Global Asset Trust

FINANCIAL STATEMENTS

For the year ended 31 March 2018

Deloitte.

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NATIONAL PROVIDENT

NATIONAL PROVIDENT

Global Asset Trust

GLOBAL ASSET TRUST

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2018

Global Asset Trust
Statement of Changes in Net Assets
for the year ended 31 March 2018

	Note	**2018 ($000)**	2017 ($000)
Revenue			
Dividends		**11,458**	11,142
Interest		**43,092**	50,246
Net gains on financial instruments		**85,882**	88,485
Other revenue		**3,570**	3,266
Total revenue	2	**144,002**	153,139
Expenses			
Audit fees		**80**	74
Depreciation		**41**	39
Management and custodial fees		**7,846**	6,780
Other fees and expenses		**680**	709
Total expenses		**8,647**	7,602
Operating surplus before income tax		**135,355**	145,537
Income tax expense	3	**-**	-
Net surplus allocated to unit holders		**135,355**	145,537
Unit holders' equity			
Purchase of units during the year		**11,053**	28,424
Redemption of units during the year		**(119,769)**	(119,965)
Taxation on portfolio investment entity income	3	**(24,885)**	(30,125)
Net increase in unit holders' equity		**1,754**	23,871
Unit holders' equity at the beginning of the year		**1,877,334**	1,853,463
Unit holders' equity at the end of the year		**1,879,088**	1,877,334

The notes to the financial statements on pages 4 to 18 form an integral part of these financial statements.

Global Asset Trust
Statement of Net Assets
as at 31 March 2018

	Note	2018 ($000)	2017 ($000)
Unit holders' equity			
Unit holders' accounts		**1,879,088**	1,877,334
Represented by:			
Assets			
Financial assets held at fair value through profit or loss			
Derivative assets		**17,512**	15,215
Investment assets		**1,814,848**	1,764,890
Total financial assets at fair value through profit or loss	6.5	**1,832,360**	1,780,105
Financial assets at amortised cost			
Cash and cash equivalents		**198,911**	202,683
Interest and other receivables		**1,472**	1,817
Receivables for securities sold		**79,791**	81,104
Total financial assets at amortised cost		**280,174**	285,604
Property, plant and equipment	4	**168**	199
Total Assets		**2,112,702**	2,065,908
Less Liabilities			
Financial Liabilities at fair value through profit or loss			
Derivative liabilities		**38,713**	49,638
Financial Liabilities at amortised cost			
Payables		**177,706**	131,570
Payables to Schemes		**1,267**	1,154
Total financial liabilities	6.8	**217,686**	182,362
Other liabilities			
Income tax payable		**15,928**	6,212
Total liabilities		**233,614**	188,574
Net assets available to pay unit holders		**1,879,088**	1,877,334

Authorised for issue on 21 June 2018.

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

Edward J Schuck
Chairman

Graeme R Mitchell
Chairman
Audit and Risk Review Committee

The notes to the financial statements on pages 4 to 18 form an integral part of these financial statements.

Global Asset Trust
Statement of Cash Flows
for the year ended 31 March 2018

	Note	2018 ($000)	2017 ($000)
Cash flows from operating activities[1]			
Cash was provided from:			
Dividends and unit trust distributions received		**11,757**	10,981
Interest and other income received		**46,707**	53,648
Purchase of units		**11,053**	28,424
		69,517	93,053
Cash was applied to:			
Income tax		**15,056**	21,640
Expenses		**8,512**	7,594
Redemption of units		**119,769**	119,965
		143,337	149,199
Net cash flows from operating activities	5	**(73,820)**	(56,146)
Cash flows from investing activities[2]			
Cash was provided from/(applied to):			
Net sales/purchases and maturities of investments:			
Currency transactions		**154,440**	60,553
Equity and unit trust investments		**(51,782)**	15,633
Fixed interest securities		**(32,599)**	14,794
Property, plant and equipment		**(11)**	(23)
Net cash flows from investing activities		**70,048**	90,957
Net (decrease)/increase in cash and cash equivalents held	10.6.5	**(3,772)**	34,811
Opening cash and cash equivalents brought forward		**202,683**	167,872
Closing cash and cash equivalents	6.7	**198,911**	202,683

[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 investments. Investments include financial instruments not falling within the definition of cash. Sales, purchases and maturities of investments are disclosed net, in line with the manner in which the investments are managed.

The notes to the financial statements on pages 4 to 18 form an integral part of these financial statements.

1 STRUCTURE OF THE GLOBAL ASSET TRUST

The financial statements presented here are for the reporting entity, Global Asset Trust (the GAT).

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 capital of the GAT consists of investment into the following unit funds, representing various asset classes, which have issued units according to the strategic asset allocation:

- C Unit Fund — Investment in New Zealand cash and short term deposits.
- E Unit Fund — Investment in New Zealand and Australian listed equities.
- F Unit Fund — Investment in international fixed interest securities.
- F2 Unit Fund — Investment in New Zealand fixed interest securities.
- O Unit Fund — Investment in international listed and unlisted equities.

2 INVESTMENT INCOME

Income, specific to the unit funds for 2018, (and as shown in the Statement of Changes in Net Assets), was as follows:

	C Unit ($000)	E Unit ($000)	F Unit ($000)	F2 Unit ($000)	O Unit ($000)	Total ($000)
Dividend revenue						
Equities	-	3,728	-	-	6,968	10,696
Unit trusts' distributions	235	124	-	-	403	762
Interest revenue	850	34	31,979	10,192	37	43,092
Fair value through profit or loss						
Bonds and securities	-	448	(22,592)	170	8,326	(13,648)
Foreign currency hedges	-	(199)	(2,135)	-	(639)	(2,973)
Short term investments	-	-	41,124	(701)	-	40,423
Unit trusts and equities	54	13,082	5,902	-	43,042	62,080
Other revenue	26	69	1,631	15	1,829	3,570
Total Investment Income	1,165	17,286	55,909	9,676	59,966	144,002

2 INVESTMENT INCOME (CONTINUED)

Income, specific to the unit funds for 2017, (and as shown in the Statement of Changes in Net Assets), was as follows:

	C Unit ($000)	E Unit ($000)	F Unit ($000)	F2 Unit ($000)	O Unit ($000)	Total ($000)
Dividend revenue						
Equities	-	4,156	-	-	6,366	10,522
Unit trusts' distributions	316	77	-	-	227	620
Interest revenue	422	56	38,549	11,079	140	50,246
Fair value through profit or loss						
Bonds and securities	-	(235)	21,557	277	2,193	23,792
Foreign currency hedges	-	1	9,042	-	13,279	22,322
Short term investments	429	-	(20,687)	(2,980)	-	(23,238)
Unit trusts and equities	120	5,516	15,372	-	44,601	65,609
Other revenue	51	68	1,668	12	1,467	3,266
Total Investment Income	1,338	9,639	65,501	8,388	68,273	153,139

3 INCOME TAXATION

	2018 ($000)	2017 ($000)
Operating surplus before income tax	**135,355**	145,537
Add imputation credits	**851**	938
	136,206	146,475
Tax expense at 28%	**38,138**	41,013
Tax credits received	**(851)**	(940)
Non-taxable (gains) from investments	**(18,830)**	(18,742)
Non-taxable dividend/FDR income	**6,640**	8,954
PIE excluded income	**(35)**	(110)
Prior period adjustments	**(285)**	(196)
PIE tax payable	**91**	136
Other	**17**	10
Tax effect of income taxed under the PIE regime (transferred to unit holders' equity)	**(24,885)**	(30,125)
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).

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

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

5 RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO STATEMENT OF CHANGES IN NET ASSETS

	2018 ($000)	2017 ($000)
Increase in unit holders' equity	**1,754**	23,871
(Less) non-cash items:		
Movement in fair value through Statement of Changes in Net Assets	**(85,882)**	(88,485)
Depreciation	**41**	39
Movement in working capital items		
Movement in income tax	**(9,716)**	(8,487)
Add items classified as investing activities		
Amounts in working capital related to investment activity	**19,983**	16,916
Net cash flows from operating activities	**(73,820)**	(56,146)

6 FINANCIAL INSTRUMENTS

6.1 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 Statement of Investment Policies, Standards and Procedures (SIPSP).

JPMorgan 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.

6.2 SIGNIFICANT ACCOUNTING POLICIES

Details of significant accounting policies and methods adopted are disclosed in note 10 to the financial statements. These include 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.

6.3 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 largely by their Strategic Asset Allocations, which are reviewed regularly by the Board taking account of expert, independent advice. 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.

6.4 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 10 to the financial statements.

Within the Statement of Net Assets, under the headings of Derivative Assets and Derivative Liabilities, 15 (2017: 16) cross country interest rate swaps have been netted off against each other. These have a Gross Derivative Asset value of $755.6 million (2017: $755.8 million) and a Gross Derivative Liability value of $771.9 million (2017: $774.4 million) resulting in a negative net impact of $16.3 million (2017: negative net impact of $18.6 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.

6.5 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 3 Levels 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).
- 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).

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

2018	Level 1 ($000)	Level 2 ($000)	Level 3 ($000)	Total ($000)
Financial assets at fair value through profit or loss				
Derivative financial assets	**-**	**17,512**	**-**	**17,512**
Investments in cash funds, bonds and debentures				
- New Zealand & Australia	**241,296**	**-**	**-**	**241,296**
- North America	**495,458**	**-**	**-**	**495,458**
- Asia	**117,289**	**-**	**-**	**117,289**
- Europe	**191,152**	**-**	**-**	**191,152**
- Rest	**39,585**	**-**	**-**	**39,585**
Investments in Equities				
- New Zealand & Australia	**129,928**	**-**	**-**	**129,928**
- North America	**427,855**	**98,912**	**-**	**526,767**
- Asia	**28,075**	**-**	**-**	**28,075**
- Europe	**40,098**	**-**	**-**	**40,098**
- Rest	**5,200**	**-**	**-**	**5,200**
Financial assets at fair value through profit or loss	**1,715,936**	**116,424**	**-**	**1,832,360**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	**-**	**38,713**	**-**	**38,713**
	-	**38,713**	**-**	**38,713**
2017				
Financial assets at fair value through profit or loss				
Derivative financial assets	-	15,215	-	15,215
Investments in cash funds, bonds and debentures				
- New Zealand & Australia	245,703	-	-	245,703
- North America	505,153	-	-	505,153
- Asia	70,194	-	-	70,194
- Europe	167,732	-	-	167,732
- Rest	36,919	-	-	36,919
Investments in Equities				
- New Zealand & Australia	128,858	-	-	128,858
- North America	410,566	91,508	-	502,074
- Asia	44,686	-	-	44,686
- Europe	59,089	-	-	59,089
- Rest	4,482	-	-	4,482
Financial assets at fair value through profit or loss	1,673,382	106,723	-	1,780,105
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	49,638	-	49,638
	-	49,638	-	49,638

6.5.1 MOVEMENT OF ASSETS

As there were no level 3 assets as at 31 March 2017, and there are no level 3 assets as at 31 March 2018, there have been no transfers of assets between level 2 and 3 during the current financial year.

6.5.2 VALUATION TECHNIQUES AND INPUTS

For fair value measurements categorised within Level 2 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 2018, the GAT had $116.4 million invested in Level 2 investments (2017: $106.7 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 as well as volatility and liquidity statistics. All derivative assets and liabilities have observable market inputs with regular valuations performed under a standard methodology.

6.6 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.

The Board, on behalf of the GAT, outsources 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 SIPSP, 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. Compliance with policies and exposure limits is reviewed by the Board on a continuous basis.

6.7 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. See note 10.6.159 for information about recognition of potential impairment.

Credit risk, arising on investments, is mitigated by purchasing rated instruments or instruments issued by rated counterparties with credit ratings of 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, of which the majority 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 2018 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 2018, the individual values of the investments did not exceed 5% of the net assets of the GAT (2017: the values of the investments did not exceed 5%).

6.7 Credit Risk (Continued)

During the year the GAT continued securities lending as a means of earning additional income from its investments. As at 31 March 2018, the GAT had approximately $59 million (2017: $47 million) lent 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 101% (2017: 102%) 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.

Credit Risk Exposure	**2018 ($000)**	2017 ($000)
Cash and cash equivalents	**198,911**	202,683
Equities and unit trust investments	**730,068**	739,189
Fixed interest securities	**1,084,780**	1,025,701
Derivative assets	**17,512**	15,215
Receivables	**81,263**	82,921
Total	**2,112,534**	2,065,709

6.8 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 SIPSP. The GAT has a level of net inward cash flows (caused by the surplus allocated to unit holders). The GAT also manages liquidity risk by maintaining cash and short term deposits, 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 (if applicable).

	Less than 3 months ($000)	**3 months to 1 year ($000)**	**1-5 years ($000)**	**5+ years ($000)**	**Total ($000)**
2018					
Unsettled purchases	**176,096**	**-**	**-**	**-**	**176,096**
Derivative liabilities	**16,684**	**4,282**	**8,350**	**9,397**	**38,713**
Other financial liabilities	**1,610**	**1,267**	**-**	**-**	**2,877**
Total	**194,388**	**5,549**	**8,350**	**9,397**	**217,686**

6.8 LIQUIDITY RISK (CONTINUED)

	Less than 3 months ($000)	3 months to 1 year ($000)	1-5 years ($000)	5+ years ($000)	Total ($000)
2017					
Unsettled purchases	130,053	-	-	-	130,053
Derivative liabilities	26,543	1,822	12,283	8,990	49,638
Other financial liabilities	1,517	1,154	-	-	2,671
Total	158,113	2,976	12,283	8,990	182,362

6.9 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. 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.

6.9.1 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 table below details 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)
2018					
Financial assets:					
Interest rate instruments					
Cash and cash equivalents	**0.85**	**198,911**	**-**	**-**	**198,911**
Receivables for securities sold	**N/A**	**79,791**	**-**	**-**	**79,791**
Investments	**3.03**	**151,789**	**474,827**	**458,164**	**1,084,780**
Total		**430,491**	**474,827**	**458,164**	**1,363,482**
2017					
Financial assets:					
Interest rate instruments					
Cash and cash equivalents	1.07	202,683	-	-	202,683
Receivables for securities sold	N/A	81,104	-	-	81,104
Investments	3.59	95,123	368,928	561,650	1,025,701
Total		378,910	368,928	593,769	1,309,488

6.9.1.1 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.

		Effect on			
	Changes in variable +/-	**Operating surplus attributable to unit holders**		**Liabilities attributable to unit holders**	
		2018 ($000)	2017 ($000)	**2018 ($000)**	2017 ($000)
Floating interest rate risk	1%	**(3,597)**	(2,880)	**(3,597)**	(2,880)
Fixed interest rate risk	1%	**5,493**	5,776	**5,493**	5,776
Total interest rate risk		**1,896**	2,896	**1,896**	2,896

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

6.9.2 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 SIPSP. The SIPSP permits foreign currency exposures to be varied from the foreign currency benchmarks.

The GAT's foreign currency benchmarks at 31 March 2018 and 31 March 2017 are as follows:

	2018	2017
Asset Class/Strategy	**Pre tax (post tax) Strategic hedge ratio**	Pre tax (post tax) Strategic hedge ratio
International equities	**69% (50%)**	69% (50%)
International fixed interest	**100% (100%)**	100% (100%)

The GAT's total exposure to foreign currency exchange, at the reporting date, (after hedging) was $151 million (2017: $155 million). The GAT's foreign exchange exposure, before taking into account hedging was $1,483 million (2017: $1,483 million).

6.9.2.1 Foreign currency sensitivity

The two largest currencies that the GAT is exposed to is the Euro and USD (2017: Euro and USD)

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	
	2018 ($000)	2017 ($000)
Operating surplus before finance costs allocated to unit holders	**53,388**	53,388
Liabilities attributable to unit holders	**53,388**	53,388

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.

6.9.3 Price Risk Management

The GAT has investments in equity instruments, fixed interest instruments and derivative financial instruments, which exposes it to price risk. The investment managers manage price risk in accordance with the Board's SIPSP 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.

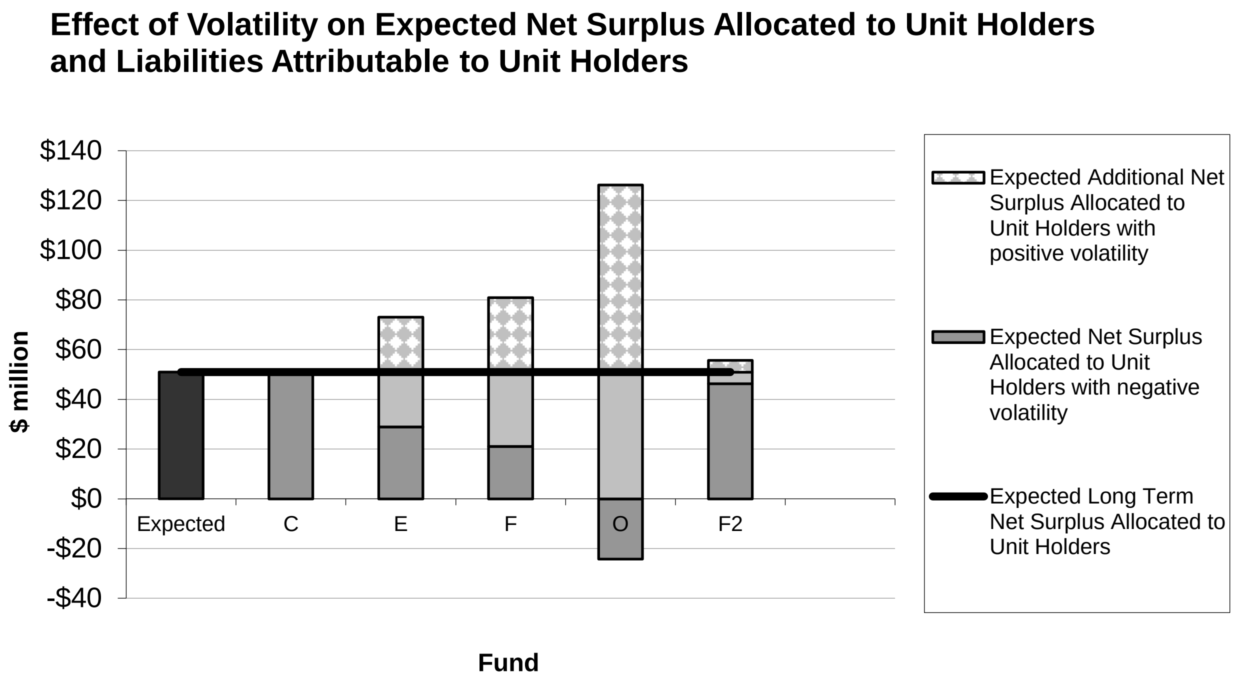
The following chart illustrates the effect of changes in the total price risk on the long-term net surplus allocated to unit holders, and the liabilities attributable to unit holders. This is based on the Board's assessment of the risk the GAT was exposed to at 31 March 2018.

The chart is based on:

- The asset allocations of the Schemes, as at 31 March 2018
- Provision for expenses
- 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 (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	2.4%	1.8%	0.9%
E Unit	6.4%	5.5%	18.3%
F Unit	51.3%	1.0%	3.1%
O Unit	26.0%	5.8%	15.4%
F2 Unit	13.9%	2.1%	1.8%

6.9.3 Price Risk Management (continued)



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 $51.0 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 $126.2 million per annum, or decrease it to a loss of $24.3 million.

The Board does not believe there are any financial assets past their due date 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 reimbursement transactions with the GAT during the year. These related to reimbursement of professional fees, Goods and Services Tax and the purchase of fixed assets which are incurred by the Board on behalf of unit funds. The total reimbursed during the year was $149,488 (2017: $160,948).

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 $56,489 (2017: $56,531) during the year for the use of those assets. This amount was invoiced and paid by 31 March 2018. The 2017 lease costs were also paid by 31 March 2017.

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

8 Commitments and Contingent Liabilities

There were no commitments outstanding, or contingent liabilities, as at 31 March 2018 (2017: Nil).

9 Subsequent Events

The following subsequent event is to be noted:

On 1 May 2018 the Strategic Asset Allocation was changed. The benchmark Strategic Asset Allocation changed for the following Schemes: National Provident Pension Scheme, Pension National Scheme, Lump Sum National Scheme, Meat Industry Scheme and Pension Cash Accumulation Scheme.

(2017: There were no material events after balance date)

10 Summary of Significant Accounting Policies

10.1 Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Financial Markets Conduct Act 2013 (FMCA).

10.2 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.

10.3 Measurement base

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

10.4 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.

10.5 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.

10.5 Critical Accounting Estimates and Judgements

Further detail on 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). As with all investments, their value is subject to variation due to market fluctuations.

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.

10.6 Accounting Policies

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

10.6.1 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.

10.6.2 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.

10.6.3 Expenses

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

10.6.4 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.

10.6.5 Cash and cash equivalents

Cash comprises current deposits with banks and cash held by investment managers for the purpose of acquiring financial instruments. 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, and that are held for the purpose of meeting short-term cash commitments.

10.6.6 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.

10.6.7 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. 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. Therefore 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. This 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.

10.6.8 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.

10.6.9 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.

10.6.10 Interest and Other Receivables

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.

10.6.11 Payables

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.

10.6.12 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 the SIPSP approved by the Board which includes written policies on the use of financial derivatives.

10.6.13 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.

10.6.14 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 2017.

10.6.15 Standards issued but not effective

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2018 reporting periods and have not been adopted early by the Board. Of these standards, only *NZ IFRS 9 Financial Instruments* is applicable to the GAT. This standard will be adopted for the 2018/19 financial year. The Board's assessment of the impact is set out below.

No change will be necessary with regard to the classification, measurement and derecognition of financial assets and financial liabilities. Financial assets held by GAT are recognised and measured at fair value through profit or loss (FVPL). The GAT does not have financial liabilities designated at FVPL.

NZ IFRS 9 introduces a new expected credit loss model which broadens the information that an entity is required to consider when determining its expectations of impairment. Under this new model, expectations of future events must be taken into account, resulting in the earlier recognition of larger impairments. Modelling of past performance of financial assets will be undertaken as a basis of expectation of impairment. This will be recognised in 2018/19 financial statements.

The GAT does not use Hedge Accounting.

10.6.16 Changes in accounting policies

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

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:

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

Trustee	**Board of Trustees of the National Provident Fund (the Board**)
	Edward J Schuck *(Chairman from 1 September 2017)*
	Catherine M McDowell *(Chairman until 31 August 2017)*
	Graeme R Mitchell
	Daniel J Mussett
	Fiona A Oliver *(retired 30 June 2017)*
	Wayne L Stechman
	Stephen P Ward
Investment managers	(appointed by the Board as trustee of the GAT)
	AMP Capital Investors (NZ) Limited
	ANZ Bank NZ Limited
	AQR Capital Management, LLC
	Arrowstreet Capital, Limited Partnership
	Ashmore Investment Management Limited
	Bank of New Zealand Limited
	Brandywine Global Investment Management, LLC
	Devon Funds Management Limited
	Harbour Asset Management Limited
	Lazard Asset Management, LLC
	Marathon Asset Management, LLP
	Pacific Investment Management Company, LLC
	Wellington Management Australia Pty Limited *(contract ended June 2018)*
Custodian	JPMorgan Chase Bank
Auditor	Michael R Wilkes, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand

3. 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
PO 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 21 June 2018.

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

Edward J Schuck
Chairman

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF GLOBAL ASSET TRUST'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

Opinion

We have audited the financial statements of the Trust on pages 1 to 18, that comprise the Statement of Net Assets as at 31 March 2018, 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 on pages 1 to 18:

- present fairly, in all material respects:
    - its net assets as at 31 March 2018; 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 21 June 2018. 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.

Responsibilities of the Board of Trustees for the financial statements

The Board of Trustees is responsible on behalf of the Trust 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 they determine is necessary to enable the preparation of 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 Trust for assessing the Trust's ability to continue as a going concern. The Board of Trustees is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Trustees intend to wind-up the Trust 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 7.2 of the Trust's Deed of Trust.

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 readers 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 Trust'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 Trust'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 Trust 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.

Deloitte.

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 19 to 20, 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 Trust in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *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 Trust.

Michael Wilkes, Partner
for Deloitte Limited
On behalf of the Auditor-General
Christchurch, New Zealand