

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 2020. 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 expenses) and the comparative performance of the benchmark indices are shown in the table below.

	Return	Index
Fixed interest	2.17%	6.02%
Alternatives	(15.89)%	1.50%
New Zealand shares	1.34%	036%
Overseas shares	(7.85%)	(6.12%)
Cash	1.87%	1.50%

The investment return (after tax and expenses) earned by the Scheme for the year ended 31 March 2020 was -2.00%.

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

Annual Report for the year ended 31 March 2020

SUMMARY FINANCIAL STATEMENTS

The summary financial statements included in this Annual Report have been extracted from the full financial statements for the year ended 31 March 2020.

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

Members are welcome to contact the Scheme administrator, Datacom (see details on back page), for a free copy of the Scheme's full financial statements.



National Provident Pension Scheme

FUNDING POSITION

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

	2020 (\$000)	2019 (\$000)
Net assets	357,907	368,131
Actuarial liabilities	(351,609)	(352,791)
Funding level*	101.8%	104.3%

* 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 0.92% (2019: 1.36%)) would give a funding level of 89.0% (2019: 94.6%).

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

Cash

AMP Capital Investors (New Zealand) Limited
ANZ Bank New Zealand Limited (*contract ended 20 April 2020*)

Fixed interest

Ashmore Investment Management Limited (emerging markets) (*contract ended 25 November 2019*)
Brandywine Global Investment Management, LLC
Pacific Investment Management Company LLC

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 (*contract ended 4 March 2020*)
T. Rowe Price Australia Limited (*appointed 24 March 2020*)

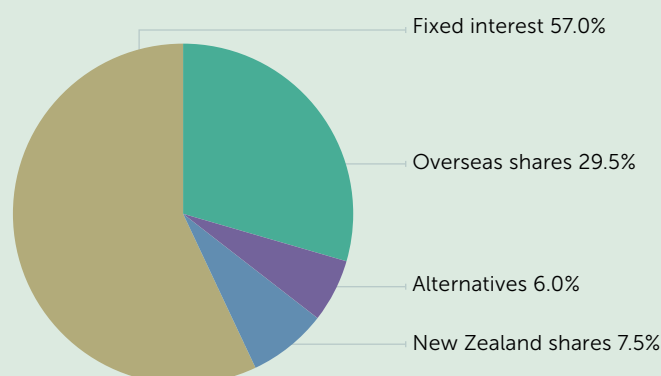
Foreign exchange hedging

ANZ Bank New Zealand Limited
Bank of New Zealand Limited

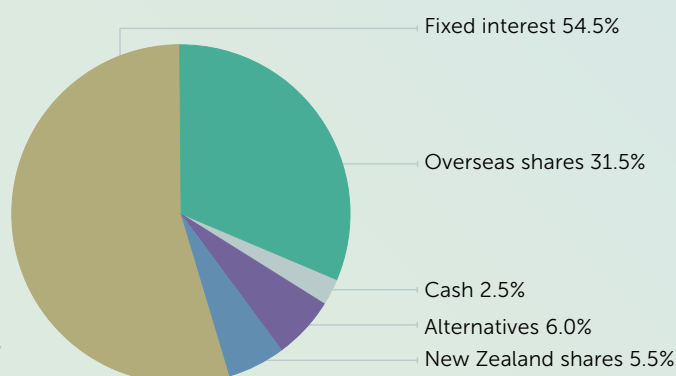
HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. In addition, during the year, the Board has applied its Dynamic Asset Allocation (**DAA**) tilting programme as outlined in the Statement of Investment Policies, Standards and Procedures (**SIPSP**). The pie charts show the Scheme's asset allocation strategy effective from 1 October 2018 and the DAA position in place as at 31 March 2020.

**Asset Allocation Strategy
from 1 October 2018**



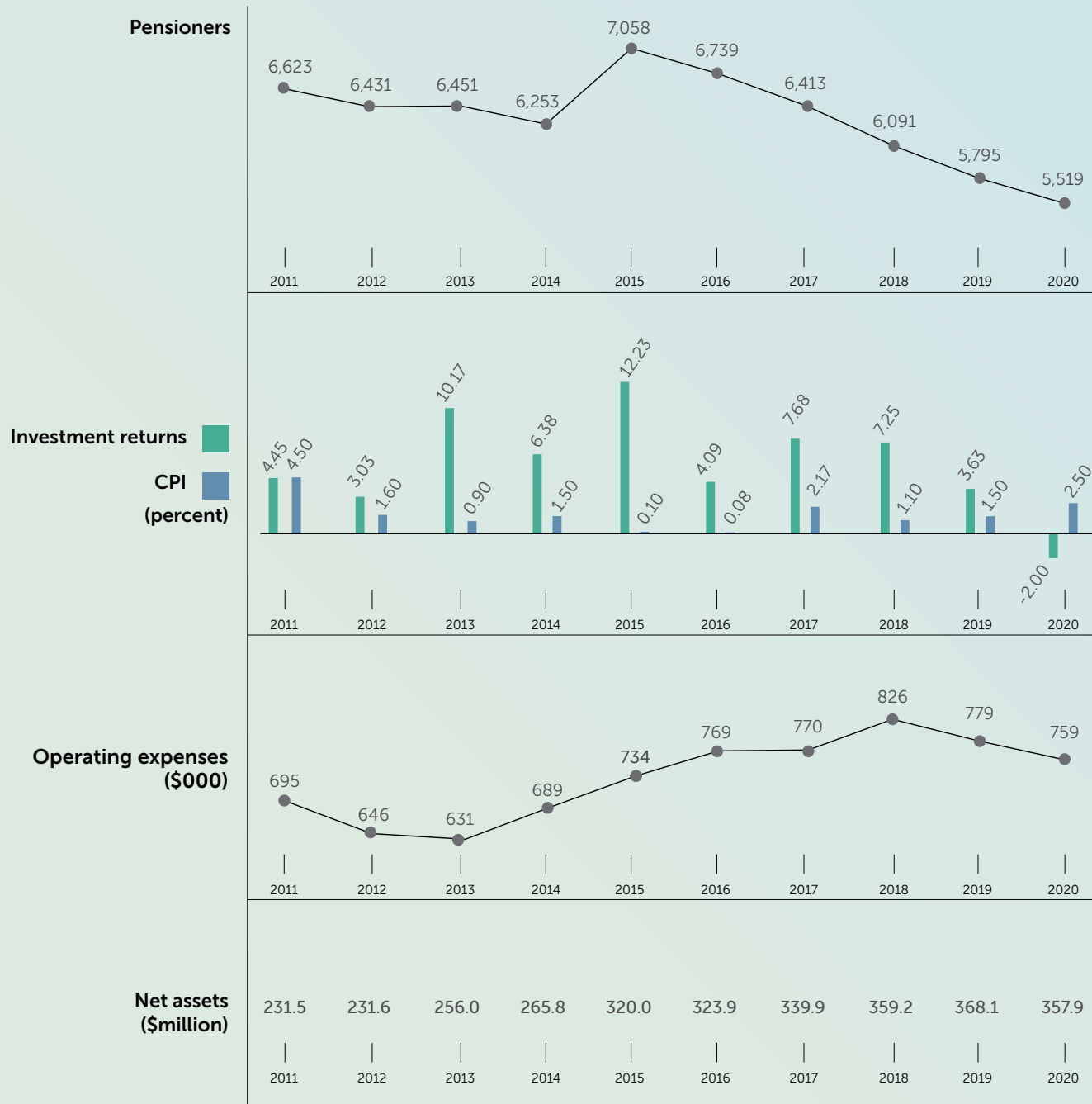
**DAA tilt
at 31 March 2020**



The Board's SIPSP is reviewed regularly by the Board. There were no 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 2020

	Note	2020 (\$'000)	2019 (\$'000)
Investment income			
(Loss)/ income from unit funds	4	(6,834)	13,469
Interest received		52	89
Total investment (loss)/ income		(6,782)	13,558
Operating expenses			
Actuarial fees		34	32
Audit fees		16	16
Bank fees		5	5
Board member expenses	5	26	22
Consultancy fees		-	6
Management expenses	5	678	698
Total operating expenses		759	779
Net (loss)/income before tax and membership activities		(7,541)	12,779
Income tax credit	6	198	193
Net (loss)/income after tax and before membership activities		(7,343)	12,972
Scheme receipts	1		
Transfers from Contributor Schemes		30,166	28,646
Total scheme receipts		30,166	28,646
Scheme payments			
Pensions paid		33,047	32,673
Total scheme payments		33,047	32,673
Net membership activities		(2,881)	(4,027)
(Decrease)/increase in net assets for the year	9	(10,224)	8,945
Net assets available to pay benefits at beginning of year		368,131	359,186
Net assets available to pay benefits at end of year		357,907	368,131

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 2020

	Note	2020 (\$000)	2019 (\$000)
Investment assets at fair value through profit or loss	3		
Alternatives Unit Fund		22,071	21,489
Cash Unit Fund		9,733	-
Fixed Interest Unit Fund		206,050	206,549
New Zealand Equity Unit Fund		17,891	25,040
Overseas Equity Unit Fund		98,271	111,786
		354,016	364,864
Financial assets at amortised cost			
Cash		3,672	3,041
Other receivables	8	100	108
Receivable from the Global Asset Trust	7	-	193
		3,772	3,342
Other assets			
Deferred tax asset	6	198	198
		198	198
Total assets		357,986	368,206
Current liabilities at amortised cost			
Account payable		79	75
Total liabilities		79	75
Net assets available to pay benefits		357,907	368,131

Authorised for issue on 29 June 2020

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



Edward J Schuck
Board Chair



Stephen P Ward
Chair
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 the year ended 31 March 2020

	Note	2020 (\$000)	2019 (\$000)
Cash flows from operating activities¹			
Transfers from Contributors Schemes		30,166	28,646
Interest received		52	89
		30,218	28,735
Cash was applied to:			
Operating expenses		558	641
Pensions paid		33,043	32,667
		33,601	33,308
Net cash flows from operating activities	9	(3,383)	(4,573)
Cash flows from investing activities²			
Cash was provided from sale of units in:			
Alternative Unit Fund		927	-
Cash Unit Fund		36	-
Fixed Interest Unit Fund		12,969	13,648
New Zealand Equity Unit Fund		7,746	14,436
Overseas Equity Unit Fund		9,720	44,200
		31,398	72,284
Cash was applied to purchase units in:			
Alternatives Unit Fund		4,780	23,814
Cash Unit Fund		9,694	-
Fixed Interest Unit Fund		9,632	36,509
New Zealand Equity Unit Fund		14	21
Overseas Equity Unit Fund		3,264	6,857
		27,384	67,201
Net cash flows from investing activities		4,014	5,083
Net increase in cash held		631	510
Add opening cash brought forward		3,041	2,531
Closing cash carried forward³		3,672	3,041

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- 1 Operating Activities: includes any activities that are the result of normal business activities not classified as investing activities.
- 2 Investing Activities: comprises acquisition and disposal of units in the GAT.
- 3 Cash: comprises cash balances held with banks in New Zealand 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 2020**

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 Stephen P Ward 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 (SAA) – 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 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 specialist advice.

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

3 STRATEGIC ASSET ALLOCATION (SAA) – INVESTMENT (CONTINUED)

The benchmark asset allocations as at 31 March 2020 and at 31 March 2019 are shown below. The tilted benchmark asset allocation as at 31 March 2020 is also shown. The tilted benchmark is applied in accordance with the Dynamic Asset Allocation (DAA) tilting programme as outlined in the Statement of Investment Policy, Standards and Procedures (SIPSP).

	Benchmark		
	2020 SAA (%)	2020 Tilted (%)	2019 SAA (%)
Alternatives Unit Fund	6.0	6.0	6.0
Cash Unit Fund	-	2.5	-
Fixed Interest Unit Fund	57.0	54.5	57.0
New Zealand Equity Unit Fund	7.5	5.5	7.5
Overseas Equity Unit Fund	29.5	31.5	29.5

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:

	2020 (\$000)	2019 (\$000)
Alternatives Unit Fund	(3,271)	(2,325)
Cash Unit Fund	75	-
Fixed Interest Unit Fund	2,838	2,797
New Zealand Equity Unit Fund	583	4,175
Overseas Equity Unit Fund	(7,059)	8,822
(Loss)/income from unit funds*	<u>(6,834)</u>	<u>13,469</u>

* 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 2020

6 INCOME TAX

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

	2020 (\$000)	2019 (\$000)
Scheme specific income	52	89
Deductible expenses	(759)	(779)
Expense election to the GAT under section DV 2	707	690
Taxable income	-	-
Net income before tax and membership activities	(7,541)	12,779
Tax at 28%	(2,111)	3,578
Non-assessable income	1,913	(3,771)
Income tax credit	(198)	(193)
Represented by:		
Income tax credit on current year income	(198)	(193)
Prior year adjustment	-	-
Income tax credit	(198)	(193)
Movements in deferred taxation		
Opening balance	-	-
Prior period adjustment	-	-
Current year movement	198	-
Deferred tax asset	198	-

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

The loss of (\$6,834,000) (2019: Income \$13,469,000) 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 2019 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 realised 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:

	2020 (\$000)	2019 (\$000)
Management fee refund	86	92
Sundry receivables	14	16
Total other receivables	100	108

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

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

	2020 (\$000)	2019 (\$000)
(Decrease)/increase in net assets for the year	(10,224)	8,945
Movement in working capital		
Change in accounts payable	4	(9)
Change in other receivables	8	(56)
	<u>12</u>	<u>(65)</u>
Add non-cash items		
Movement in receivable from the GAT	193	16
Movement in deferred tax	(198)	-
	<u>(5)</u>	<u>16</u>
Items classified as investing activities		
Loss/(income) from unit funds	6,834	(13,469)
	<u>6,834</u>	<u>(13,469)</u>
Net cash flows used in operating activities	<u>(3,383)</u>	<u>(4,573)</u>

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 2020

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 2020, are set out below for the funding level and vested benefits ratio.

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2020

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. 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 2020

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2020 (CONTINUED)

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2020 (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 – funding basis	2020 (\$000)	2019 (\$000)
Present value of -		
Liabilities/vested benefits	(351,609)	(352,791)
Net assets	357,907	368,131
Surplus	6,297	15,340
Funding level	101.8%	104.3%

This table should be read in conjunction with note 10.

Funding level – minimum risk basis		
Valuation date	2020	2019
	(\$000)	(\$000)
Present value of -		
Liabilities	(402,295)	(389,106)
Net assets	357,907	368,131
Surplus/(Deficit)	(44,389)	(20,975)
Funding level	89.0%	94.6%

This table should be read in conjunction with note 10.

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. There has been a slight change in the mortality assumptions as a result of this investigation, which has caused the funding level at 31 March 2020 to increase from 99.8% to 101.8%
- Minimum risk basis: the discount rate assumed for determining the present value (0.92% pa as at 31 March 2020 and 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.

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

12 STATUTORY ACTUARIAL EXAMINATION – 31 MARCH 2018 (CONTINUED)

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.

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.

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

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.

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 2.8 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 Strategic Asset Allocation are scaled by a factor of 1.10 this would increase the investment return from 2.8% to 3.1% per annum. Similarly, if the long term rates of return for all the asset classes in the Strategic Asset Allocation decrease by a factor of 1.10, the investment return would decrease to 2.5% per annum. This would increase or decrease the profit by approximately \$1.062 million.

14 COVID-19 IMPACT

Since 31 March 2020 the continued spread of COVID-19 and related global responses have caused material disruptions to businesses around the world, leading to an economic slowdown. Global markets have also experienced significant volatility.

The subsequent quarantine measures and travel restrictions imposed by the New Zealand government have caused disruption to businesses and economic activity. As the scheme is an essential service, operations have been able to continue remotely during the Government alert levels.

Governments and central banks have reacted with monetary and fiscal interventions designed to stabilise economic conditions, however, the duration and extent of the impact of Covid-19 outbreak, as well as the effectiveness of the bank's responses, remain unclear at this time.

The Scheme has recorded a loss from unit funds of \$6.834 million for the year ended 31 March 2020 and has obtained an interim update letter to its triennial actuarial valuation where certain assumptions were updated with latest available information (see Note 11). As at 31 March 2020 the funding ratio on an accrued benefits basis was 101.8% and therefore remained funded and in surplus.

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

14 COVID-19 IMPACT

As at 30 April 2020, one month after the reporting date of these financial statements, the fair value of the schemes Investment Assets had increased by \$14.818 million. It is expected that the volatility in local and global markets affecting the investment assets will continue in foreseeable future and will continue to have an impact on the value of the investment assets. These are considered to be non-adjusting subsequent events and therefore there is no change in value reflected in these financial statements. The Board is monitoring the impact of the movements in the market on an ongoing basis.

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

15.4 PRESENTATION 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 and volatility (see Notes 13 and 14). 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

**National Provident Pension Scheme (the Scheme)
Note to the Financial Statements
for the year ended 31 March 2020**

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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 2020 reporting periods and have not been adopted early by the Board. None of these standards are likely to have a material impact on the Scheme when they are adopted. All standards will be adopted in the period in which they become mandatory.

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.

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.

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2020

15 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

16 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2020**

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 2019	5,795
Pensioner	-
Change of Beneficiary	63
Deaths and disablements	(443)
Joins/Rejoins	104
Retirement	-
Transfer to another scheme	-
Transfer to another NPF scheme	-
Closing membership as at 31 March 2020	5,519

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 2020, 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 has not been amended since 25 June 2019, being the date of the Scheme's last annual report.

National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2020

17 OTHER INFORMATION (CONTINUED)

17.5 DIRECTORY

Trustee	<p>Board of Trustees of the National Provident Fund Members of the Board are: Edward J Schuck (Chair) Louise M Edwards (<i>Appointed 01 July 2019</i>) Catherine M McDowell (<i>Retired 30 June 2019</i>) Graeme R Mitchell (<i>Retired 30 June 2019</i>) Daniel J Mussett Sarah N Park (<i>Appointed 01 February 2020</i>) Wayne L Stechman Stephen P Ward (Deputy Chair)</p>
Administration Manager	Datacom Connect Limited
Investment managers	<p>Alternatives Unit Fund AQR Capital Management, LLC</p> <p>Cash Managers AMP Capital Investors (NZ) Limited ANZ Bank NZ Limited</p> <p>Fixed Interest Managers Ashmore Investment Management Limited (<i>terminated 25 November 2019</i>) Brandywine Global Investment Management, LLC Pacific Investment Management Company, LLC</p> <p>New Zealand Equity Managers Devon Funds Management Limited Harbour Asset Management Limited</p> <p>Overseas Equity Managers Arrowstreet Capital, Limited Partnership Lazard Asset Management, LLC Marathon Asset Management, LLP T Rowe Price Australia Limited (<i>appointed 12 March 2020</i>)</p> <p>Foreign Exchange Hedging Managers ANZ Bank NZ Limited Bank of New Zealand Limited</p>
Actuary	Christine D Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP
Auditor	Silvio Bruinsma, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand
Custodian	JP Morgan Chase Bank

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2020**

17 OTHER INFORMATION (CONTINUED)

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
Board Chair
29 June 2020

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, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Scheme on his behalf.

Opinion

We have audited the financial statements of the Scheme on pages 1 to 13, that comprise the Statement of Net Assets as at 31 March 2020, 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 2020; 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 29 June 2020. 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.

Emphasis of matter – Covid-19

Without modifying our opinion, we draw attention to note 14 to the financial statements, which explains the impact of the Covid-19 pandemic on the Scheme.

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
<p>Valuation of promised retirement liabilities (Note 11)</p> <p>On 27 May 2020 the Scheme obtained an interim update letter from its actuary as at 31 March 2020 which showed vested benefits of \$351.6 million. This compared to the net assets of \$357.9 million resulting in a Scheme surplus of \$6.3 million.</p> <p>The interim update letter uses the triennial valuation as a base and certain assumptions were updated with available latest information.</p> <p>The update letter valuation is inherently subjective and is affected by use of assumptions such as:</p> <ul style="list-style-type: none"> • The discount rate; and • The assumed mortality rates for valuing the pensioners. <p>We have included the 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.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> • Testing the underlying data provided to the actuary and confirming that these agree to underlying records; • Evaluating the competence and objectivity and relevant experience of the Scheme's actuary; • Engaging our internal actuarial specialist to independently understand, challenge and evaluate: <ul style="list-style-type: none"> ○ 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, including the reasonableness of significant changes made to these assumptions in the current year. • 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 are 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 are 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 are responsible on behalf of the Scheme for assessing the Scheme's ability to continue as a going concern. The Board of Trustees are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Trustees intend to wind-up the Scheme or to cease operations, or have no realistic alternative but to do so.

The Board of Trustees' responsibilities arise from the Financial Markets Conduct Act 2013 and 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.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Trustees are responsible for the other information. The other information comprises the information included on pages 14 to 16, 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.

A handwritten signature in black ink, reading "Silvio Bruinsma". The signature is written in a cursive, flowing style.

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

National Provident Pension Scheme

Directory as at 29 June 2020

BOARD MEMBERS

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

Louise M Edwards (appointed 1 July 2019)

Catherine McDowell (retired 30 June 2019)

Graeme Mitchell BA, CA, FCA (retired 30 June 2019)

Daniel Mussett (appointed 2016)

Sarah N Park (appointed 1 February 2020)

Wayne Stechman (appointed 2012)

Stephen Ward (appointed 2016 and Deputy Chair from 1 February 2020)

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

Keith Poore

Manager – Portfolio Strategy and Risk

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

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

Bank: Bank of New Zealand Limited

Custodian: JPMorgan Chase Bank, N.A.

Solicitor: DLA Piper New Zealand

The Auditor last year was Michael Wilkes, also of Deloitte Limited, on behalf of the Auditor-General. There were no changes to the Actuary, Bank, Custodian or Solicitor during the year.