

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 2021. 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.

Asset Class	Return	Index
Fixed interest	9.58%	1.39%
Alternatives	(1.19%)	0.31%
New Zealand shares	32.15%	28.93%
Overseas shares	49.79%	41.01%

The investment return (after tax and expenses) earned by the Scheme for the year ended 31 March 2021 was 19.06%.

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 2021

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 2021.

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:

	2021 (\$000)	2020 (\$000)
Net assets	409,734	357,907
Actuarial liabilities	(345,088)	(351,609)
Funding level*	118.7%	101.8%

* The funding level has been calculated on the funding basis using a discount rate of 2.5% pa net of tax and investment related expenses. Calculating the funding level on a minimum risk basis (and a discount rate of 1.37% pa (2020: 0.92% pa)) would give a funding level of 104.0% (2020: 89.0%).

PENSIONS REMAIN THE SAME

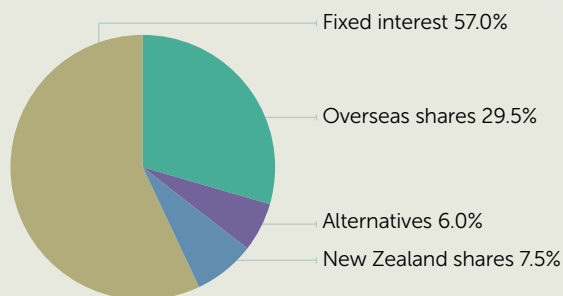
The Board has determined not to increase the pensions in payment under the Scheme at this time.

The Board has requested Management to update the financial management framework for the Scheme including reviewing the current investment strategy and the ability of that strategy to support pension increases. The Board will consider (by 31 March 2022) whether the Scheme can support a pension increase and, if so, by what percentage and from what date.

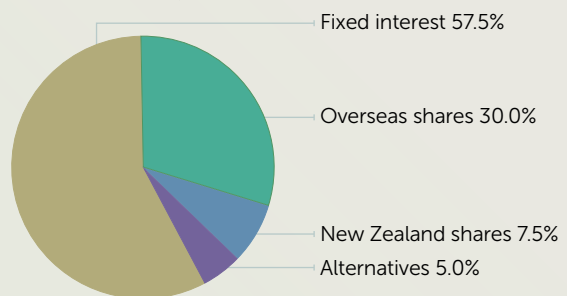
HOW YOUR MONEY IS INVESTED

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 1 February 2021, together with the current asset allocation strategy effective from 1 May 2021 and the DAA position in place as at 31 March 2021.

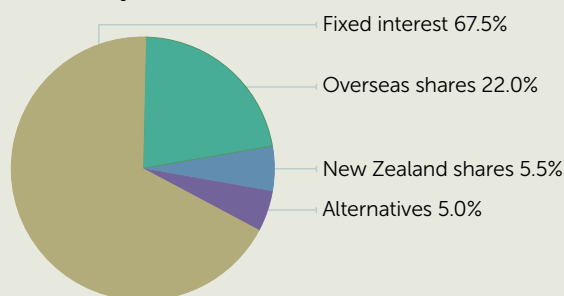
Asset Allocation Strategy from 1 October 2018



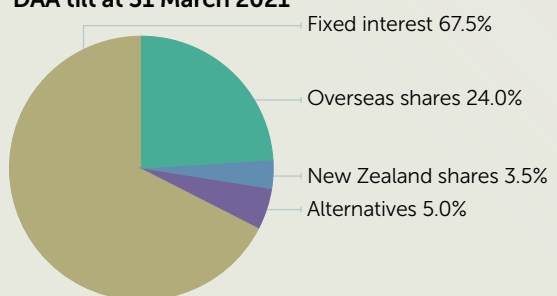
Asset Allocation Strategy from 1 February 2021



Asset Allocation Strategy from 1 May 2021



DAA tilt at 31 March 2021



WHO INVESTS YOUR MONEY

Fixed interest

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 13 May 2020*)

T. Rowe Price Australia Limited

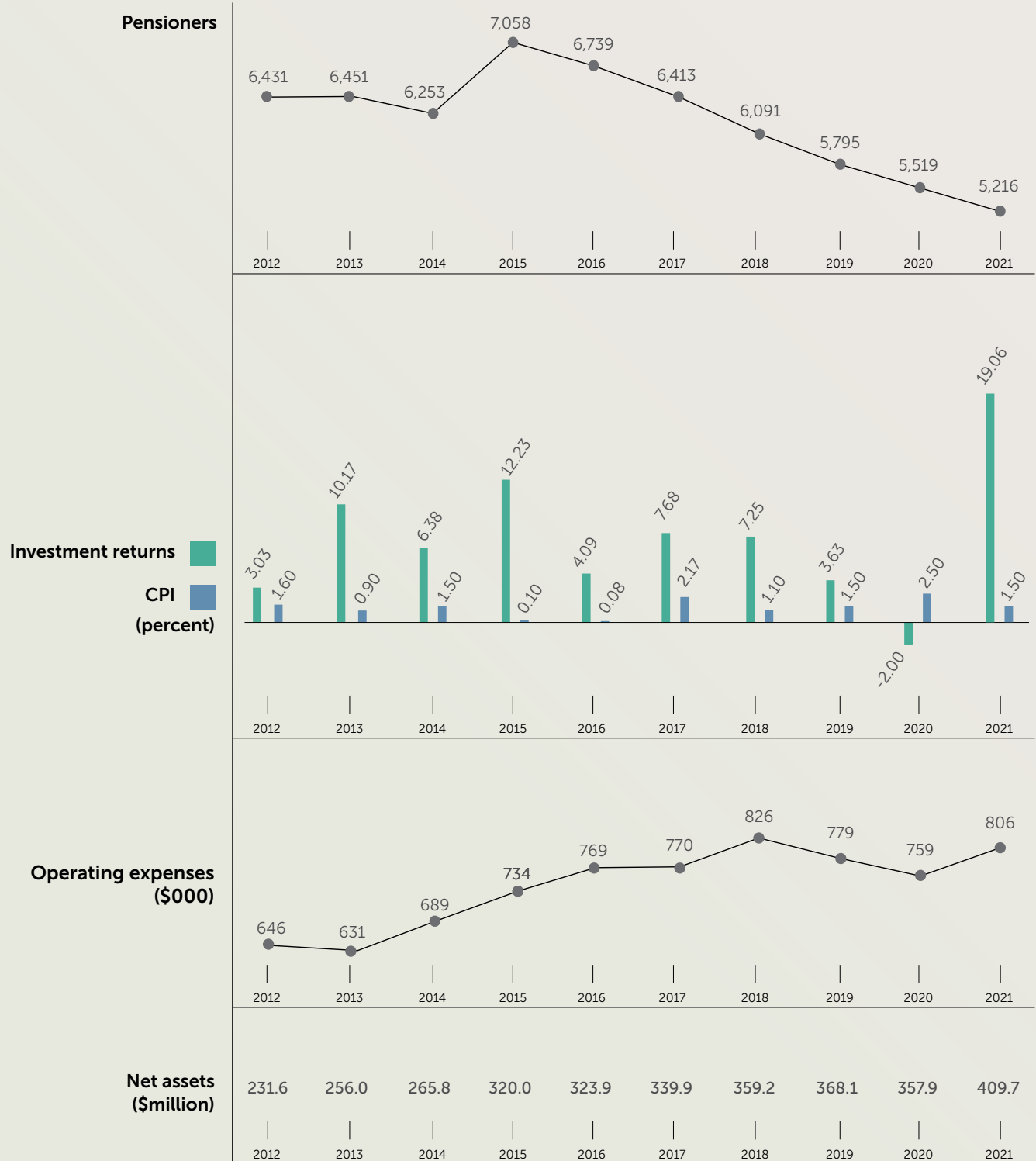
Foreign exchange hedging

ANZ Bank New Zealand Limited (*contract ended 17 August 2020*)

Bank of New Zealand Limited

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 2021

	Note	2021 (\$000)	2020 (\$000)
Investment income			
Income/(loss) from unit funds	4	67,377	(6,834)
Interest received		5	52
Total investment income/(loss)		67,382	(6,782)
Operating expenses			
Actuarial fees		34	34
Audit fees		16	16
Bank fees		4	5
Board member expenses	5	26	26
Consultancy fees		1	-
Management expenses	5	722	678
Stationery and printing		3	-
Total operating expenses		806	759
Net income/(loss) before tax and membership activities			
		66,576	(7,541)
Income tax credit	6	224	198
Net income/(loss) after tax and before membership activities			
		66,800	(7,343)
Scheme receipts			
Transfers from Contributor Schemes	1	18,079	30,166
Total scheme receipts		18,079	30,166
Scheme payments			
Pensions paid		33,052	33,047
Total scheme payments		33,052	33,047
Net membership activities		(14,973)	(2,881)
Increase/(decrease) in net assets for the year	9	51,827	(10,224)
Net assets available to pay benefits at beginning of year		357,907	368,131
Net assets available to pay benefits at end of year		409,734	357,907

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 2021

	Note	2021 (\$000)	2020 (\$000)
Investment assets at fair value through profit or loss	3		
Alternatives unit fund		23,098	22,071
Cash unit fund		-	9,733
Fixed Interest unit fund		223,695	206,050
New Zealand Equity unit fund		20,903	17,891
Overseas Equity unit fund		139,103	98,271
		406,799	354,016
Financial assets at amortised cost			
Cash		2,556	3,672
Other receivables	8	37	100
Receivable from the Global Asset Trust	7	422	-
		3,015	3,772
Other assets			
Deferred tax asset	6	-	198
		-	198
Total assets		409,814	357,986
Current liabilities at amortised cost			
Account payable		80	79
Total liabilities		80	79
Net assets available to pay benefits		409,734	357,907

Authorised for issue on 24 June 2021

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



Edward Schuck
Board Chair



Stephen 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 2021

	Note	2021 (\$000)	2020 (\$000)
Cash flows from operating activities¹			
Transfers from Contributors Schemes		18,079	30,166
Interest received		5	52
		<u>18,084</u>	<u>30,218</u>
Cash was applied to:			
Operating expenses		742	558
Pensions paid		33,053	33,043
		<u>33,795</u>	<u>33,601</u>
Net cash flows used in operating activities	9	<u>(15,711)</u>	<u>(3,383)</u>
Cash flows from investing activities²			
Cash was provided from sale of units in:			
Alternative unit fund		769	927
Cash unit fund		9,734	36
Fixed Interest unit fund		18,258	12,969
New Zealand Equity unit fund		4,651	7,746
Overseas Equity unit fund		30,436	9,720
		<u>63,848</u>	<u>31,398</u>
Cash was applied to purchase units in:			
Alternatives unit fund		2,983	4,780
Cash unit fund		1	9,694
Fixed Interest unit fund		23,459	9,632
New Zealand Equity unit fund		1,957	14
Overseas Equity unit fund		20,853	3,264
		<u>49,253</u>	<u>27,384</u>
Net cash flows from investing activities		<u>14,595</u>	<u>4,014</u>
Net (decrease)/increase in cash held		(1,116)	631
Add opening cash brought forward		<u>3,672</u>	<u>3,041</u>
Closing cash carried forward³		<u>2,556</u>	<u>3,672</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 2021**

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 Schuck and Stephen 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, fixed interest and debt instruments.

The fair value of the units held by the Scheme in the GAT is based on the valuation of the financial instruments held by the GAT. The fair value of these financial instruments is based on exit prices at balance date without any deduction for future selling costs. If 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 2021**

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

The benchmark SAA as at 31 March 2021 and at 31 March 2020 are shown below. The tilted benchmark asset allocations as at 31 March 2021 and 31 March 2020 are also shown. The tilted benchmarks are applied in accordance with the Dynamic Asset Allocation (DAA) tilting programme as outlined in the Statement of Investment Policy, Standards and Procedures (SIPSP).

	Benchmark			
	2021 SAA (%)	2021 Tilted (%)	2020 SAA (%)	2020 Tilted (%)
Alternatives unit fund	5.0	5.0	6.0	6.0
Cash unit fund	-	-	-	2.5
Fixed Interest unit fund	57.5	57.5	57.0	54.5
New Zealand Equity unit fund	7.5	5.5	7.5	5.5
Overseas Equity unit fund	30.0	32.0	29.5	31.5

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:

	2021 (\$000)	2020 (\$000)
Alternatives unit fund	(1,187)	(3,271)
Cash unit fund	-	75
Fixed Interest unit fund	12,444	2,838
New Zealand Equity unit fund	5,705	583
Overseas Equity unit fund	50,415	(7,059)
Income/(loss) from unit funds*	<u>67,377</u>	<u>(6,834)</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 2021

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:

	2021 (\$000)	2020 (\$000)
Scheme specific income	5	52
Deductible expenses	(806)	(759)
Expense election to the GAT	801	707
Taxable income	<u>-</u>	<u>-</u>
Net income before tax and membership activities	66,576	(7,541)
Tax at 28%	18,641	(2,111)
Non-assessable income	(18,865)	1,913
Income tax credit	<u>(224)</u>	<u>(198)</u>
Represented by:		
Income tax credit on current year income	(224)	(198)
Prior year adjustment	-	-
Income tax credit	<u>(224)</u>	<u>(198)</u>
Movements in deferred taxation		
Opening balance	198	-
Prior period adjustment	-	-
Current year movement	(198)	198
Deferred tax asset	<u>-</u>	<u>198</u>

The current year 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 (the Tax Act). The GAT is subject to tax at the rate of 28%. The opening deferred tax asset is a result of 2020 tax losses available to carry forward. The tax losses consisted of surplus deductible expenses which the Scheme has now transferred to the GAT under the Tax Act in the current income year.

The income of \$67.377 million (2020: loss \$6.834 million) 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 2020 and 2021 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 the Tax Act. 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:

	2021 (\$000)	2020 (\$000)
Management fee refund	25	86
Sundry receivables	12	14
Total other receivables	<u>37</u>	<u>100</u>

National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2021

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

	2021	2020
	(\$000)	(\$000)
Increase/(decrease) in net assets for the year	51,827	(10,224)
Movement in working capital		
Change in accounts payable	1	4
Change in other receivables	62	8
	63	12
Add non-cash items		
Movement in receivable from the GAT	(422)	193
Movement in deferred tax	198	(198)
	(224)	(5)
Items classified as investing activities		
(Income)/loss from unit funds	(67,377)	6,834
	(67,377)	6,834
Net cash flows used in operating activities	(15,711)	(3,383)

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 2021

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.

Updated figures as at 31 March 2021 are set out below for the funding level and vested benefits ratio. The assumptions and methodology used to value the liabilities at 31 March 2021 are those used currently intended to be used for the actuarial examination of the Scheme as at 31 March 2021.

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2021

The funding level 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 funding level of the Scheme.

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2021**

11 ACTUARIAL EXAMINATION AND REVIEW, FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2021 (CONTINUED)

11.2 FUNDING LEVEL AND VESTED BENEFITS RATIO – 31 MARCH 2021 (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	2021 (\$000)	2020 (\$000)
Present value of -		
Liabilities/vested benefits	(345,088)	(351,609)
Net assets	409,734	357,907
Surplus	64,646	6,297
Funding level	118.7%	101.8%

This table should be read in conjunction with note 10.

Funding level – minimum risk basis		
Valuation date	2021	2020
□	(\$000)	(\$000)
Present value of -		
Liabilities	(394,070)	(402,295)
Net assets	409,734	357,907
Surplus/(deficit)	15,664	(44,389)
Funding level	104.0%	89.0%

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 are based on the results of a recent pensioners' mortality investigation.
- Minimum risk basis: the discount rate assumed for determining the present value (1.37% pa as at 31 March 2021 and 0.92% pa as at 31 March 2020).

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 2021**

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 were 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 2021**

13 FINANCIAL RISK MANAGEMENT

The Scheme invests in units of the GAT based on the SAA 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 SAA Strategy 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 2.7% per annum. The volatility is expected to be +/- 3.9%. This is based on the Scheme's SAA and the long term rate of return for each asset class (after investment management, custody fees and tax), and after deducting a provision for the Scheme's operating expenses (after tax).

14 COVID-19 IMPACT

Around the world the Covid-19 outbreak has led to significant economic slowdown and volatility. These disruptions are likely to continue into the foreseeable future and provide uncertainty for the value of the investment assets and the income earned from them.

For the year ended 31 March 2021 the Scheme has recorded a gain from unit funds of \$67.377 million. This compares to a loss of \$6.834 million in the previous year. The Board continues to monitor the impact of the movements in the market on an ongoing basis.

15 SUBSEQUENT EVENTS

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2021**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

16.1 BASIS OF PREPARATION

The financial statements have been prepared under the requirements of clause 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.

16.2 STATEMENT OF COMPLIANCE

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

16.3 MEASUREMENT BASE

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

16.4 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).

16.5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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 affects only that period; or in the period of the revision and future periods, if the revision affects both current and future periods.

**National Provident Pension Scheme (the Scheme)
Note to the Financial Statements
for the year ended 31 March 2021**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16.6 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).

16.7 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been issued that are not mandatory for 31 March 2021 reporting periods and have not been adopted early by the Board. None of these standards are likely to have a material impact on the Scheme when they are adopted. All standards will be adopted in the period in which they become mandatory.

16.8 RECOGNITION

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

16.9 MEASUREMENT

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

16.10 IMPAIRMENT

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

16.11 DERECOGNITION

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

16.12 CASH AND CASH EQUIVALENTS

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

16.13 PENSIONS

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

**National Provident Pension Scheme (the Scheme)
Notes to the Financial Statements
for the year ended 31 March 2021**

16 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16.14 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.

16.15 EXPENSES

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

16.16 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 the Tax Act (refer notes 6 and 7).

17 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 2021**

18 OTHER INFORMATION

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

18.1 SCHEME MEMBERSHIP

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

	Pensioners
Opening membership as at 1 April 2020	5,519
Pensioner	-
Change of Beneficiary	52
Deaths and disablements	(415)
Joins/Rejoins	60
Retirement	-
Transfer to another scheme	-
Transfer to another NPF scheme	-
Closing membership as at 31 March 2021	5,216

18.2 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.

18.3 VESTED BENEFITS

The Board, based on the advice of the Actuary, certifies that, as at 31 March 2021, 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).

18.4 TRUST DEED

The Scheme trust deed was last amended on 6 May 2021 (being after year end). The amendments are effective from 30 January 2021 and were made following the repeal of the Trustee Act 1956 to address changes brought about under the Trusts Act 2019. A copy of the trust deed is available on request.

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2021**

18 OTHER INFORMATION (CONTINUED)

18.5 DIRECTORY

Trustee	Board of Trustees of the National Provident Fund Members of the Board are: Edward Schuck (Board Chair) Louise Edwards Daniel Mussett Sarah Park Wayne Stechman Stephen Ward (Deputy Chair)
Administration Manager	Datacom Connect Limited
Investment managers	Alternatives Manager AQR Capital Management, LLC Fixed Interest Managers Brandywine Global Investment Management, LLC Pacific Investment Management Company, LLC 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 (<i>terminated 13 May 2020</i>) T Rowe Price Australia Limited Foreign Exchange Hedging Managers ANZ Bank NZ Limited (<i>terminated 17 August 2020</i>) Bank of New Zealand Limited
Actuary	Christine Ormrod, PricewaterhouseCoopers Consulting (New Zealand) LP
Auditor	Silvio Bruinsma, Deloitte Limited (on behalf of the Auditor-General)
Solicitor	DLA Piper New Zealand
Bank	Bank of New Zealand
Custodian	JP Morgan Chase Bank

**National Provident Pension Scheme (the Scheme)
Trustee's Report
for the year ended 31 March 2021**

18 OTHER INFORMATION (CONTINUED)

18.6 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 Schuck
Board Chair

24 June 2021

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 2021, 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 2021 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 24 June 2021. 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.

Valuation of promised retirement liabilities (Note 11)

On 9 June 2021 the Scheme obtained an update letter as at 31 March 2021 from its actuary which showed vested benefits of \$345.1 million. This compared to the net assets of \$409.7 million resulting in a Scheme surplus of \$64.6 million.

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

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

- The discount rate; and
- The assumed mortality rate for valuing pensioners.

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

Our audit procedures included the following:

- Testing the underlying data provided to the actuary and confirming that these agree to underlying records;
- Evaluating the competence and objectivity and relevant experience of the Scheme's actuary;
- Engaging our internal actuarial specialist to independently understand, challenge and evaluate:
 - The work and findings of the Scheme's actuary;
 - The actuarial methods and assumptions employed, specifically the discount rate and the assumed mortality rate for valuing pensioners, including the reasonableness of the 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 members taken on the basis of these financial statements.

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Trustees 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: *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 that reads "Silvio Bruinsma".

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

National Provident Pension Scheme

Directory as at 24 June 2021

TRUSTEE

Board of Trustees of the National Provident Fund

BOARD MEMBERS

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

Louise Edwards (appointed 1 July 2019)

Daniel Mussett (appointed 2016)

Sarah Park (appointed 1 February 2020)

Wayne Stechman (appointed 2012)

Stephen Ward – Deputy Chair (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 (retired March 2021)

Paul Bevin

General Manager – Investments

Nicky Rumsey

Manager – Investments

Peter McCaffrey

Manager – Equities and Alternatives

Keith Poore

Manager – Asset Allocation

There was one change to Management during the year as noted above.

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

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