



National Provident Pension Scheme

On behalf of the Board of Trustees of the National Provident Fund, set out below is a report on the performance and activities of your Scheme for the year ended 31 March 2019. Further information on the National Provident Fund's activities, and commentary on investment markets, is set out in the Review.

YOUR SCHEME

CROWN GUARANTEE

The National Provident Pension Scheme is a defined benefit scheme. The benefits payable by your Scheme are guaranteed by the Crown.

INVESTMENT PERFORMANCE

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

	Return	Index
Fixed interest	1.96%	4.51%
Alternatives*	(8.52)%	0.96%
New Zealand shares	16.40%	19.37%
Overseas shares	7.31%	7.58%

* The Scheme's investment in alternatives was previously included with overseas shares. A new unit fund of the Global Asset Trust, the Alternatives Unit Fund, was established in 2018. Since 1 October 2018, the Scheme's investment in alternatives has been through the Alternatives Unit Fund. The above return for alternatives is for the period 1 October 2018 to 31 March 2019.

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2019 was 3.63%.

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

FUNDING POSITION

A summary of the funding level of the Scheme, as at 31 March, was:

	2019 (\$000)	2018 (\$000)
Net assets	368,131	359,186
Actuarial liabilities	(352,791)	(347,827)
Funding level*	104.3%	103.3%

* The funding level has been calculated on the funding basis using a discount rate of 2.5% net of tax and expenses. Calculating the funding level on a minimum risk basis (and a discount rate of 1.36%) would give a funding level of 94.6%.



NATIONAL
PROVIDENT

National Provident Pension Scheme

PENSIONS REMAIN THE SAME

The Board has determined, based on the advice of the Actuary, that pensions will remain the same. The Actuary has advised that, although the funding position of the Scheme is positive, it is not at a level that can support an increase in pension payments.

WHO INVESTS YOUR MONEY

Fixed interest

Ashmore Investment Management Limited (emerging markets)
Brandywine Global Investment Management, LLC
Pacific Investment Management Company LLC
Wellington Management Australia Pty, Ltd
(contract ended June 2018)

Alternatives

AQR Capital Management, LLC (Style Premia Fund)

New Zealand shares

Devon Funds Management Limited
Harbour Asset Management Limited

Overseas shares

Arrowstreet Capital, Limited Partnership
Lazard Asset Management, LLC
Marathon Asset Management, LLP

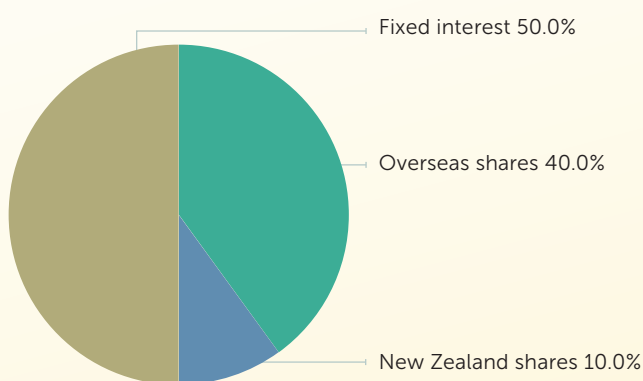
Foreign exchange hedging

ANZ Bank New Zealand Limited
Bank of New Zealand Limited

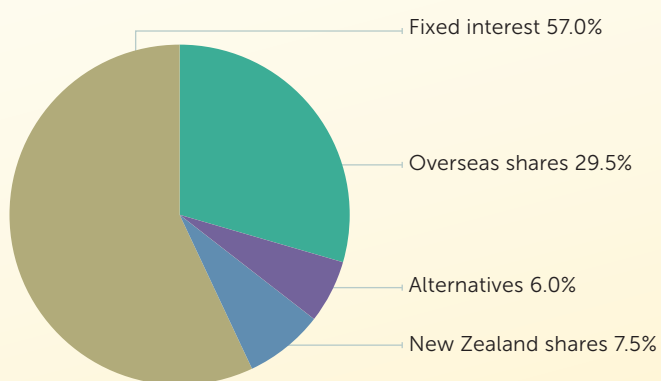
HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. The asset allocation strategy for the Scheme was reviewed during the year. The pie charts show the Scheme's asset allocation strategy effective from 1 May 2018 and the new strategy effective from 1 October 2018.

Effective 1 May 2018



Effective 1 October 2018

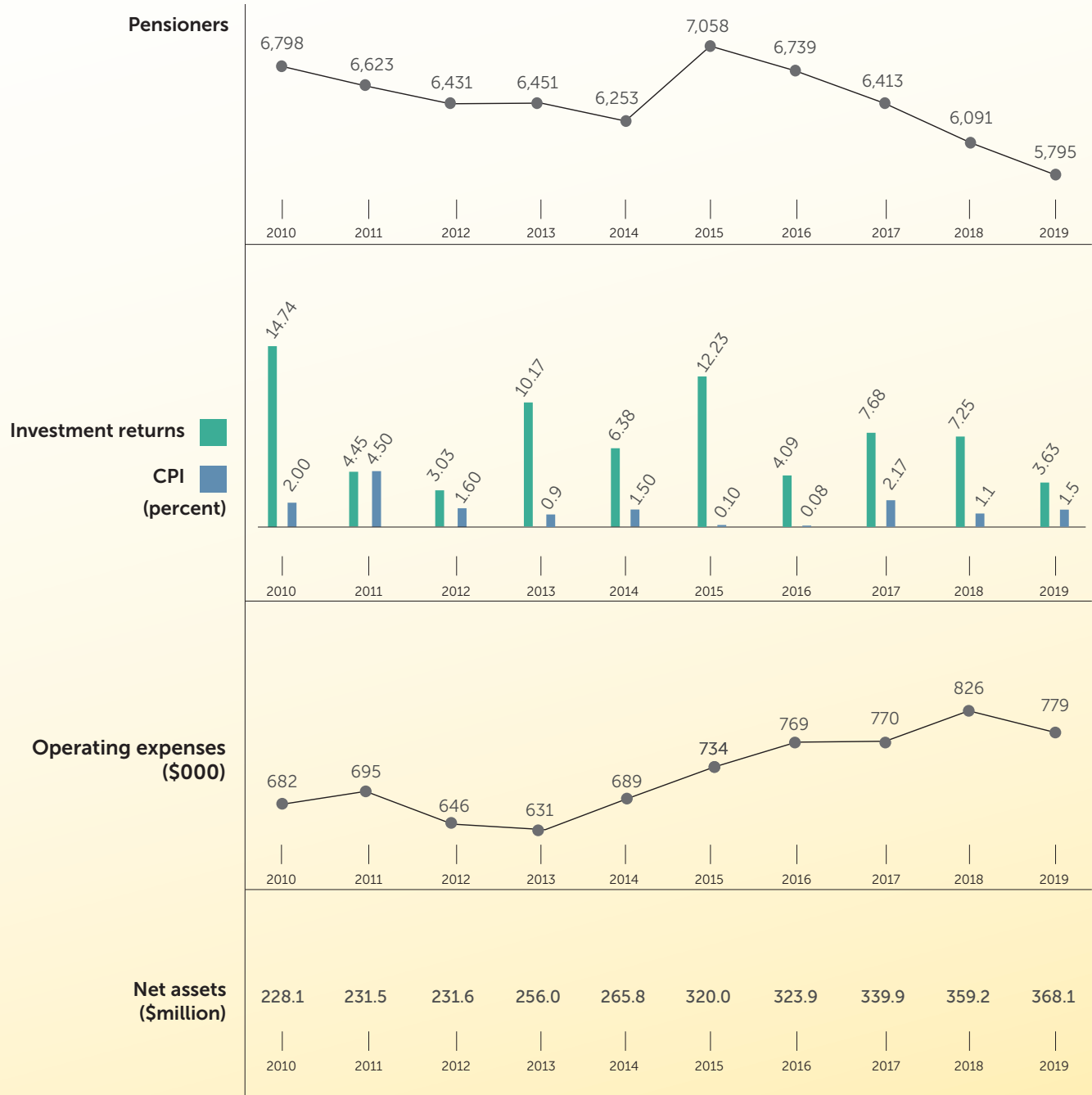


The Board's Statement of Investment Policies, Standards and Procedures (**SIPSP**) was changed during the year to add a new unit fund, the Alternatives Unit Fund. There were no other significant changes to the SIPSP during the year.

See our website, www.npf.co.nz, for more information about your Scheme, including the Board's SIPSP and the Scheme trust deed.

National Provident Pension Scheme

10 YEAR COMPARISON



National Provident Pension Scheme (the Scheme)
Statement of Changes in Net Assets
for the year ended 31 March 2019

	Note	2019 (\$000)	2018 (\$000)
Investment income			
Income from unit funds	4	13,469	25,005
Interest received		89	77
Total investment income		13,558	25,082
Operating expenses			
Actuarial fees		32	32
Audit fees		16	17
Bank fees		5	6
Board member expenses	5	22	23
Consultancy Fees		6	-
Management expenses	5	698	741
Stationery and printing		-	7
Total operating expenses		779	826
Net income before tax and membership activities		12,779	24,256
Income tax credit	6	193	209
Net income after tax and before membership activities		12,972	24,465
Scheme receipts			
Transfers from Contributors Schemes	1	28,646	27,068
Total scheme receipts		28,646	27,068
Scheme payments			
Pensions paid		32,673	32,328
Total scheme payments		32,673	32,328
Net membership activities		(4,027)	(5,260)
Increase in net assets for the year	9	8,945	19,205
Net assets available to pay benefits at beginning of year		359,186	339,981
Net assets available to pay benefits at end of year		368,131	359,186

The notes to the financial statements on pages 4 to 13 form an integral part of these financial statements.

National Provident Pension Scheme (the Scheme)
Statement of Net Assets
as at 31 March 2019


	Note	2019 (\$000)	2018 (\$000)
Investment assets at fair value through profit or loss	3		
Alternatives Unit Fund		21,489	-
Fixed Interest Unit Fund		206,549	180,891
New Zealand Equity Unit Fund		25,040	35,281
Overseas Equity Unit Fund		111,786	140,306
		<u>364,864</u>	<u>356,478</u>
 Other assets at amortised cost			
Cash		3,041	2,531
Other receivables	8	108	52
Receivable from the Global Asset Trust	7	193	209
		<u>3,342</u>	<u>2,792</u>
 Total assets		<u>368,206</u>	<u>359,270</u>
 Current liabilities at amortised cost			
Accounts payable		75	84
Total liabilities		<u>75</u>	<u>84</u>
 Net assets available to pay benefits		<u>368,131</u>	<u>359,186</u>

Authorised for issue on 25 June 2019.

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 13 form an integral part of these financial statements.

National Provident Pension Scheme (the Scheme)
Statement of Cash Flows
for year ended 31 March 2019

	Note	2019 (\$000)	2018 (\$000)
Cash flows from operating activities¹			
Transfers from Contributors Schemes		28,646	27,068
Interest received		89	77
		<u>28,735</u>	<u>27,145</u>
Cash was applied to :			
Operating expenses		641	572
Pensions paid		32,667	32,332
		<u>33,308</u>	<u>32,904</u>
Net cash flows from operating activities	9	<u>(4,573)</u>	<u>(5,759)</u>
Cash flows from investing activities²			
Cash was provided from sale of units in :			
Fixed Interest Unit Fund		13,648	1,699
New Zealand Equity Unit Fund		14,436	3,350
Overseas Equity Unit Fund		44,200	11,838
		<u>72,284</u>	<u>16,887</u>
Cash was applied to purchase units in :			
Alternatives Unit Fund		23,814	-
Fixed Interest Unit Fund		36,509	10,883
New Zealand Equity Unit Fund		21	19
Overseas Equity Unit Fund		6,857	77
		<u>67,201</u>	<u>10,979</u>
Net cash flows from investing activities		<u>5,083</u>	<u>5,908</u>
Net increase in cash held		510	149
Add opening cash brought forward		2,531	2,382
Closing cash carried forward³		<u>3,041</u>	<u>2,531</u>

1 Operating Activities: includes any activities that are the result of normal business activities not classified as investing activities.

2 Investing Activities: comprises acquisition and disposal of units in the GAT.

3 Cash: comprises cash balances held with banks in New Zealand and Australia.

The notes to the financial statements on pages 4 to 13 form an integral part of these financial statements.

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

1 DESCRIPTION OF THE SCHEME AND FUNDING ARRANGEMENTS

The Scheme was established in accordance with section 17 of the National Provident Fund Restructuring Amendment Act 1997, for the purpose of paying pensions which arise from the membership of the National Provident Fund defined contribution schemes and such other NPF schemes as the Board of Trustees of the National Provident Fund (the Board) may determine from time to time.

The Scheme is deemed to be registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 (FMCA).

2 RELATED PARTIES

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

The Board and the Government Superannuation Fund Authority (the Authority) have formed a joint venture company, Annuitas Management Limited (Annuitas). Each organisation has entered into a management services agreement with Annuitas. The main function of Annuitas is to provide staff who act in management and secretarial roles on behalf of the Board and the Authority. The costs of running Annuitas are shared between the Board and the Authority on an equitable basis, as agreed between the organisations.

Edward J Schuck and Graeme R Mitchell are the two Board appointed directors of Annuitas.

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

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

3 STRATEGIC ASSET ALLOCATION - INVESTMENT

The Scheme is authorised to invest in the GAT or in bank deposits. The GAT is divided into separate unit funds representing various asset classes.

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

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

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019

3 STRATEGIC ASSET ALLOCATION – INVESTMENT (CONTINUED)

The benchmark asset allocations as at 31 March 2019 and 31 March 2018 are shown below.

	2019	2018
	%	%
Alternatives Unit Fund	6.0	-
Fixed Interest Unit Fund	57.0	50.0
New Zealand Equity Unit Fund	7.5	10.0
Overseas Equity Unit Fund	29.5	40.0

4 INCOME FROM UNIT FUNDS

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

	2019	2018
	(\$000)	(\$000)
Alternatives Unit Fund	(2,325)	-
Fixed Interest Unit Fund	2,797	6,693
New Zealand Equity Unit Fund	4,175	4,659
Overseas Equity Unit Fund	8,822	13,653
Income from unit funds*	13,469	25,005

*The income from unit funds is received tax paid.

5 MANAGEMENT AND BOARD MEMBER EXPENSES

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

6 INCOME TAX

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

	2019	2018
	(\$000)	(\$000)
Scheme specific income	89	77
Deductible expenses	(779)	(826)
Expense election to the GAT under section DV 2	690	749
Taxable income	-	-
Net income before tax and membership activities	12,779	24,256
Tax at 28%	3,578	6,792
Non-assessable income	(3,771)	(7,001)
Income tax credit	(193)	(209)
Represented by:		
Income tax credit on current year income	(193)	(209)
Prior year adjustment	-	-
Income tax credit	(193)	(209)

The tax credit results from the benefit of the Scheme electing to transfer surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007 (refer note 7). The GAT is subject to tax at the rate of 28 percent.

The income of \$13,469,000 (2018: \$25,005,000) from unit funds, shown on the Statement of Changes in Net Assets, is all received tax paid.

7 RECEIVABLE FROM THE GAT

This receivable represents the outstanding tax credits, (refer note 6), utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Income Tax Act 2007. The Scheme will realise the receivable by investing in unit funds of the GAT, with the remainder being settled by cash if applicable.

8 OTHER RECEIVABLES

Other receivables consist of:

	2019	2018
	(\$000)	(\$000)
Management fee refund	92	29
Sundry receivables	16	23
Total other receivables	108	52

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

9 RECONCILIATION OF INCREASE IN NET ASSETS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
	(\$000)	(\$000)
Increase in net assets for the year	8,945	19,205
Movements in working capital		
Change in accounts payable	(9)	1
Change in other receivables	(56)	56
	(65)	57
Add non-cash items		
Movement in receivable from the GAT	16	(16)
	16	(16)
Items classified as investing activities		
(Income) from unit funds	(13,469)	(25,005)
	(13,469)	(25,005)
Net cash flows used in operating activities	(4,573)	(5,759)

10 GUARANTEED BENEFITS

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

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019

11.1 ACTUARIAL EXAMINATION AND REVIEW

Every three years, a statutory actuarial examination of the Scheme is prepared in accordance with the National Provident Fund Restructuring Act 1990 and the Financial Markets Conduct Act 2013 (refer note 12). The most recent actuarial examination was carried out as at 31 March 2018.

In addition, an actuarial review of the Scheme is undertaken annually. The results of the actuarial review of the Scheme, most recently as at 31 March 2019, are set out below for the funding level and vested benefits ratio.

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019

The funding level (solvency ratio) of the Scheme is the ratio of the net assets available to pay benefits to the value of the total liabilities. For this Scheme, the value of the vested benefits is equal to the value of the liabilities. From 31 March 2019, for the purposes of this note, the value of the past service liabilities and hence the funding level is calculated on two bases:

- Funding basis: Pensions are purchased from the Scheme using a discount rate of 2.5% pa net of tax and expenses. This rate is also used to monitor the ongoing funding level of the Scheme.

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019 (CONTINUED)

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2019 (CONTINUED)

- Minimum risk basis: Under the minimum risk basis, the value of the liabilities is the present value of the estimated benefit payments, assuming investment returns are the same as can be earned on a portfolio of New Zealand government bonds with the same average duration as the liabilities. New Zealand Government bonds are chosen for this purpose as they represent the least risk that future investment returns will not be as expected over the relevant duration. This basis is provided for information purposes only.

The results of the calculations, as at 31 March, are shown below:

Funding level and vested benefits – funding basis		
Valuation date	2019	2018
	(\$000)	(\$000)
Present value of - Liabilities/vested benefits	(352,791)	(347,827)
Net assets	368,131	359,186
Surplus	15,340	11,359
Funding level	104.3%	103.3%

This table should be read in conjunction with note 10.

Funding level – minimum risk basis	
Valuation date	2019
	(\$000)
Present value of - Liabilities	(389,106)
Net assets	368,131
Surplus/(Deficit)	(20,975)
Funding level	94.6%

The funding level on the minimum risk basis was not calculated in 2018.

The most financially significant assumptions are:

- Funding basis: the discount rate of 2.5% pa net of tax and expenses.
- The pensioner mortality assumptions, which were based on the results of a recent pensioners' mortality investigation.
- Minimum risk basis: the discount rate assumed for determining the present value (1.36% pa as at 31 March 2019).

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2018

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

The most recent statutory actuarial examination was prepared, as at 31 March 2018, by Christine Ormrod FNZSA, the Actuary to the Scheme, and is dated 11 June 2018. It covers the three years 31 March 2015 to 31 March 2018.

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2018 (CONTINUED)

Valuation date	31 March 2018	31 March 2015
	(\$000)	(\$000)
Present value of -		
Liabilities	(347,827)	(302,304)
Net assets	359,186	320,040
Surplus	11,359	17,736
Funding level	103.3%	105.9%

The ratio of the net assets to the value of total liabilities is known as the funding level. A funding level of 100% indicates a balance between the net assets and liabilities of the Scheme at the date of the valuation. The funding level of the Scheme at 31 March 2018 was 103.3%. This shows that the Scheme had sufficient assets, as at that date, to meet its liabilities under the valuation assumptions. Under section 60 of the Act, the benefits payable by the Scheme are guaranteed by the Crown.

For this Scheme, the value of vested benefits is equal to the value of the total liabilities and hence the ratio of net assets to the value of vested benefits is the same as the funding level, i.e. 103.3% at 31 March 2018.

The most significant actuarial assumptions used by the Actuary were:

- The discount rate of 2.5% pa, net of tax and expenses.
- The pensioner mortality assumptions, which are based on the results of a recent pensioners' mortality investigation and include an allowance for improving mortality.

Recommendations

In the report on the examination the Actuary recommended:

- The Board reviews the investment strategy of the Scheme at least every three years, i.e. during or before 2021.
- The next statutory actuarial examination of the Scheme be carried out as at 31 March 2021, unless the quarterly reviews of the funding levels indicate an earlier examination is appropriate.

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

The Board accepted the recommendations of the Actuary.

13 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the Strategic Asset Allocation determined for the Scheme (see note 3). The unit funds hold quoted equity, fixed interest and debt instruments. These instruments are all measured at fair value.

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

13 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

More information on the disclosures under NZ IFRS 13 and the risks mentioned above is provided in the financial statements of the GAT. A copy of the financial statements of the GAT can be viewed on the National Provident Fund's website (www.npf.co.nz).

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

The long run investment return for the Scheme is estimated to be 2.9 percent per annum. This is based on the Scheme's Strategic Asset Allocation and the long term rate of return for each asset class (after investment management, custody fees and tax), and after deducting a provision for the Scheme's operating expenses (after tax).

If the long term rates of return for all of the asset classes in the asset allocation strategy increased by 10 percent this would increase the investment return from 2.9 percent to 3.2 percent per annum. Similarly, if the long term rates of return for the asset classes in the asset allocation strategy decreased by 10 percent, the investment return would decrease to 2.6 percent per annum. This would increase or decrease the profit by approximately \$1.09 million.

14 SUBSEQUENT EVENTS

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

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these financial statements with the exception of *NZ IFRS 9: Financial Instruments* (NZ IFRS 9) (See Note 16).

15.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause 29 of the Scheme Trust Deed and in accordance with the FMCA. For a description of the Scheme and its funding arrangements see note 1.

15.2 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.

15.3 MEASUREMENT BASE

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.4 PRESENTATIONAL AND FUNCTIONAL CURRENCY

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

15.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

15.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2019 reporting periods and have not been adopted early by the Board. Initial assessment of these standards shows that none of these will materially affect the Scheme.

15.7 FINANCIAL INSTRUMENTS

Financial instruments include both financial assets and financial liabilities.

Financial assets include receivables from related parties and other receivables (if applicable).

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

15.8 RECOGNITION

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.9 MEASUREMENT

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

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

15.10 IMPAIRMENT

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

15.11 DERECOGNITION

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

15.12 CASH AND CASH EQUIVALENTS

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

15.13 PENSIONS

Pensions are recognised in the Statement of Changes in Net Assets when a request for payment is made.

15.14 INVESTMENT INCOME RECOGNITION

Interest income is recognised using the effective interest rate of the instrument. Changes in the fair value on GAT unit funds are recognised in the Statement of Changes in Net Assets. Interest income from financial assets classified 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.

15.15 EXPENSES

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

15.16 TAXATION

Any income or loss arising from the movement in the fair value of the unit funds of the GAT is received by the Scheme tax paid. The Scheme's deductible operating expenses are offset against the Scheme's interest received to result in nil assessable income. Any surplus deductible operating expenses are transferred to the GAT under section DV 2 of the Income Tax Act 2007 (refer notes 6 and 7).

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2019**

16 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Scheme applied NZ IFRS 9 for the first time this year. NZ IFRS 9 replaces *NZ IAS 39: Financial Instrument- Recognition and Measurement* for annual periods beginning on or after 1 January 2018. The new standard brings together all three aspects of the accounting for Financial Instruments – classification and measurement, impairment and hedge accounting.

The classification and measurement requirements of NZ IFRS 9 did not have a significant impact on the Scheme. The scheme continued measuring at fair value, all financial assets previously held at fair value under NZ IAS 39.

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2019**

17 OTHER INFORMATION

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

17.1 SCHEME MEMBERSHIP

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

	Pensioners
Opening membership as at 1 April 2018	6,091
Pensioner change of beneficiary	63
Deaths	(455)
Transfers from NPF schemes	96
Closing membership as at 31 March 2019	<u>5,795</u>

17.2 CONTRIBUTIONS RECEIVED AND BENEFITS PAID

Under the terms of the Scheme Trust Deed, contributions are not required to be made to the Scheme.

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

17.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that, as at 31 March 2019, the market value of the net assets of the Scheme exceeded the total value of the vested benefits, under the funding basis (see note 11).

17.4 TRUST DEED

The Scheme Trust Deed was amended on 28 March 2019 to allow pensions under the Aircrew Superannuation Scheme to be transferred and paid from the Scheme.

17.5 DIRECTORY

Trustee	<p>Board of Trustees of the National Provident Fund Members of the Board are: Edward J Schuck Catherine M McDowell Graeme R Mitchell Daniel J Mussett Wayne L Stechman Stephen P Ward</p>
Administration Manager	Datacom Connect Limited
Investment managers	<p>Alternatives Unit Fund AQR Capital Management, LLC</p> <p>Fixed interest managers Ashmore Investment Management Limited Brandywine Global Investment Management, LLC Pacific Investment Management Company, LLC</p>

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2019**

17 OTHER INFORMATION (CONTINUED)

17.5 DIRECTORY (CONTINUED)

New Zealand equity managers

Devon Funds Management Limited
Harbour Asset Management Limited

Overseas equity managers

Arrowstreet Capital, Limited Partnership
Lazard Asset Management, LLC
Marathon Asset Management, LLP

Foreign exchange hedging managers

ANZ Bank NZ Limited
Bank of New Zealand Limited

Actuary

Christine D Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP

Auditor

Michael R Wilkes, Deloitte Limited (on behalf of the Auditor-General)

Solicitor

DLA Piper New Zealand

Bank

Bank of New Zealand

Custodian

JP Morgan Chase Bank

17.6 CORRESPONDENCE

All correspondence relating to the Scheme should be addressed to:

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

OR

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

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



Edward J Schuck
Chairman

25 June 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF NATIONAL PROVIDENT PENSION SCHEME

The Auditor-General is the auditor of National Provident Pension Scheme (the Scheme). 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 Scheme on his behalf.

Opinion

We have audited the financial statements of the Scheme on pages 1 to 13, that comprise the Statement of Net Assets as at 31 March 2019, the Statement of Changes in Net Assets and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Scheme on pages 1 to 13:

- present fairly, in all material respects:
 - its net assets as at 31 March 2019; 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 25 June 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Key Audit Matters

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

Key audit matter

How our audit addressed the key audit matter

Triennial Valuation of promised retirement liabilities (Note 11 and 12)

In accordance with the Section 68(1) of the National Provident Fund Restructuring Act 1990 (the Act), the Board of Trustees of the National Provident Fund is required to obtain an actuarial valuation of the estimated promised retirement liabilities as at dates that are no more than three years apart (the "Triennial Valuation").

On 11 June 2018, the scheme obtained a new Triennial Valuation as at 31 March 2018 which estimated liabilities of \$347.8 million, net assets of \$359.2 million and determined a surplus of \$11.4 million.

On 31 May 2019 the Scheme obtained an interim update letter from its actuary as at 31 March 2019 which showed vested benefits of \$352.8 million. This compared to the net assets of \$368.1 million resulting in a Scheme surplus of \$15.3 million.

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

The Triennial Valuation is inherently subjective and is affected by use of assumptions such as:

- the discount rate; and
- Assumed mortality rates for valuing the pensioners.

We have included the Triennial Valuation of the Scheme's liabilities as a key audit matter due to the significance of the disclosures to the financial statements and the subjectivity of the assumptions inherent in estimating the amount.

Our audit procedures included the following:

- Evaluating the Scheme's controls over benefits and contributions;
- Performed testing on the underlying data provided to the actuary to ensure completeness and accuracy of the data when compared to the data tested as part of our normal audit procedures;
- Evaluating the competence and objectivity and relevant experience of the Scheme's actuary;
- Engaging our internal actuarial specialist to independently understand, challenge and evaluate:
 - The work and findings of the Scheme's actuary;
 - The actuarial methods and assumptions employed, specifically the discount rate and the assumed mortality rates for valuing the pensioners.
- Evaluating the related disclosures about the Scheme's vested benefits, and the risks attached to them which is included in Note 11 to the Scheme's financial statements.

Responsibilities of the Board of Trustees for the financial statements

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

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

In preparing the financial statements, the Board of Trustees is responsible on behalf of the Scheme for assessing the Scheme's ability to continue as a going concern. The Board of Trustees 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 intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees' responsibilities arise from the Financial Markets Conduct Act 2013 and clause 29 of the Scheme's Trust Deed.

Responsibilities of the auditor for the audit of the financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of 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 Scheme's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Trustees.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with the Board of Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 14 to 15, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

We are independent of the Scheme in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (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 Scheme.



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



National Provident Pension Scheme

Directory as at 25 June 2019

BOARD MEMBERS

Edward Schuck PhD, MBA (appointed 2015 and Chair from 1 September 2017).

Catherine McDowell (appointed 2013 and Chair from 1 July 2016 to 31 August 2017)

Graeme Mitchell BA, CA, FCA (appointed 2010, Deputy Chair from 1 July 2016)

Daniel Mussett (appointed 2016)

Wayne Stechman (appointed 2012)

Stephen Ward (appointed 2016)

There were no changes to the Board members during the year. Further information on the Board members is provided on our website – www.npf.co.nz.

MANAGEMENT

Simon Tyler

Chief Executive

Fiona Morgan

Chief Financial Officer

Philippa Drury

General Manager – Schemes

Janet Shirley

Manager – Schemes

Paul Bevin

General Manager – Investments

Nicky Rumsey

Manager – Investments

Peter McCaffrey

Manager – Equities and Alternatives

There were no changes to Management during the year.

DATAKOM

ADMINISTRATION

Datacom Connect Limited is the administrator of the NPF Schemes.

CONTACT DETAILS

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

Please quote your identity number when contacting Datacom.

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

Phone: (04) 381 0600

Post to:

The Manager
National Provident Fund Administration
Datacom Connect Limited
P O Box 1036 WELLINGTON 6140
Email: npfenquiries@datacom.co.nz

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

You may contact the Board by writing to:

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

Auditor: Michael Wilkes, Deloitte Limited, on behalf of the Auditor-General

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

Bank: Bank of New Zealand Limited

Custodian: JPMorgan Chase Bank, N.A.

Solicitor: DLA Piper New Zealand

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

