Global Asset Trust

GLOBAL ASSET TRUST

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2016

Global Asset Trust
Statement of Changes in Net Assets
for the year ended 31 March 2016

	Note	2016 ($000)	2015 ($000)
Revenue			
Dividends		**11,845**	37,101
Interest		**63,818**	66,768
Net gains on financial instruments		**2,466**	116,271
Other revenue		**3,582**	4,214
Total revenue	2	**81,711**	224,354
Expenses			
Audit fees		**70**	70
Depreciation		**36**	29
Management and custodial fees		**8,409**	7,055
Other fees and expenses		**871**	502
Total expenses		**9,386**	7,656
Operating surplus before income tax		**72,325**	216,698
Income tax expense	3	**-**	-
Net surplus allocated to unit holders		**72,325**	216,698
Unit holders' equity			
Purchase of units during the year		**59,462**	89,797
Redemption of units during the year		**(173,091)**	(188,974)
Taxation on portfolio investment entity income	3	**(7,929)**	(37,964)
Net (decrease)/increase in unit holders' equity		**(49,233)**	79,557
Unit holders' equity at the beginning of the year		**1,902,696**	1,823,139
Unit holders' equity at the end of the year		**1,853,463**	1,902,696

The notes to the financial statements on pages 4 to 20 form an integral part of these financial statements.

Global Asset Trust
Statement of Net Assets
as at 31 March 2016

	Note	**2016 ($000)**	2015 ($000)
Unit holders' equity			
Unit holders' accounts		**1,853,463**	1,902,696
Represented by:			
Assets			
Financial assets held at fair value through profit or loss			
Derivative assets		**80,709**	43,933
Investment assets		**1,665,643**	1,768,581
Total financial assets at fair value through profit or loss	6e	**1,746,352**	1,812,514
Financial assets at amortised cost			
Cash and cash equivalents		**167,872**	148,803
Interest and other receivables		**1,772**	1,674
Receivables for securities sold		**4,626**	11,574
Total financial assets at amortised cost		**174,270**	162,051
Property, plant and equipment	4	**216**	213
Total assets		**1,920,838**	1,974,778
Less liabilities			
Financial Liabilities			
Derivative liabilities		**27,983**	27,361
Payables		**40,510**	31,079
Payables to Schemes		**1,157**	1,148
Total financial liabilities	6h	**69,650**	59,588
Other liabilities			
Income tax (receivable)/payable		**(2,275)**	12,494
Total liabilities		**67,375**	72,082
Net assets available to pay unit holders		**1,853,463**	1,902,696

Authorised for issue on 23 June 2016.
On behalf of the Board of Trustees of the National Provident Fund.

Catherine M Savage
Chairman

Graeme R Mitchell
Chairman
Audit and Risk Review Committee

The notes to the financial statements on pages 4 to 20 form an integral part of these financial statements.

Global Asset Trust
Statement of Cash Flows
for the year ended 31 March 2016

	Note	2016 ($000)	2015 ($000)
Cash flows from operating activities			
Cash was provided from:			
Dividends and unit trust distributions received		**11,914**	36,638
Interest and other income received		**67,273**	71,140
Purchase of units		**59,462**	89,797
		138,649	197,575
Cash was applied to:			
Income tax		**22,690**	27,549
Other expenses		**9,348**	7,787
Redemption of units		**173,091**	188,974
		205,129	224,310
Net cash flows from operating activities	5	**(66,480)**	(26,735)
Cash flows from investing activities			
Cash was provided from/(applied to):			
Net sales/purchases and maturities of investments:			
Currency transactions		**196,938**	(86,392)
Equity and unit trust investments		**(106,268)**	31,315
Fixed interest securities		**(5,082)**	71,738
Property, plant and equipment		**(39)**	(7)
Net cash flows from investing activities		**85,549**	16,654
Net increase / (decrease) in cash and cash equivalents held		**19,069**	(10,081)
Opening cash and cash equivalents brought forward		**148,803**	158,884
Closing cash and cash equivalents	6g	**167,872**	148,803

The notes to the financial statements on pages 4 to 20 form an integral part of these financial statements.

1 Summary of Significant Accounting Policies

a Basis of preparation

The financial statements presented here are for the reporting entity, Global Asset Trust (the GAT). The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Financial Reporting Act 1993 and the Superannuation Schemes Act 1989.

The GAT's principal business activity is to engage in investment activities on behalf of its unit holders. The unit holders are the National Provident Fund Superannuation Schemes for which the Board of Trustees of the National Provident Fund (the Board) is the Trustee. The GAT is divided into separate unit funds, representing various asset classes, which have issued units according to the asset allocation strategy.

b Upcoming changes to the Financial Reporting Framework

From 1 April 2014, the new Financial Reporting Act 2013 (FRA 2013) and the Financial Market Conduct Act 2013 (FMCA 2013) were enacted replacing the previous financial reporting obligations under the Financial Reporting Act 1993 and the Superannuation Schemes Act 1989. This is effective for all Superannuation Scheme entities with reporting periods beginning on or after 1 April 2014. The GAT is subject to the transitional provisions under section 55 of the FRA 2013 allowing for the deferral of the application of the new enactment until 1 December 2016.

It is expected that the change in legislation will have no material impact on the GAT's obligation to prepare general purpose financial statements. The reporting that is undertaken will be similar to that which is currently performed.

c Statement of compliance

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

d Measurement base

The measurement base adopted is that of historical cost modified by the revaluation of investment assets, which are measured at fair value. All investments are priced independently of the Board.

e Presentation and functional currency

The GAT's unit holders are located within New Zealand, with the applications and redemptions to and from unit holders denominated in New Zealand Dollars (NZD). The performance of the GAT is measured and reported in NZD, rounded to thousands ($000). These financial statements are presented in NZD as that is the currency of the primary economic environment in which the GAT operates. The GAT's presentational and functional currency is NZD.

f Critical accounting estimates and judgements

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgement has been applied in selecting the accounting policy to designate assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. Further detail on the material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of scheme assets are discussed in note 6 (Financial Instruments). However as with all investments their value is subject to variation due to market fluctuations.

f Critical accounting estimates and judgements (continued)

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.

g Accounting policies

The following are the particular accounting policies, which have been adopted in the preparation of the financial statements.

Investment income

Interest income is recognised using the effective interest rate of the instrument. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Realised and unrealised gains or losses on financial instruments are recognised in the Statement of Changes in Net Assets. Interest income on assets, designated at fair value through profit or loss, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex dividend date.

Foreign currencies

Transactions in currencies, other than NZD, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities, denominated in foreign currencies, are translated at the rates prevailing on balance date. Gains and losses arising on translation are included in the Statement of Changes in Net Assets for the year.

Expenses

All expenses recognised in the Statement of Changes in Net Assets are accounted for on an accruals basis.

Taxation

For taxation purposes, the GAT is classified as a portfolio investment entity (PIE). The income tax expense (disclosed as taxation on PIE income within unit holders' equity), represents the sum of the tax liability for the year and includes deferred tax (if any). The taxation currently payable is based on the taxable profit for the year. Taxable profit also requires that the Fair Dividend Rate (FDR) calculation method be applied to investments in overseas equities, which deems taxable income to arise regardless of the increase or decline in value of the investments. The GAT's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance date.

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 (within three months), where there is an insignificant risk of change in value, and that are held for the purpose of meeting short-term cash commitments.

Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Net Assets when the GAT becomes a party to the contractual provisions of the instruments. The GAT offsets financial assets and financial liabilities if the GAT has a legally enforceable right to set off the recognised amounts and interests, and intends to settle on a net basis.

The GAT derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

g Accounting policies (continued)

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract, whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value. Investments are designated at fair value through profit or loss. Transaction costs are expensed immediately. As the GAT's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities, fixed income securities and other securities are designated as fair value through profit or loss. Fair values are determined after taking into account accrued interest on all applicable securities.

Financial assets, designated at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the exit price on the exchange on which the investment is quoted without any deduction for future selling costs. If a quoted market price is not available on a recognised stock exchange, the fair value of the instrument is estimated taking into account comparable markets and advice from specialised advisories. Investments in units of pooled investment funds are valued at the closing price, or the value advised by the relevant investment manager.

Securities lending

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

Impairment

Financial assets that are stated at amortised cost are reviewed at balance date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is determined and any impairment loss is the difference between the asset's carrying amount and the recoverable amount.

Other receivables and accrued interest

Other receivables are carried at amortised cost and include dividends and interest receivable. Dividends and distributions are accrued when the right to receive payment is established. Interest is accrued at balance date from the time of last payment.

Other payables

Other payables are not interest-bearing and are stated at their amortised cost. Any outstanding trades are recorded on trade date and are normally settled within three business days. Purchases of securities and investments, that are unsettled at balance date, are included in payables.

g Accounting policies (continued)

Derivative financial instruments and hedge accounting

The GAT's activities expose it to the financial risks of changes in foreign currency rates and interest rates. The GAT may use foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The GAT does not use derivative financial instruments for speculative purposes. These derivative financial instruments are classified at fair value through profit or loss and any gains or losses are taken to the Statement of Changes in Net Assets in the period in which they occur. The use of financial derivatives is governed by a Statement of Investment Policies and Objectives (SIPO) approved by the Board which includes written policies on the use of financial derivatives.

The GAT does not adopt hedge accounting.

Goods and Services Tax

As the GAT manages superannuation schemes, its supplies are principally exempt for Goods and Services Tax (GST) purposes.

The GAT is required however, to account for GST on income associated with the lease of its fixed assets. Because it principally makes exempt supplies, GST is also payable on certain overseas fees that would be subject to GST if received in New Zealand. All expenses are therefore inclusive of GST, if applicable.

Statement of cash flows

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

Cash and cash equivalents – comprises cash balances held with banks in New Zealand and overseas. It includes short-term highly liquid investments that are readily convertible to known amounts of cash.

Investing activities – comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

Operating activities – include any activities that are the result of normal business activities (excluding Investing activities).

Sales, purchases and maturities of investments are disclosed net, in line with the manner in which the investments are managed.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation less any accumulated impairment.

Depreciation

Depreciation is calculated on a diminishing value or straight line basis so as to write-off the net cost of the asset over its expected useful life to its estimated residual value. The depreciation basis applied depends on the type and age of the asset. The following estimated useful lives, which are reviewed annually, are used in the calculation of depreciation:

Office fittings	6-14	years
Office furniture	5-12	years
Office equipment	2-4	years

g Accounting policies (continued)

Capital

The capital of the GAT consists of investment into the following unit funds.

C Unit Fund (C Unit)	Investment in New Zealand cash and short term deposits
E Unit Fund (E Unit)	Investment in New Zealand and Australian listed equities
F Unit Fund (F Unit)	Investment in international fixed interest securities
F2 Unit Fund (F2 Unit)	Investment in New Zealand fixed interest securities
O Unit Fund (O Unit)	Investment in international listed equities (and global tactical asset allocation)

Consistency in presentation

Consistent accounting policies have been employed in the presentation of these financial statements as were applied in the presentation of the GAT's financial statements for the year ended 31 March 2015.

Standards issued but not effective

Various standards, interpretations and amendments have been issued by the External Reporting Board but have not been adopted by the GAT because they are not yet effective. The Board expects to adopt the applicable standards and interpretations in the period in which they become mandatory.

The standard which has not yet been adopted because its not yet effective is *NZ IFRS 9 'Financial Instruments'.* This is effective for annual reporting periods beginning on or after 1 January 2018.

Changes in accounting policies

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

2 Investment Income

Income, specific to the unit funds for 2016, (and as shown in the Statement of Changes in Net Assets), was as follows:

	C Unit ($000)	E Unit ($000)	F Unit ($000)	F2 ($000)	O Unit ($000)	Total ($000)
Dividend revenue						
Equities	**-**	**4,908**	**5**	**-**	**6,033**	**10,946**
Unit trusts' distributions	**563**	**70**	**-**	**-**	**266**	**899**
Interest revenue	**62**	**57**	**53,966**	**9,524**	**209**	**63,818**
Fair value through profit or loss						
Bonds and securities	**-**	**(72)**	**(38,190)**	**686**	**(29,531)**	**(67,107)**
Foreign currency hedges	**-**	**6**	**(281)**	**-**	**1,064**	**789**
Short term investments	**1,268**	**-**	**(2,344)**	**1,767**	**-**	**691**
Unit trusts and equities	**172**	**13,538**	**9,469**	**-**	**44,914**	**68,093**
Other revenue	**61**	**78**	**1,414**	**-**	**2,029**	**3,582**
Total Investment Income	**2,126**	**18,585**	**24,039**	**11,977**	**24,984**	**81,711**

Income, specific to the unit funds for 2015, (and as shown in the Statement of Changes in Net Assets), was as follows:

	C Unit ($000)	E Unit ($000)	F Unit ($000)	F2 ($000)	O Unit ($000)	Total ($000)
Dividend revenue						
Equities	-	4,435	71	-	5,717	10,223
Unit trusts' distributions	724	137	6,939	-	19,078	26,878
Interest revenue	251	67	56,612	9,770	68	66,768
Fair value through profit or loss						
Bonds and securities	-	65	110,403	71	(9,186)	101,353
Foreign currency hedges	-	(78)	1,197	-	633	1,752
Short term investments	1,111	-	(67,550)	1,703	-	(64,736)
Unit trusts and equities	366	8,034	951	-	68,551	77,902
Other revenue	109	215	1,761	-	2,129	4,214
Total Investment Income	2,561	12,875	110,384	11,544	86,990	224,354

3 Income Taxation

	2016 ($000)	2015 ($000)
Operating surplus before income tax	**72,325**	216,698
Add imputation credits	**1,207**	1,059
	73,532	217,757
Tax expense at 28%	**20,589**	60,972
Tax credits received	**(1,207)**	(1,059)
Non-deductible (gains) from investments	**(19,074)**	(21,811)
Net non-taxable dividend/FDR income	**7,505**	(21)
PIE excluded income	**(177)**	(235)
Prior period adjustments	**36**	(93)
PIE tax payable	**23**	400
Other	**234**	(189)
Tax effect of income taxed under the PIE regime (transferred to unit holders' equity)	**(7,929)**	(37,964)
Income tax expense	**-**	-

4 Property, Plant and Equipment

The property, plant and equipment owned by the E Unit Fund of the GAT comprises office fittings, furniture and equipment. This is leased to Annuitas Management Limited (Annuitas), a joint venture company owned by the Board and the Government Superannuation Fund Authority (see note 7).

5 Reconciliation of Net Cash Flows from Operating Activities to Statement of Changes in Net Assets

	2016 ($000)	2015 ($000)
(Decrease)/increase in unit holders' equity	**(49,233)**	79,557
(Less) non-cash items:		
Movement in fair value through Statement of Changes in Net Assets	**(2,466)**	(116,271)
Depreciation	**36**	29
Movement in working capital items		
Movement in income tax	**14,769**	(10,546)
(Less) / add items classified as investing activities		
Amounts in working capital related to investment activity	**(29,586)**	20,496
Net cash flows from operating activities	**(66,480)**	(26,735)

6 Financial Instruments

a Management of financial instruments

The investments of the GAT are managed on behalf of the Board by specialist investment managers, which are required to invest the assets allocated for management in accordance with the terms of written investment management agreements. The Board has determined that the appointment of these managers is appropriate for the GAT and is in accordance with the Board's SIPO.

JP Morgan Chase Bank acts as the global custodian on behalf of the Board. They provide services including safekeeping of assets, settlement of trades, collection of investment income, and accounting for investment transactions.

b Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 1 to the financial statements.

c Capital risk management

The capital structure of the GAT consists of unit funds as per note 1 of the financial statements.

The Schemes can only invest in the GAT, and their holdings of various unit funds are determined by their strategic asset allocations, which are reviewed regularly by the Board based on the advice of its investment advisor. The Board reviews, generally on a monthly basis, the cash requirements and funding of the Schemes, and their asset allocations, and redeems or issues units in the GAT as appropriate. The GAT has no restrictions or specific capital requirements on the application for, or redemption of, units. The GAT's investment strategy is reviewed regularly, considering the investment requirements of the Schemes.

d Categories of financial instruments

The GAT recognises all financial assets and liabilities at fair value through profit or loss or at amortised cost, as detailed in note 1 to the financial statements.

Within the Statement of Net Assets, under the headings of Derivative Assets and Derivative Liabilities, eleven (2015: nine) cross country interest rate swaps have been netted off against each other. These have a Gross Derivative Asset value of $732.624 million (2015: $788.186 million) and a Gross Derivative Liability value of $698.788 million (2015: $784.255 million) resulting in a net impact of $33.836 million (2015: $3.931 million). These swaps meet the offsetting criteria under NZ IAS 32:42 as there is a legally enforceable right to set-off the recognised amounts and the assets and liabilities are settled on a net basis.

e Fair value measurements recognised in the Statement of Net Assets

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets to identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2016	**Level 1 ($000)**	**Level 2 ($000)**	**Level 3 ($000)**	**Total ($000)**
Financial assets at fair value through profit or loss				
Derivative financial assets	**-**	**80,709**	**-**	**80,709**
Investments in cash funds, bonds and debentures				
- New Zealand & Australia	**242,537**	**-**	**-**	**242,537**
- North America	**468,877**	**-**	**-**	**468,877**
- Asia	**84,763**	**-**	**-**	**84,763**
- Europe	**203,776**	**-**	-	**203,776**
- Rest	**10,222**	**-**	**-**	**10,222**
Investments in Equities				
- New Zealand & Australia	**127,579**	**-**	**-**	**127,579**
- North America	**362,539**	**89,118**	**-**	**451,657**
- Asia	**27,972**	**-**	**-**	**27,972**
- Europe	**47,243**	**-**	**-**	**47,243**
- Rest	**1,017**	**-**	**-**	**1,017**
Financial assets at fair value through profit or loss	**1,576,525**	**169,827**	**-**	**1,746,352**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	**-**	**27,983**	**-**	**27,983**
	-	**27,983**	**-**	**27,983**

e Fair value measurements recognised in the Statement of Net Assets (continued)

2015	Level 1 ($000)	Level 2 ($000)	Level 3 ($000)	Total ($000)
Financial assets at fair value through profit or loss				
Derivative financial assets	-	43,933	-	43,933
Investments in cash funds, bonds and debentures				
- New Zealand & Australia	184,722	-	-	184,722
- North America	428,334	-	-	428,334
- Asia	45,799	-	-	45,799
- Europe	402,792	-	-	402,792
- Rest	1,639	-	-	1,639
Investments in Equities				
- New Zealand & Australia	130,700	-	-	130,700
- North America	381,549	76,735	-	458,284
- Asia	40,749	-	-	40,749
- Europe	73,513	-	-	73,513
- Rest	2,049	-	-	2,049
Financial assets at fair value through profit or loss	1,691,846	120,668	-	1,812,514
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	27,361	-	27,361
	-	27,361	-	27,361

Movement of assets
As there were no level 3 assets as at 31 March 2015, and there are no level 3 assets as at 31 March 2016, there have been no transfers of assets between level 2 and 3 during the current financial year.

Valuation techniques and inputs
For fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, an entity is required to disclose a description of the valuation technique and the inputs used in the fair value measurement. As at 31 March 2016, the GAT had $169.8 million invested in Level 2 investments (2015: $120.7 million). These investments were valued taking into account comparable markets and advice from specialised advisories. Unobservable inputs applied include, but are not limited to, independent pricing sources and volatility and liquidity statistics. All derivative assets and liabilities have observable market inputs with regular valuations performed under a standard methodology.

f Financial risk management objectives

The GAT is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The GAT's risk management and investment policies, approved by the Board, seek to minimise the potential adverse effects of these risks on the GAT's financial performance. These policies may include the use of certain financial derivative instruments to reduce risk to within the approved limits.

f Financial risk management objectives (continued)

The Board, on behalf of the GAT, outsources the investment management to specialist managers, which co-ordinate access to domestic and international investment markets, and manage the financial risks relating to the operations of the GAT in accordance with investment mandates set and monitored by the Board. The GAT's investment strategy is to invest in a diversified portfolio of equities and fixed interest securities. It may also invest in derivative instruments such as futures and options.

The GAT does not enter into or trade derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Board's SIPO, which provides written policies on the use of financial derivatives. These policies permit the use of derivatives to change the GAT's exposure to particular assets. Derivatives are not used to leverage the GAT and the GAT's effective market exposure should not exceed the market value of its assets. Compliance with policies and exposure limits is reviewed by the Board on a continuous basis.

g Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations, resulting in financial loss to the GAT. The GAT has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from default. The GAT measures credit risk on a fair value basis. The GAT's exposure and the credit ratings of its counterparties are continuously monitored by the Board.

Credit risk, arising on investments, is mitigated by purchasing rated instruments or instruments issued by rated counterparties with credit ratings of at least a weighted average of A- or better, as determined by Standard and Poor's.

Credit risk associated with receivables is considered minimal. The main receivables balance is in relation to investments sold, which are settled within three days of trade date, and for which the counterparties are large financial institutions. Other receivables balances are largely immaterial.

At 31 March 2016 the GAT had investment assets held at fair value through profit or loss with two New Zealand registered banks. Both banks are AA- rated. At 31 March 2016, the individual values of the investments did not exceed 5% of the net assets of the GAT (this is consistent with the 2015 position).

During the year the GAT continued securities lending as a means of earning additional income from its investments. As at 31 March 2016, the GAT had approximately $105 million (2015: $99 million) lent out to counterparties. These assets have remained in the name of the GAT and were lent out against specific collateral, including cash, provided by the borrower, with loans collateralised to a minimum of 100% (2015: 100%) at the borrower level. The GAT has direct access to the collateral in the event of default.

The GAT does not have any other significant credit risk exposure to any single counterparty, or any group of counterparties having similar characteristics. The table below shows the maximum exposure to credit risk at the reporting date. It is the opinion of the Board that the carrying amounts of these financial assets represent the maximum credit risk exposure at balance date.

g Credit risk (continued)

Credit risk exposure	**2016 ($000)**	2015 ($000)
Cash and cash equivalents	**167,872**	148,803
Equities and unit trust investments	**655,468**	705,295
Fixed interest securities	**1,010,175**	1,063,286
Derivative assets	**80,709**	43,933
Other receivables	**6,398**	13,248
Total	**1,920,622**	1,974,565

h Liquidity risk

The GAT's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. Unit holders are able to redeem their units at any time (normally monthly), which means the GAT is exposed to the liquidity risk of meeting unit holders' redemptions.

The GAT's listed equities and fixed interest securities are considered to be realisable at short notice, although with a market risk.

The GAT's liquidity risk is managed in accordance with the GAT's SIPO. The GAT has a level of net outward cash flows (caused by the deficit allocated to unit holders). The GAT also manages liquidity risk by maintaining cash and short term deposits, and through the continuous monitoring of forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. The GAT's overall strategy to liquidity risk management remains unchanged from the previous year.

The following tables summarise the contractual maturity profiles of the GAT's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the earliest date on which the GAT can be required to pay. The tables include both interest and principal cash flows.

	Less than 3 months ($000)	**3 months to 1 year ($000)**	**1-5 years ($000)**	**5+ years ($000)**	**Total ($000)**
2016					
Unsettled purchases	**38,974**	**-**	**-**	**-**	**38,974**
Derivative liabilities	**16,580**	**697**	**2,515**	**8,191**	**27,983**
Other financial liabilities	**1,536**	**1,157**	**-**	**-**	**2,693**
Total	**57,090**	**1,854**	**2,515**	**8,191**	**69,650**
2015					
Unsettled purchases	29,631	-	-	-	29,631
Derivative liabilities	12,835	594	1,781	12,151	27,361
Other financial liabilities	1,448	1,148	-	-	2,596
Total	43,914	1,742	1,781	12,151	59,588

i Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk), and market prices (price risk). The GAT manages market risk by outsourcing its investment management. The investment managers manage the market risk relating to the operations of the GAT in accordance with investment mandates. The GAT's investment strategy is to invest in a diversified portfolio of equities and fixed interest securities and it may also invest in derivative instruments such as futures and options. There have been no changes, from the previous year, to the GAT's exposure to market risk, or the manner in which it manages and measures the risk.

Interest rate risk management

The GAT's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the GAT to cash flow risk, whereas fixed interest rate instruments expose the GAT to fair value interest rate risk. The Board monitors the GAT's exposure to interest rate risk.

The tables below detail the GAT's exposure to interest rate risk at the financial statement date by the earlier of contractual maturities or re-pricing. Interest rate risk is managed by the investment managers.

	Weighted average interest rate %	Less than 12 months ($000)	1 – 5 years ($000)	5+ years ($000)	Total ($000)
2016					
Financial assets: Interest rate instruments					
Cash and cash equivalents	**1.58**	**136,571**	**31,301**	**-**	**167,872**
Receivables for Investments	**N/A**	**4,626**	**-**	**-**	**4,626**
Investments	**3.55**	**104,704**	**329,879**	**575,592**	**1,010,175**
Total		**245,901**	**361,180**	**575,592**	**1,182,673**
2015					
Financial assets: Interest rate instruments					
Cash and cash equivalents	2.16	118,734	30,069	-	148,803
Receivables for Investments	N/A	11,574	-	-	11,574
Investments	3.53	67,189	396,221	599,876	1,063,286
Total		197,497	426,290	599,876	1,223,663

i Market risk (continued)

Interest rate sensitivity

The sensitivity analysis below has been determined based on the GAT's exposure to interest rates at the reporting date. The table illustrates the post tax effect of a decrease in interest rates of 1%.

For an increase in interest rates there would be an equal and opposite impact on the net surplus allocated to unit holders, and the liabilities attributable to unit holders.

	Changes in variable +/-	Effect on Operating surplus attributable to unit holders 2016 ($000)	Operating surplus attributable to unit holders 2015 ($000)	Liabilities attributable to unit holders 2016 ($000)	Liabilities attributable to unit holders 2015 ($000)
Floating interest rate risk	**1%**	**(3,520)**	(2,529)	**(3,520)**	(2,529)
Fixed interest rate risk	**1%**	**5,151**	6,119	**5,151**	6,119
Total interest rate risk		**1,631**	3,590	**1,631**	3,590

The methods and assumptions used to prepare the sensitivity analysis have not changed.

Foreign currency risk management

Foreign currency risk is the risk that the market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The GAT undertakes certain transactions and holds investment assets denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. The GAT enters into foreign currency contracts designed to hedge some or all of its exposure to foreign currencies. Exchange rate exposures are managed within approved policy limits and parameters as set in the Board's SIPO. The SIPO permits foreign currency exposures to be varied from the foreign currency benchmarks.

The GAT's foreign currency benchmarks at 31 March 2016 and 31 March 2015 are as follows:

Asset Class/Strategy	2016 Pre tax (post tax) Strategic hedge ratio	2015 Pre tax (post tax) Strategic hedge ratio
International equities including global tactical asset allocation	**69% (50%)**	69% (50%)
International fixed interest	**100% (100%)**	100% (100%)

Foreign currency risk management

The GAT's total exposure to foreign currency exchange, at the reporting date, (after hedging) was $133 million (2015: $152 million). The GAT's foreign exchange exposure, before taking into account hedging was $1,361 million (2015: $1,539 million).

i Market risk (continued)

Foreign currency sensitivity

The GAT is mainly exposed to the USD, Euro, Japanese Yen and Australian dollar.

The fixed interest managers are responsible for managing the exposure to other currencies back to the USD, within the terms of their individual investment mandates. A currency manager hedges the USD exposure to the NZD. For overseas equities the foreign currency exposure is hedged back to the NZD, by a currency manager, within the limits approved by the Board.

The table below details the GAT's sensitivity to a 5% decrease in the NZD against the USD, assuming there is no hedging. This represents the Board's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 5% change in foreign currency rates.

	NZD Net impact	
	2016 ($000)	2015 ($000)
Operating surplus before finance costs allocated to unit holders	**48,996**	55,404
Liabilities attributable to unit holders	**48,996**	55,404

Foreign currency sensitivity (continued)

Where the NZD weakens against other currencies, a positive impact results in an increase in the net surplus allocated to unit holders, and the liabilities attributable to unit holders. For a strengthening of the NZD against other currencies there would be a negative impact on the net surplus allocated to unit holders, and the liabilities attributable to unit holders.

Market risk

Market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or its issuer, or to factors affecting all instruments traded in the market. The GAT has investments in equity instruments, fixed interest instruments and derivative financial instruments, which exposes it to price risk. The investment managers manage the market risk in accordance with the Board's SIPO and their mandates.

As the GAT's financial instruments are carried at fair value, with changes in fair value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect investment income.

The chart following illustrates the effect on the long term net surplus allocated to unit holders, and the liabilities attributable to unit holders, due to changes in the total market risk based on the Board's assessment of the risk the GAT was exposed to at 31 March 2016.

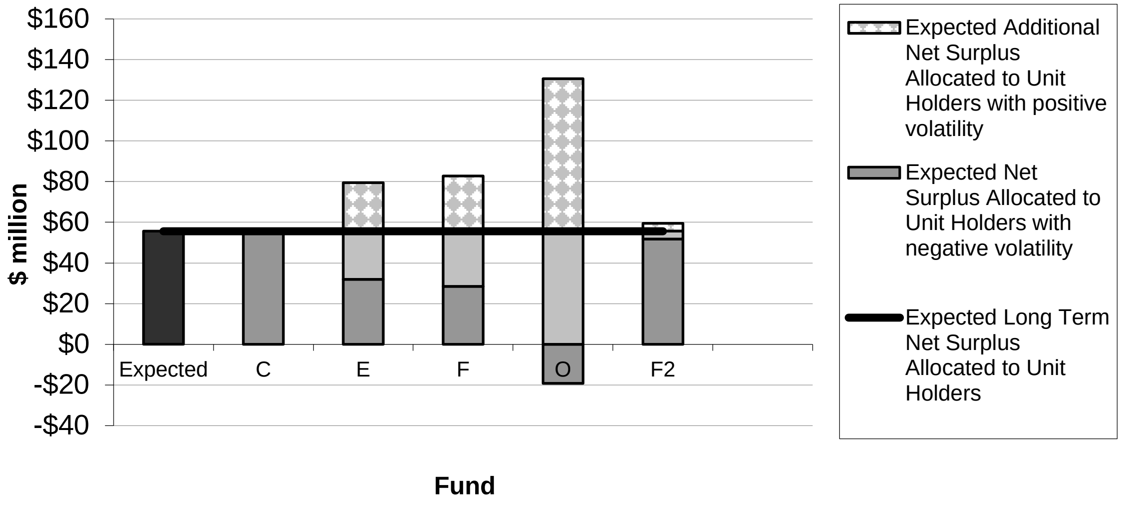
i Market Risk (continued)

The chart is based on:

- The asset allocations of the Schemes, as at 31 March 2016;
- Provision for expenses; and
- The assumed long-term after tax returns, and the expected volatility of the expected long-term after tax returns, of each of the asset classes, as set out in the table have been independently sourced from Russell Investments Limited.

Unit Fund	Percentage of Net Assets	Expected Long Term Return after Tax and Expenses, pa	Volatility after Tax +/- pa
C Unit	2.7%	2.3%	0.9%
E Unit	6.7%	6.7%	19.1%
F Unit	52.3%	2.0%	2.8%
O Unit	25.3%	4.5%	16.0%
F2 Unit	13.0%	2.5%	1.6%

Effect of Volatility on Expected Net Surplus Allocated to Unit Holders and Liabilities Attributable to Unit Holders



The chart shows that, based on the asset allocations and expected long-term after tax returns, the GAT is projected to earn, over the long-term, a net surplus allocated to unit holders of $55.6 million per annum, after tax and expenses. By way of example, if the expected returns from all other asset classes remain unchanged, the expected volatility of overseas equities (O Unit Fund) could increase the net surplus allocated to unit holders to $130.5 million per annum, or decrease it to a loss of $19.3 million.

The Board does not believe there are any financial assets past due at balance date and, therefore, there is no impairment.

7 Related Parties

The GAT enters into transactions with the Schemes to purchase and redeem units during the year. These transactions are presented in the Statement of Changes in Net Assets.

The Board, as trustee of the GAT, entered into arms length cost reimbursement transactions with the GAT during the year. These related to reimbursement of professional fees and purchase of fixed assets which are incurred by the Board on behalf of unit funds. The total reimbursed during the year was $115,500 (2015: $77,761).

The Board, as trustee of the GAT, incurs costs for managing and servicing the GAT. These costs are borne by the Schemes which are the unit holders in the GAT.

Annuitas, in which the Board has a 50% interest, provides management and secretarial services to the Board. The GAT provides fixed assets, comprising office fittings, office furniture and equipment, for use by Annuitas. Annuitas was liable for lease costs (including depreciation and interest) of $57,484 (2015: $47,491) during the year for the use of those assets. This amount was invoiced and paid by 31 March 2016. The 2015 lease costs were also paid by 31 March 2015.

There were no transactions between the GAT and individual members of the Board or Management.

8 Commitments and Contingent Liabilities

At 31 March 2016, there was a commitment to switch from AQR Capital Management's Global Tactical Asset Allocation into the AQR's Style Premia Fund. This transfer is due to take place on 30 June 2016. There were no contingent liabilities outstanding as at 31 March 2016 (2015: There was a commitment to fund Brandywine Global Investment Management, LLC, with the fund transfer occurring on 9 April 2015. There were no contingent liabilities).

9 Subsequent Events

There have been no material events after balance date that require adjustments to or disclosure in the financial statements (2015: Nil).

In addition to the attached financial statements, the Board of Trustees of the National Provident Fund, as trustee of the GAT, provides members with the following information:

Required by the Second Schedule to the Superannuation Schemes Act 1989

1. The Board believes all contributions required to be made to the GAT, in accordance with the GAT trust deed, have been made.

2. Other than the amendment at the date of the last annual report, the GAT trust deed has not been amended during the 2016 financial year.

3. **Directory**

Trustee	Board of Trustees of the National Provident Fund (**the Board**) Members of the Board are: Catherine M Savage *(Chairman)* Catherine M McDowell Graeme R Mitchell Fiona A Oliver Edward J Schuck Wayne L Stechman
Investment managers (appointed by the Board as trustee of the GAT)	AMP Capital Investors (NZ) Limited ANZ Bank NZ Limited ANZ Investments Limited AQR Capital Management, LLC Arrowstreet Capital, Limited Partnership Ashmore Investment Management Limited Bank of New Zealand Limited Brandywine Global Investment Management, LLC Harbour Asset Management Limited Lazard Asset Management, LLC Marathon Asset Management, LLP Pacific Investment Management Company, LLC Wellington Management Company, LLP
Custodian	J P Morgan Chase Bank
Auditor	David J Shadwell, Deloitte (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand

4. All correspondence relating to the GAT should be addressed to:

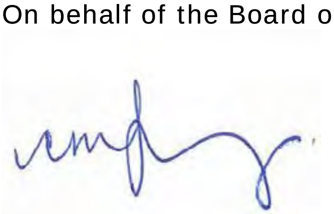
The Secretary
Board of Trustees of the National Provident Fund
Level 12, The Todd Building
95 Customhouse Quay
P O Box 3390
WELLINGTON

Responsible Investing

The Board has developed a statement to communicate its position on environmental, social and governance (ESG) factors and the investment process. The Board's statement on ESG and the investment process is published on the Board's website www.npf.co.nz.

Authorised for issue on 23 June 2016.

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



Catherine M Savage
Chairman

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE GLOBAL ASSET TRUST FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

The Auditor-General is the auditor of the Global Asset Trust (the Trust). The Auditor-General has appointed me, David Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Trust on her behalf.

Opinion

We have audited the financial statements of the Trust on pages 1 to 20 that comprise the statement of net assets as at 31 March 2016, 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 Trust:

- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZIFRS); and
- give a true and fair view of the Trust's:
  - financial position as at 31 March 2016; and
  - financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 June 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Trustees and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Trust's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

Deloitte.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Trustees;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

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

Responsibilities of the Board of Trustees

The Board of Trustees is responsible for preparing financial statements for the Trust that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Trust's financial position, financial performance and cash flows.

The Board of Trustees' responsibilities arise from the Superannuation Trusts Act 1989.

The Board of Trustees is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Trustees is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

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

David Shadwell
Deloitte
On behalf of the Auditor-General
Wellington, New Zealand