT which, in turn, invest in equities, fixed interest and debt instruments.

The fair value of the units held by the Scheme in the GAT is based on the valuation of the financial instruments held by the GAT. The fair value of these financial instruments is based on exit prices at balance date without any deduction for future selling costs. If the exit price for an instrument is not available on a recognised exchange the fair value is estimated taking into account comparable markets and specialist advice.

The benchmark asset allocations as at 31 March 2023 and 31 March 2022 are shown below.

	2023 (%)	2022 (%)
Cash unit fund	49.0	-
Fixed Interest No 2 unit fund	21.0	-
Fixed Interest unit fund	-	80.0
New Zealand Equity unit fund	6.0	-
Overseas Equity unit fund	24.0	20.0

4 TRANSFER OF ASSETS TO DBP ANNUITANTS SCHEME

When a contributor, or other beneficiary of the Scheme, elects to be paid a pension, or other retirement benefit, the contributor or other beneficiary becomes a member of the DBP Annuitants Scheme. At the same time, assets with a market value equal to the liability of the DBP Annuitants Scheme to pay the benefit attributable to that person's membership, are transferred from the Scheme to the DBP Annuitants Scheme.

5 INCOME FROM UNIT FUNDS

Income from unit funds is derived from the changes in value of units held by the GAT and reflects both realised and unrealised gains and losses. The income stated is net of expenses (including investment management and custodial fees) directly related to investment activities. The income per unit fund is as follows:

	2023 (\$000)	2022 (\$000)
Cash Unit fund	213	-
Fixed Interest unit fund	(1,003)	(545)
New Zealand Equity unit fund	15	-
Fixed Interest No 2 unit fund	33	915
(Loss)/income from unit funds	<u>(742)</u>	<u>370</u>

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

6 MANAGEMENT AND BOARD MEMBER EXPENSES

Management expenses comprise administration fees charged by Datacom Connect Limited, and a share of the expenses of the Board. The Board member expenses are split evenly between the schemes.

7 INCOME TAX

Income specific to the Scheme is subject to tax at 28%, after allowing for deductible expenses. The income tax reconciliation is as follows:

	2023 (\$000)	2022 (\$000)
Scheme specific income	68	14
Deductible expenses	(238)	(251)
Expense election to the GAT	-	237
Taxable income	(170)	-
Net (loss)/income before tax and membership activities	(911)	133
Tax at 28%	(255)	37
Adjusted for tax effect of:		
Non-deductible expenditure/(on-assessable income)	208	(104)
Income tax credit	(47)	(67)
Represented by:		
Income tax credit on current year (loss)	(47)	(67)
Prior year adjustment	-	-
Income tax credit	(47)	(67)
Movement in deferred taxation		
Opening balance	-	-
Prior period adjustment	-	-
Current year movement	47	-
Deferred tax asset	47	-

7 INCOME TAX (CONTINUED)

The deferred tax asset is a result of tax losses available to carry forward. The tax losses consist of surplus deductible expenses which the Scheme will transfer to the GAT under section DV 2 of the Income Tax Act 2007 in a future income year. The GAT is subject to tax at the rate of 28%.

8 RECEIVABLE FROM THE GAT

The 2022 receivable represents the outstanding tax credits, (refer note 7), utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under the Tax Act. The Scheme realised the receivable by investing in unit funds of the GAT.

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

9 OTHER RECEIVABLES

Other receivables consist of:

	2023 (\$000)	2022 (\$000)
Management fee refund	<u>17</u>	<u>9</u>
Total other receivables	<u>17</u>	<u>9</u>

10 RECONCILIATION OF (DECREASE) IN NET ASSETS FOR THE YEAR TO NET CASH FLOWS USED IN OPERATING ACTIVITIES

	2023 (\$000)	2022 (\$000)
(Decrease) in net assets for the year	(12,825)	(23,204)
Movement in working capital		
Change in accounts payable	1	3
Change in other receivables	(8)	1
Change in contributions receivable	<u>26</u>	<u>114</u>
	19	118
Add non-cash items		
Movement in receivable from the GAT	67	70
Movement in deferred tax	<u>(47)</u>	<u>-</u>
	20	70
Items classified as investing activities		
Loss/(income) from unit funds	<u>742</u>	<u>(370)</u>
	742	(370)
Net cash flows used in operating activities	<u>(12,044)</u>	<u>(23,386)</u>

11 GUARANTEED BENEFITS

Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

12 ACTUARIAL EXAMINATION, REVIEW AND VESTED BENEFITS RATIO – 31 MARCH 2023

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013 (refer note 13). The most recent statutory actuarial examination was carried out as at 31 March 2021 and the results of that examination are summarised in note 13. This examination showed the funding level of the Scheme was 102.2% at 31 March 2021. The funding level is the ratio of the net assets to the value of past service liabilities.

There is a review each year, which takes into account updated membership information and updated assumptions. The reviews at 31 March 2023 and 31 March 2022 showed the funding level, using the expected investment returns, had reduced to 101.1% and 98.3% respectively. The funding level is also calculated as if the assets were invested in Government bonds. On that basis the funding levels were lower, being 99.2% at 31 March 2023 and 96.4% at 31 March 2022.

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

12 ACTUARIAL EXAMINATION, REVIEW AND VESTED BENEFITS RATIO – 31 MARCH 2023 (CONTINUED)

In addition, an actuarial review of the Scheme is undertaken annually. The results of the most recent actuarial review of the Scheme, as at 31 March 2023, are set out below for the funding level and vested benefits ratio.

For the examination and the reviews, the most financially significant assumptions are:

- the allowance for future administration expenses, which at 31 March 2023 was moved from being substantially included in the past service liabilities to being included in future service liabilities.
- the difference between the future investment returns and the rates of CPI inflation assumed when calculating future factors for transfers from this Scheme to the DBP Annuitants Scheme, which have increased between 31 March 2022 and 31 March 2023, reducing the value of the liabilities.
- the pensioner mortality assumptions assumed when calculating future factors for transfers from this Scheme to the DBP Annuitants Scheme. At 31 March 2023 these were based on the results of a recent pensioners' mortality investigation. In each case they include an allowance for improving mortality.
- the future investment returns assumed for the Scheme over the next ten years (4.1% per annum, as at 31 March 2023; 3.1% per annum, as at 31 March 2022).

Vested Benefits Ratio – 31 March 2023

The vested benefits are the benefits contributors would have been entitled to if they left the Scheme on the valuation date.

The total value of vested benefits is determined by the Actuary as the sum of the greater of, for each contributor:

- the value of the benefit to which the contributor would have been entitled, had the contributor resigned from his or her contributing employer (resignation basis), as at 31 March 2023 assuming:
 - pension entitlement for those entitled to a pension; the value of pension entitlement is taken as the amount which would have been transferred to the DBP Annuitants Scheme. Contributors are assumed to commute 15% of the pension for a cash lump sum
 - lump sum entitlement based on a refund of contributions with interest, and
- the transfer value the contributor would have received if the contributor had transferred out of the Scheme (transfer basis) on 31 March 2023.

The vested benefits ratio of the Scheme is the ratio of the net assets available to pay benefits to the value of vested benefits.

The vested benefits ratio calculated, as at 31 March, is shown below:

Vested benefit – funding basis	31 March 2023	31 March 2022
Present value of	\$000	\$000
Vested benefits	(24,698)	(36,334)
Net assets	21,340	34,165
Deficit	(3,358)	(2,169)
Vested benefits ratio	86.4%	94.0%

This table should be read in conjunction with note 11.

The most financially significant assumptions are the same as shown above.

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

13 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2021

Under the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013 a statutory actuarial examination of the Scheme is required every three years.

The most recent statutory actuarial examination was prepared, as at 31 March 2021, by Christine Ormrod BA FNZSA FIA, the Actuary to the Scheme, and is dated 14 October 2021. It covers the three years 31 March 2018 to 31 March 2021.

The following table shows the summary results of the valuation on the funding basis:

Valuation date	2021 (\$000)	2018 (\$000)
Present value of -		
Past service liabilities	(56,107)	(116,766)
Net assets	<u>57,369</u>	<u>114,853</u>
Past service surplus/(deficit)	1,262	(1,913)
 Future service liabilities	 (2,634)	 (8,686)
Contributors' future contributions	<u>1,049</u>	<u>3,297</u>
Net future service liability	(1,585)	(5,389)
 Total service (deficit)	 <u>(323)</u>	 <u>(7,302)</u>
 Funding level (net assets/ past service liabilities)	 102.2%	 98.4%
 Employer contribution rate (future service), as a multiple of contributor contributions	 2.5	 2.4

The above figures are rounded and so may not appear to add exactly.
This table should be read in conjunction with note 11.

The total service deficit is the amount the Scheme is expected to require to meet its liabilities in addition to contributors' future contributions. It is calculated on the basis future experience is as assumed and the assumptions do not change in the future. Employer Superannuation Contribution Tax would need to be paid in addition, indicating the valuation shows that a future employer contribution of \$0.5 million will be required (\$0.3 million plus \$0.2 million tax).

There was a significant improvement in the financial position of the Scheme over the three years.

In the report on the examination the Actuary recommended:

- An employer contribution rate of between two and four times contributor contributions:
 - If the Board remained with the current investment strategy, the Actuary recommended an employer contribution rate of two times contributor contributions. This is higher than the theoretical employer contribution rate to make allowance for some of the factors which could lead to an increase in the employer contribution rate in the future.
 - If the Board moves to a conservative investment strategy as indicated, the Actuary recommended that the employer contribution rate be retained at four times contributor contributions. This would result in no change to the employer contribution rate.

DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023

13 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2021 (CONTINUED)

- An actuarial valuation of the Scheme at 31 March 2022 to review the employer contribution rate.
- The Board does not amend the trust deed to increase the benefits payable from the Scheme.
- The Board determines what it considers the maximum reasonable employer contribution rate is, in the event that the Scheme position deteriorates in the future.
- The Board proceeds with the planned review of the investment strategy and repeats this review not later than the end of 2024.
- The Board continues to ensure contributors who have reached age 65 are advised of the implications of remaining in the Scheme after age 65 as it is not necessarily in the contributor's best interests to remain in the Scheme after age 65.

The Board accepted the recommendations of the Actuary and the employer contribution rate is maintained at four times contributor contributions. The Board has reviewed the investment strategy and adopted a more conservative investment strategy.

The ratio of the net assets to the value of past service liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and the past service liabilities of the Scheme, as at the date of valuation. The funding level of the Scheme on the funding basis, as at 31 March 2021, was 102.2%. This showed the Scheme had sufficient assets, as at that date, to meet its past service liabilities under the valuation assumptions.

The funding level was expected to increase to 104.7%, by 31 March 2022 and 108.6% by 31 March 2024. This assumed the experience of the Scheme would be in line with the valuation assumptions and that employer contributions would be four times contributor contributions from 1 April 2021. However:

- As contributors can elect a transfer benefit or their pension entitlement, the financial position of the Scheme is impacted by the number of contributors electing the different benefits and their relative values.
- The funding level is sensitive to changes in the expected future assumptions for the transfer of assets to the DBP Annuitants Scheme.
- The experience of the Scheme will inevitably be different to the assumptions to a greater or lesser extent and membership experience tends to reduce the funding level.
- The employer contribution is to be reviewed on an annual basis and is likely to change over the next three years.

Consequently, the actual future funding level is difficult to predict.

The value of net assets was 96.9% of the value of the vested benefits, as at 31 March 2021. The sum of the value of benefits on the transfer basis is designed to equal the net assets of the Scheme. As the value of vested benefits is calculated for each contributor as the greater of the transfer basis and the resignation basis, the total value of vested benefits is expected to continue to be greater than the net assets of the Scheme.

**DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023**

13 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2021 (CONTINUED)

The most significant actuarial assumptions used by the Actuary were:

- The difference (0.2% per annum to 31 March 2031 and 1.1% per annum thereafter) between the investment return and the rate of CPI inflation assumed when calculating future factors for the transfers from this Scheme to the DBP Annuitants Scheme.
- The future investment returns assumed over the next ten years (2.3% pa).

The Actuary did not express an opinion on the financial condition of the Scheme.

14 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the SAA determined for the Scheme (see note 3). The unit fund holds equity, fixed interest and debt instruments. These instruments are all measured at fair value.

Under *NZ IFRS 13: Fair Value Measurement* (NZ IFRS 13), disclosures for fair value instruments are required using a three-level fair value hierarchy. These tiers reflect the availability of observable market inputs. The scheme's investment in units of the GAT is classified as a level 2 investment as the unit prices are based on a net asset valuation derived from either quoted prices for similar assets or unquoted but observable inputs.

The Scheme's major risk in relation to its investment in the GAT is the price risk that the value of its units may fluctuate. Other risks, such as market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk, are managed in the GAT.

For more information on the disclosures under NZ IFRS 13 and the risks mentioned above reference should be made to the financial statements of the GAT. A copy of the financial statements of the GAT can be viewed on the National Provident Fund's website (www.npf.co.nz).

The Board manages the other risks by determining a diversified SAA appropriate for the Scheme's liabilities. In addition, the Board selects the investment managers, sets their mandates and monitors performance against those mandates.

The long run investment return for the Scheme is estimated to be 3.9% per annum. The volatility is expected to be +/- 5.0%. This is based on the Scheme's SAA and the long term rate of return for each asset class (after investment management, custody fees and tax), and after deducting a provision for the Scheme's operating expenses (after tax).

15 SUBSEQUENT EVENTS

There were no material events subsequent to balance date requiring amendments to these financial statements.

**DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these financial statements.

16.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause F32 of the Scheme Trust Deed and in accordance with the FMCA. For a description of the Scheme and its funding arrangements see note 1.

16.2 STATEMENT OF COMPLIANCE

These financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and other applicable financial reporting standards as appropriate for profit-oriented entities.

16.3 MEASUREMENT BASE

The measurement base adopted is that of historical cost, except for investment assets which are stated at their fair value as set out below.

16.4 PRESENTATIONAL AND FUNCTIONAL CURRENCY

The financial statements are presented in New Zealand dollars, the Scheme's functional currency, rounded to the nearest thousand dollars (\$000).

16.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In compliance with NZ IFRS, preparation of the financial statements requires judgements, estimates and assumptions to be made that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

Judgement has been applied in the classification and measurement of financial assets. This policy has a significant impact on the amounts disclosed in the financial statements.

**DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

There are no material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of scheme assets at year end. Investment asset values are subject to variation due to market fluctuations. Receivables have been valued in accordance with NZ IFRS 9. Under this standard the scheme has adopted the simplified expected credit loss model.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period; or in the period of the revision and future periods, if the revision affects both current and future periods.

16.6 STANDARDS ISSUED BUT NOT EFFECTIVE

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2023 reporting periods and have not been adopted early by the Board. None of these standards are likely to have a material impact on the Scheme when they are adopted. All standards will be adopted in the period in which they become mandatory.

16.7 FINANCIAL INSTRUMENTS

Financial instruments include both financial assets and financial liabilities.

Financial assets include balances due from contributors, and receivables from related parties (if applicable).

Financial liabilities, measured at amortised cost, include accounts payable and bank overdrafts (if applicable).

16.8 RECOGNITION

The Scheme recognises financial assets and financial liabilities on the date the Scheme becomes a contractual party to the financial instruments.

16.9 MEASUREMENT

Financial assets that are classified at fair value through profit or loss are measured at fair value where all resulting gains or losses are recorded in the Statement of Changes in Net Assets.

Financial assets and financial liabilities are recorded at amortised cost using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

**DBP Contributors Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2023**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16.10 IMPAIRMENT

Financial assets which are recorded at amortised cost are reviewed at each financial statement date to determine whether there is objective evidence of impairment.

16.11 DERECOGNITION

The Scheme derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Scheme transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

16.12 CASH AND CASH EQUIVALENTS

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, where there is an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments.

16.13 CONTRIBUTIONS

Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

16.14 BENEFITS AND PENSIONS

Benefits are recognised in the Statement of Changes in Net Assets when a request for payment is made and all relevant criteria for payment has been met.

16.15 INVESTMENT INCOME RECOGNITION

Interest income is recognised using the effective interest rate of the instrument. Changes in the fair value on GAT unit funds are recognised in the Statement of Changes in Net Assets. Interest income on financial assets classified at fair value through profit or loss, is accrued at balance date.

16.16 EXPENSES

All expenses are recognised in the Statement of Changes in Net Assets on an accrual basis.

16.17 TAXATION

Any income or loss arising from the movement in the fair value of the unit funds of the GAT is received by the Scheme tax paid.

17 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

There have been no material changes to accounting policies during the year.

DBP Contributors Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2023

18 OTHER INFORMATION

The Board, as Trustee of the Scheme, provides members with the following information:

18.1 SCHEME MEMBERSHIP

Changes in the Scheme membership numbers during the year were as follows:

	Contributors
Opening membership as at 1 April 2022*	64
Deaths and disablements	(1)
Extinguished liabilities ⁺	-
Retirements	-
Transfer to DBP Annuitants Scheme	(12)
Transfers	(7)
Withdrawals	-
Closing membership as at 31 March 2023	44

* Following a trust deed amendment on 1 July 2005, once reasonable efforts have been made to locate a member, who has been missing for at least five years, the Board may extinguish the liabilities to that member.

⁺ Where a person re-establishes contact with the Board within 15 years of the liabilities to that person being extinguished, the person is reinstated as a member of the Scheme.

18.2 CONTRIBUTIONS RECEIVED AND BENEFITS PAID

On the basis of evidence available, the Board believes all contributions required to be made to the Scheme, in accordance with the terms of the Scheme Trust Deed, have been made.

The Board certifies that, to the best of its knowledge, all benefits required to be paid from the Scheme were paid in accordance with the terms of the Scheme Trust Deed.

18.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that the net market value of the Scheme's assets was less than the total value of the vested benefits of the Scheme, as at 31 March 2023 (refer note 12 to the financial statements).

18.4 INVESTMENT WITH PARTIES TO THE SCHEME

The Board confirms that, to the best of its knowledge, not more than 10% of the net market value of the Scheme assets were invested with the employers (or associated entities), either directly or indirectly, who are parties to the Scheme.

18.5 TRUST DEED

The Scheme Trust Deed has not been amended since 28 June 2022, being the date of the Scheme's last annual report.

**DBP Contributors Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2023**

18 OTHER INFORMATION (CONTINUED)

18.6 DIRECTORY

Trustee	<p>Board of Trustees of the National Provident Fund Members of the Board are: Edward Schuck (Board Chair) Graham Ansell Tracey Berry (Appointed 1 July 2022) Louise Edwards Lloyd Kavanagh (Appointed 1 July 2022) Daniel Mussett (Retired 30 June 2022) Sarah Park (Deputy Chair) Stephen Ward (Retired 30 June 2022)</p>
Administration manager	Datacom Connect Limited
Investment managers	<p>Cash Macquarie Asset Management (NZ) Limited (Terminated 7 March 2023)</p> <p>Fixed Interest Managers Brandywine Global Investment Management, LLC Macquarie Asset Management (NZ) Limited Pacific Investment Management Company, LLC PGIM, Inc.</p> <p>New Zealand Equity Managers Devon Funds Management Limited Harbour Asset Management Limited</p> <p>Overseas Equity Managers Arrowstreet Capital, Limited Partnership Lazard Asset Management, LLC Russell Investment Management Limited (Terminated 14 June 2022) T. Rowe Price Australia Limited</p> <p>Foreign Exchange Hedging Manager Bank of New Zealand Limited</p>
Actuary	Christine Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP
Auditor	Silvio Bruinsma, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand
Custodian	JP Morgan Chase Bank

**DBP Contributors Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2023**

18 OTHER INFORMATION (CONTINUED)

18.7 CORRESPONDENCE

All correspondence relating to the Scheme should be addressed to:

The Manager
National Provident Fund Administration
Datacom Connect Limited
PO Box 1036
WELLINGTON 6140

OR

The Secretary
Board of Trustees of the National Provident Fund
PO Box 3390
WELLINGTON 6140

For and on behalf of the Board of Trustees of the National Provident Fund.



Edward Schuck
Board Chair

6 July 2023

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DBP CONTRIBUTORS SCHEME

The Auditor-General is the auditor of DBP Contributors Scheme (the Scheme). The Auditor-General has appointed me, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Scheme on his behalf.

Opinion

We have audited the financial statements of the Scheme on pages 1 to 14, that comprise the Statement of Net Assets as at 31 March 2023, the Statement of Changes in Net Assets and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Scheme on pages 1 to 14:

- present fairly, in all material respects:
 - its net assets as at 31 March 2023 and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 6 July 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Trustees and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significant in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in informing our audit opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Actuarial deficit and valuation of the promised retirement liabilities (Note 12)

On 13 June 2023, the Scheme obtained an interim update letter as at 31 March 2023 from its actuary which showed vested benefits of \$24.7 million. This compared to the net assets of \$21.3 million resulting in a Scheme actuarial deficit of \$3.4 million.

The interim update letter uses the latest triennial valuation as at 31 March 2021 as a base and certain assumptions were updated with available latest information.

The interim update letter is inherently subjective and is affected by use of assumptions such as:

- The rate of future pension increases;
- Future investment returns;
- The discount rate; and
- Post-retirement mortality of the members.

As noted in Note 10, under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

We have included the actuarial deficit and valuation of the promised retirement liabilities as a key audit matter due to the significance of the disclosures to the financial statements and the subjectivity of the assumptions inherent in estimating the amount.

Our audit procedures included the following:

- Testing the underlying data provided to the actuary and confirming that these agree to underlying records.
- Evaluating the competence and objectivity and relevant experience of the Scheme's actuary.
- Engaging our internal actuarial specialist to independently understand, challenge and evaluate:
 - The work and findings of the Scheme's actuary.
 - The actuarial methods and assumptions employed, specifically, the rate of future pension increases, future investment returns, the discount rate and post-retirement mortality of the members.
- Evaluating the related disclosures about the Scheme's vested benefits and promised retirement liabilities, and the risks attached to them which is included in Note 12 to the Scheme's financial statements.
- Assessing the related disclosures concerning the Scheme's vested benefits deficit and any plan by the Crown to fund benefit payments as they fall due.

Responsibilities of the Board of Trustees for the financial statements

The Board of Trustees is responsible on behalf of the Scheme for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Trustees is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Trustees is responsible on behalf of the Scheme for assessing the Scheme's ability to continue as a going concern. The Board of Trustees are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Trustees intends to wind-up the Scheme or to cease operations, or have no realistic alternative but to do so.

The Board of Trustees' responsibilities arise from the Financial Markets Conduct Act 2013 and section F32 of the Scheme's Trust Deed.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of members, taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Trustees is responsible for the other information. The other information comprises the information included on pages 1 to 17 but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Scheme in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Scheme.



Silvio Bruinsma, Partner
for Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

DBP Contributors Scheme

Directory as at 6 July 2023

TRUSTEE

Board of Trustees of the National Provident Fund

BOARD MEMBERS

Edward Schuck – Chair – appointed 2015 and Chair from 1 September 2017

Sarah Park – Deputy Chair – appointed 1 February 2020 and Deputy Chair from 1 July 2022

Louise Edwards – appointed 1 July 2019

Graham Ansell – appointed 12 July 2021

Tracey Berry – appointed 1 July 2022

Lloyd Kavanagh – appointed 1 July 2022

Daniel Mussett (appointed 2016)
– retired 30 June 2022

Stephen Ward – Deputy Chair (appointed 2016 and Deputy Chair from 1 February 2020)
– retired 30 June 2022

Further information on the Board members is provided on our website – www.npf.co.nz.

MANAGEMENT

Tim Mitchell

Chief Executive and Acting General Manager – Investments

Philippa Drury

General Manager – Schemes

Fiona Morgan

Chief Financial Officer

Hadyn Hunt

Chief Risk Officer

DATACOM

ADMINISTRATION

Datacom Connect Limited is the administrator of the NPF Schemes.

CONTACT DETAILS

You are welcome to contact Datacom if you have any specific questions about the information in this package, if you would like to receive a free copy of the full financial statements in the mail, to purchase a copy of the trust deed (\$10) or the actuarial valuation (\$10), or to enquire about your Scheme membership in general.

Please quote your identity number when contacting Datacom.

Free phone: 0800 628 776 between 8.30 am and 5.00 pm, Monday to Friday.

Phone: (04) 381 0600

Post to:

The Manager
National Provident Fund Administration
Datacom Connect Limited
P O Box 1036
WELLINGTON 6140

Email: npfenquiries@datacom.co.nz

If you would like to know more about NPF in general, or if you would like to view or download a copy of the Scheme's full financial statements rather than receive a copy in the mail, please visit our website – www.npf.co.nz.

You may contact the Board by writing to:

The Chief Executive
Board of Trustees of the National Provident Fund
Level 12, The Todd Building
95 Customhouse Quay
WELLINGTON 6011

Auditor: Silvio Bruinsma, Deloitte Limited, on behalf of the Auditor-General

Actuary: Christine D Ormrod,
PricewaterhouseCoopers Consulting (New Zealand) LP

Bank: Bank of New Zealand Limited

Custodian: JPMorgan Chase Bank, N.A.

Solicitor: DLA Piper New Zealand

There were no changes to the Actuary, Bank, Custodian or Solicitor during the year.