



# Pension National Scheme

## FINANCIAL STATEMENTS

For the year ended 31 March 2016

# Deloitte.

This audit report, dated 23 June 2016, relates to the financial statements of the Pension National Scheme for the year ended 31 March 2016 included on this website. The Board is responsible for the maintenance and integrity of this website. We have not been engaged to report on the integrity of this website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on this website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 23 June 2016 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements and summary financial statements may differ from legislation in other jurisdictions.



NATIONAL  
PROVIDENT





# Pension National 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 2016. Further information on National Provident Fund's activities, and commentary on investment markets, is set out in the Review.

## YOUR SCHEME

### CROWN GUARANTEE

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

### LOCKED-IN SECTION

The Locked-in section of the Scheme was created on 1 July 2007 as an alternative to KiwiSaver schemes. The Locked-in section has many of the benefits of KiwiSaver schemes, and also has the Crown guarantee and the 4% minimum earnings rate. These two features are hallmarks of the NPF schemes. Further details are available on our website - [www.npf.co.nz](http://www.npf.co.nz).

### INVESTMENT PERFORMANCE

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

	Return	Index
Fixed interest	2.6%	5.4%
New Zealand shares	18.2%	17.3%
Overseas shares	5.1%	(0.5)%

The investment return (after tax and operating expenses) earned by the Scheme for the year ended 31 March 2016 was 3.51%.

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 2016

### 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 2016.

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.





# Pension National Scheme

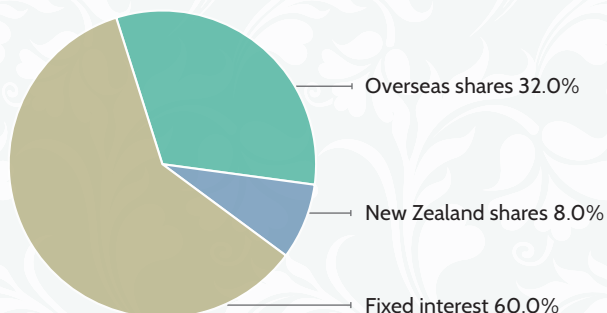
## EARNINGS RATE

The earnings rate declared by the Board for the Scheme for the year ended 31 March 2016 was 4.0% on contributors' total credits as at 1 April 2015, and 1.6% on contributions paid during the year. In line with the Board's crediting and reserving policy, the difference between the investment return of 3.51% and the earnings rate of 4.0% credited to members' total credits as at 31 March 2015 has been drawn from the reserves of the Scheme. The reserves are now 7.8% of contributors' total credits (2015: 8.2%).

The objective of the Board's crediting and reserving policy is to build the reserves back up to 10% of contributors' total credits. An equitable share of any positive reserves is added to a contributor's total credit on retirement, withdrawal through redundancy or permanent incapacity, or on death before the contributor has commenced receiving a benefit.

## HOW YOUR MONEY IS INVESTED

The Scheme's asset allocation strategy is set by the Board and reviewed regularly. The pie charts show the Scheme's current asset allocation strategy. This strategy came into effect on 1 May 2014..



## WHO INVESTS YOUR MONEY

### Fixed interest

Ashmore Investment Management Limited (*emerging markets*)  
Brandywine Global Investment Management, LLC (*appointed 9 April 2015*)  
Pacific Investment Management Company LLC (PIMCO)  
Wellington Management Company, LLP

### New Zealand shares

ANZ Investments Limited  
Harbour Asset Management Limited

### Overseas shares

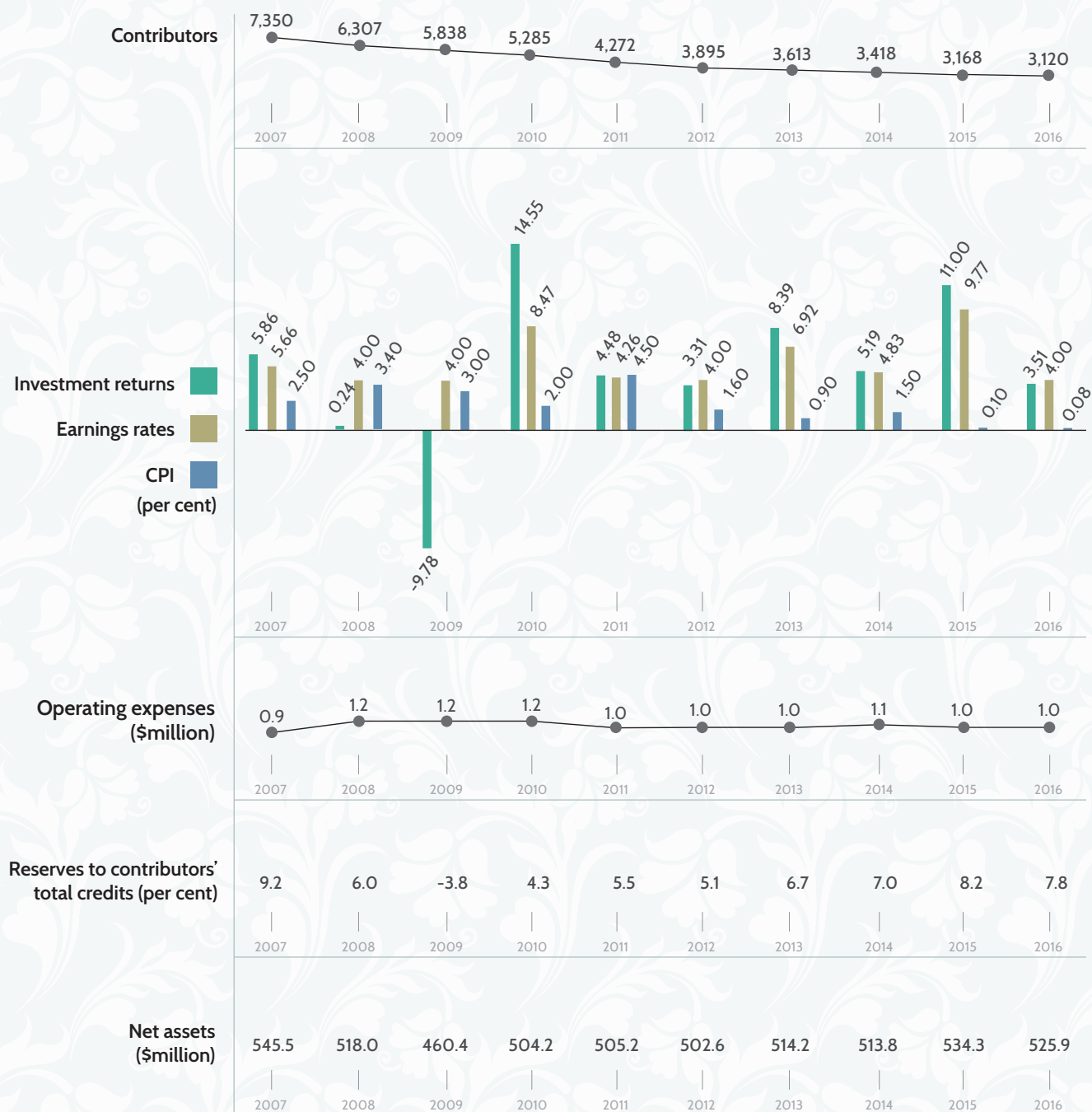
AQR Capital Management, LLC (*global tactical asset allocation mandate terminated 30 June 2016 and replaced with investment in AQR's Style Premia Fund effective 1 July 2016*)  
Arrowstreet Capital, Limited Partnership  
Lazard Asset Management, LLC  
Marathon Asset Management, LLP  
Russell Investment Management Limited (*terminated 4 August 2015*)

### Foreign exchange hedging

ANZ Bank New Zealand Limited  
Bank of New Zealand Limited

See our website, [www.npf.co.nz](http://www.npf.co.nz), and the Scheme trust deed for more information about your Scheme.

## 10 YEAR COMPARISON



**Pension National Scheme (the Scheme)**  
**Statement of Changes in Net Assets**  
**for the year ended 31 March 2016**

	Note	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Investment income</b>			
Income from unit funds	4	18,951	55,266
Interest received		106	119
Other income		3	1
<b>Total investment income</b>		<u>19,060</u>	<u>55,386</u>
<b>Operating expenses</b>			
Actuarial fees		10	5
Audit fees		37	35
Bank fees		4	4
Board member expenses	5	22	24
Legal fees		-	2
Management expenses	5	927	928
<b>Total operating expenses</b>		<u>1,000</u>	<u>998</u>
<b>Net income before tax and membership activities</b>		<u>18,060</u>	<u>54,388</u>
<b>Income tax credit</b>	6	250	246
<b>Net income after tax and before membership activities</b>		<u>18,310</u>	<u>54,634</u>
<b>Scheme receipts</b>	1		
Contributor contributions		7,440	6,093
Employer contributions		3,476	3,769
Contributor contributions Locked-in section		1,042	610
Employer contributions Locked-in section		265	295
Member tax credits		44	50
<b>Total scheme receipts</b>		<u>12,267</u>	<u>10,817</u>
<b>Scheme payments</b>			
Benefits paid		5,958	4,987
Transfers paid to other schemes		15,132	18,479
Transfers to National Provident Pension Scheme		17,856	21,383
Withdrawals		5	142
<b>Total scheme payments</b>		<u>38,951</u>	<u>44,991</u>
<b>Net membership activities</b>		<u>(26,684)</u>	<u>(34,174)</u>
<b>(Decrease)/increase in liability for accrued benefits</b>	9	<u>(8,374)</u>	<u>20,460</u>

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

**Pension National Scheme (the Scheme)**  
**Statement of Net Assets**  
**as at 31 March 2016**

	Note	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>Investment assets</b>	3		
<b>Units held in:</b>			
Fixed Interest Unit Fund		312,489	316,524
New Zealand Equity Unit Fund		44,438	41,974
Overseas Equity Unit Fund		164,183	173,258
		<u>521,110</u>	<u>531,756</u>
<b>Other assets</b>			
Cash		4,183	2,535
Contributions receivable - employers		-	181
Other receivables	8	499	170
Receivable from the Global Asset Trust	7	250	246
		<u>4,932</u>	<u>3,132</u>
<b>Total assets</b>		<u>526,042</u>	<u>534,888</u>
<b>Current liabilities</b>			
Accounts payable		87	596
Contributions payable – employers		37	-
<b>Total liabilities</b>		<u>124</u>	<u>596</u>
<b>Net assets available to pay benefits</b>		<u>525,918</u>	<u>534,292</u>
<b>Represented by:</b>			
<b>Liability for accrued benefits</b>			
Allocated to contributors' total credits			
Contributor contributions		279,329	282,862
Employer contributions		199,199	202,640
Allocated to contributors' total credits			
Locked-in Section			
Contributor contributions		6,265	5,507
Employer contributions		2,994	2,676
Unallocated reserves	11	38,131	40,607
		<u>525,918</u>	<u>534,292</u>

Authorised for issue on 23 June 2016.

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



Catherine M Savage  
Chairman



Graeme R Mitchell  
Chairman  
Audit and Risk Review Committee

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

**Pension National Scheme (the Scheme)**  
**Statement of Cash Flows**  
**for the year ended 31 March 2016**

	Note	2016 (\$000)	2015 (\$000)
<b>Cash flows from operating activities</b>			
Cash was provided from:			
Contributor contributions		9,198	6,929
Employer contributions		3,243	3,799
Interest received		106	119
Other income		3	1
Member tax credits		47	57
		<u>12,597</u>	<u>10,905</u>
Cash was applied to:			
Benefits paid		6,308	5,008
Operating expenses		758	744
Transfers paid to other schemes		15,619	18,246
Transfers to National Provident Pension Scheme		17,856	21,383
Withdrawals		5	142
		<u>40,546</u>	<u>45,523</u>
<b>Net cash flows used in operating activities</b>	9	<u>(27,949)</u>	<u>(34,618)</u>
<b>Cash flows from investing activities</b>			
Cash was provided from sale of units in:			
Cash Unit Fund		-	50,501
Fixed Interest Unit Fund		12,510	18,378
New Zealand Equity Unit Fund		4,322	3,135
Overseas Equity Unit Fund		19,382	13,711
		<u>36,214</u>	<u>85,725</u>
Cash was applied to purchase units in:			
Cash Unit Fund		-	50
Fixed Interest Unit Fund		3,653	19,406
New Zealand Equity Unit Fund		499	18,141
Overseas Equity Unit Fund		2,465	14,058
		<u>6,617</u>	<u>51,655</u>
<b>Net cash flows from investing activities</b>		<u>29,597</u>	<u>34,070</u>
<b>Net increase/(decrease) in cash held</b>		1,648	(548)
Add opening cash brought forward		<u>2,535</u>	<u>3,083</u>
<b>Closing cash</b>		<u><u>4,183</u></u>	<u><u>2,535</u></u>

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

**Pension National Scheme (the Scheme)  
Notes to the Financial Statements  
for the year ended 31 March 2016**

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## **Summary of Significant Accounting Policies**

### **Basis of Preparation**

The financial statements have been prepared under the requirements of clause 41 of the Scheme trust deed, the Financial Reporting Act 1993 and section 14 and the Second Schedule of the Superannuation Schemes Act 1989. A description of the Scheme and funding arrangements is outlined in note 1.

### **Upcoming changes to the Financial Reporting Framework**

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

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

### **Statement of Compliance**

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

### **Measurement Base**

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

### **Presentational and Functional Currency**

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

### **Critical Accounting Estimates and Judgements**

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgement has been applied in selecting the accounting policy to designate assets at fair value through profit or loss upon initial recognition. This policy has a significant impact on the amounts disclosed in the financial statements. 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. However as with all investments their value is subject to variation due to market fluctuations.

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.



## **Critical Accounting Estimates and Judgements (continued)**

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

### **Investment**

The Scheme is authorised to invest only in the Global Asset Trust (the GAT) or in bank deposits. The GAT is divided into separate unit funds representing various asset classes.

### **Financial Instruments**

Financial instruments include both financial assets and financial liabilities.

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

Financial assets, classified as loans and receivables, include balances due from contributors, receivables from related parties and other receivables.

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

### **Recognition**

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

### **Measurement**

Financial instruments are initially measured at fair value and their subsequent treatment depends on their classification as described below.

Financial assets, classified at fair value through profit or loss, are recorded at fair value where all resulting gains or losses are recorded in the Statement of Changes in Net Assets. 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 the exit price for an instrument is not available on a recognised exchange the fair value is estimated taking into account comparable markets and advice from specialised advisories.

Financial assets, classified as loans and receivables, and other 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.

### **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. If any such evidence exists, an impairment loss is recognised in the Statement of Changes in Net Assets as the difference between the asset's carrying amount and recoverable amount.

**Pension National Scheme (the Scheme)  
Notes to the Financial Statements  
for the year ended 31 March 2016**

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## **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 in accordance with *NZ IAS 39: Financial Instruments: Recognition and Measurement*. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

## **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, and that are held for the purpose of meeting short-term cash commitments.

## **Contributions**

Contributions are recognised in the Statement of Changes in Net Assets when they become receivable.

## **Benefits**

Benefits are recognised in the Statement of Changes in Net Assets when a request for payment is made and all relevant criteria for payment has been met.

## **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 on assets, designated at fair value through profit or loss, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex dividend date.

## **Expenses**

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

## **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 (the Tax Act) (refer notes 6 and 7).

## **Accrued Benefits**

The liability for accrued benefits is the Scheme's present obligation to pay benefits to contributors and beneficiaries and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the Scheme's liabilities, as at balance date.

**Pension National Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

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**Statement of Cash Flows**

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

Cash – comprises cash balances held with banks in New Zealand.

Investing activities – comprise acquisition and disposal of units in the GAT.

Operating activities – include any activities that are the result of normal business activities not classified as investing activities.

**Standards issued but not effective**

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

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

**Pension National Scheme (the Scheme)  
Notes to the Financial Statements  
for the year ended 31 March 2016**

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**1 Description of the scheme and funding arrangements**

The Scheme is a defined contribution scheme, governed by a trust deed.

With respect to funding arrangements, the Scheme comprises two sections:

the non Locked-in section (existing scheme), and  
the Locked-in section (complying superannuation fund)

Under the terms of the Scheme trust deed, a contributor makes contributions to the non Locked-in section of the Scheme at a rate agreed between the contributor and the employer, provided the rate is not less than 1% of the contributor's basic remuneration, or \$10 per week, whichever is the lesser. An employer's contributions are made to the Scheme, in respect of a contributor, at a rate agreed by the employer with that contributor.

For the Locked-in section of the Scheme, a contributor had to contribute at least 4% of base salary (before tax and excluding bonuses and allowances) until 1 April 2009, and at least 2% of base salary from 1 April 2009. From 1 April 2013, the minimum employee contribution rate increased to 3%. Until 1 April 2009, an employer had to also contribute at least 1% net of base salary, increasing to 2% from 1 April 2009. Employer Superannuation Contribution Tax (ESCT) did not apply. From 1 April 2012, ESCT applied to employer contributions and from 1 April 2013 employers were required to contribute 3% of base salaries (including ESCT).

Each year contributors are credited with an earnings rate, which is not less than 4%.

If a contributor elects to receive a pension, his or her membership, the liability to pay his or her pension (including any pension or other benefit contingently payable and any minimum payment) and assets to meet that liability are transferred to the National Provident Pension Scheme.

**2 Related Parties**

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

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.

Catherine Savage and Catherine McDowell are the two Board appointed directors of Annuitas.

The Board is also the trustee of the GAT, which holds the assets of all the National Provident Fund Schemes. The Schemes are authorised to invest only in the GAT or in bank deposits. 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 asset allocation strategy (refer note 3).

**Pension National Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

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**2 Related Parties (continued)**

There were no transactions between the members of the Board as individuals and the Scheme. Two members of management are contributors to the Scheme as part of normal employment contracts with Annuitas (2015:2).

**3 Asset Allocation**

The benchmark asset allocations as at 31 March 2016 and 31 March 2015 are shown below. The asset allocation remains unchanged at 31 March 2016.

	<b>2016</b> %	2015 %
Fixed Interest Unit Fund	60.0	60.0
New Zealand Equity Unit Fund	8.0	8.0
Overseas Equity Unit Fund	32.0	32.0

**4 Income from unit funds**

Income from unit funds is derived from the changes in value of units and reflects both realised and unrealised gains and losses, net of expenses directly related to investment activities, as follows:

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Cash Unit Fund	-	135
Fixed Interest Unit Fund	4,821	23,615
New Zealand Equity Unit Fund	6,287	4,020
Overseas Equity Unit Fund	7,843	27,496
<b>Income from unit funds</b>	<b>18,951</b>	<b>55,266</b>

The income from unit funds is received tax paid.

**5 Management Expenses**

Management expenses comprise administration fees charged by Datacom Employer Services Limited, and a share of the expenses of the Board. The Board's expenses are apportioned to each scheme through a costing system, which equitably allocates the expenses based on membership and transaction numbers, and investment asset values.

Investment management and custodial fees are deducted from the earnings of each of the unit funds of the GAT.



**Pension National Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**6 Income Tax**

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

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Scheme specific income	106	120
Deductible expenses	(1,000)	(998)
Expense election to the GAT under section DV 2	894	878
<b>Taxable income</b>	<u>-</u>	<u>-</u>
Profit before tax	18,060	54,388
Tax at 28%	5,057	15,229
Adjusted for tax effect of:		
- Non-assessable income	(5,307)	(15,475)
<b>Income tax credit</b>	<u>(250)</u>	<u>(246)</u>
Represented by:		
Income tax credit on current year income	(250)	(246)
Prior year adjustment	-	-
<b>Income tax credit</b>	<u>(250)</u>	<u>(246)</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 Tax Act (refer note 7). The GAT is subject to tax at the rate of 28 percent.

The income of \$18.951 million (2015: \$55.266 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 outstanding tax credits utilised by the GAT, resulting from the transfer of the Scheme's surplus deductible expenses to the GAT under section DV 2 of the Tax Act. The Scheme will realise the receivable by investing in unit funds of the GAT.

**8 Other Receivables**

Other receivables consist of:

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Member tax credits accrued at 31 March	36	39
Amount due from Members	322	-
Management fee refund	141	131
<b>Total other receivables</b>	<u>499</u>	<u>170</u>

The member tax credits, accrued at 31 March 2016, will be claimed from the Inland Revenue as part of a total member tax credit claim for the year ending 30 June 2016.

**Pension National Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

**9 Reconciliation of (Decrease)/Increase in Liability for Accrued Benefits to Net Cash Flows used in Operating Activities**

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
<b>(Decrease)/increase in liability for accrued benefits</b>	(8,374)	20,460
<b>Movements in working capital:</b>		
Change in accounts payable	(472)	207
Change in other receivables	(7)	(18)
Change in contributions receivable	(141)	(39)
	<u>(620)</u>	<u>150</u>
<b>Change in non cash items</b>		
Movement in receivable from the GAT	(4)	38
	<u>(4)</u>	<u>38</u>
<b>Items classified as investing activities</b>		
(Income) from unit funds	(18,951)	(55,266)
	<u>(18,951)</u>	<u>(55,266)</u>
<b>Net cash flows used in operating activities</b>	<u>(27,949)</u>	<u>(34,618)</u>

**10 Guaranteed Benefits**

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

**11 Unallocated Reserves**

The unallocated reserves are derived from the net income after tax and before membership activities, earnings not allocated to contributors' total credits, and balances of any total credits not transferred, or otherwise disbursed, in accordance with the provisions of the Scheme trust deed.

Movements in reserves during the year were as follows:

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Reserves at beginning of year	40,607	33,486
Applied to transfers	(4,653)	(2,618)
Extinguished liabilities	2,923	(267)
Net income after tax for the year	18,310	54,634
Applied to exits	(632)	(1,394)
Applied to contributors' total credits	(18,424)	(43,234)
<b>Reserves at end of year</b>	<u>38,131</u>	<u>40,607</u>

**Pension National Scheme (the Scheme)**  
**Notes to the Financial Statements**  
**for the year ended 31 March 2016**

## 11 Unallocated Reserves (continued)

The reserves, which have not been allocated to contributors' total credits, may be distributed at the discretion of the Board, in accordance with the Scheme trust deed, principally for:

- a meeting all or part of contributors' or employers' contributions on an equitable basis;
- b increasing total credits of all contributors on an equitable basis;
- c providing benefits, other than retirement benefits, to all contributors on an equitable basis;
- d providing hardship benefits to contributors or their dependants; and
- e paying Scheme expenses.

## 12 Vested Benefits

The value of vested benefits is the value of the benefits contributors would have been entitled to if they left the Scheme. As at 31 March 2016, the transfer values of contributors exceeded their total credits. Therefore the value of vested benefits has been calculated, by the Actuary, as the amount that would have been payable if all contributors had transferred out of the Scheme on this date.

	<b>2016</b> <b>(\$000)</b>	2015 (\$000)
Value of vested benefits	513,656	518,367
Value of net assets	525,918	534,292

This table should be read in conjunction with note 10.

## 13 Actuarial Valuation

The Scheme is a defined contribution scheme. As the Scheme has no pensioners, an actuarial valuation is not required under the Superannuation Schemes Act 1989.

The National Provident Fund Restructuring Act 1990 does however require an actuarial examination to be undertaken every three years. The last examination was undertaken, as at 31 March 2015, and covered the three years 31 March 2012 to 31 March 2015.

The Actuary reported the funding level of the Scheme increased from 105.1% to 108.2% over the three years to 31 March 2015. The valuation results were:

<b>Valuation date</b>	<b>2015</b>	2012
	<b>(\$000)</b>	(\$000)
<b>Present value of –</b>		
Total credits	491,395	475,531
Provision for extinguished liabilities	2,290	2,777
Reserves	40,607	24,315
Net assets	534,292	502,623
Funding level	108.2%	105.1%

## **14 Financial Instruments and Associated Risks**

The Scheme invests in units of the GAT based on the 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 *IFRS 13: Fair Value measurement*, 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.

For more information on the disclosures under IFRS 13 and the risks mentioned above reference should be made to 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](http://www.npf.co.nz)).

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

Based on the Scheme's asset allocation strategy and the long term rate of return for each asset class (after investment management and custody fees, and after tax), and after deducting a provision for the Scheme's operating expenses (after tax), the long run investment return for the Scheme is estimated to be 3.1% per annum.

If the long term rates of return for all of the asset classes in the asset allocation strategy increased by 10% this would increase the investment return from 3.1% to 3.5% per annum. Similarly, if the long term rates of return for the asset classes in the asset allocation strategy decreased by 10%, the investment return would decrease to 2.8% per annum. This would increase or decrease the profit by approximately \$1.56 million.

The earnings rate each year is determined with reference to the investment return, but is not less than 4.0% per annum as per the Scheme trust deed.

## **15 Subsequent Events**

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

**Pension National Scheme (the Scheme)  
Trustee's Report  
for the year ended 31 March 2016**

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The Board of Trustees of the National Provident Fund (the Board), as trustee of the Scheme, provides members with the following information, as required by the Second Schedule to the Superannuation Schemes Act 1989.

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

	<b>Contributors Non Locked-in section</b>	<b>Locked-in section</b>	<b>Total</b>
Opening membership as at 1 April 2015	<b>3,019</b>	<b>149</b>	<b>3,168</b>
Retirements	(178)	(5)	(183)
Withdrawals	(38)	-	(38)
Transfers	(74)	-	(74)
Deaths and disablements	(55)	-	(55)
Joins/rejoins	154	1	155
Reinstated extinguished liabilities <sup>+</sup>	147	-	147
<b>Closing membership as at 31 March 2016</b>	<b>2,975</b>	<b>145</b>	<b>3,120</b>

<sup>+</sup> Following a trust deed amendment on 5 April 2001, once reasonable efforts have been made to locate a member, who has been missing for at least five years, the Board may extinguish the liabilities to that member.

Where a person re-establishes contact with the Board within 15 years of the liabilities to that person being extinguished, the person is reinstated as a member of the Scheme.

- 2 On the basis of evidence available, the Board believes that all contributions required to be made to the Scheme, in accordance with the terms of the Scheme trust deed, have been made.
- 3 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.
- 4 The Board, based on the advice of the Actuary, certifies that, as at 31 March 2016, the market value of the net assets of the Scheme exceeded the total value of vested benefits. The amounts are shown in note 12 to the financial statements.
- 5 The Board confirms that, to the best of its knowledge, not more than 10% of the net market value of the Scheme assets were invested with employers (or associated entities), either directly or indirectly, who are parties to the Scheme.
- 6 The Scheme's earnings rate (crediting rate) declared by the Board for the year ended 31 March 2016 was 4%.
- 7 As at 31 March 2016 there were 145 members in the Locked-in section, with assets amounting to \$9,259,000 (2015: \$8,183,000). There were five retirements totalling \$581,467 and one member joined the scheme during the year to 31 March 2016. Total Scheme administration fees are calculated on fee per member and fee per transaction bases, and are charged to the Scheme as a whole. As at 1 October 2015 the administration fees increased in line with inflation. The Board certifies it is satisfied the increase in the administration fee for the Scheme is not unreasonable. The Board is satisfied the total management fees charged to the Scheme are not unreasonable.
- 8 The Scheme trust deed has not been amended since 25 June 2015.



**Pension National Scheme (the Scheme)  
Trustee's Report  
for the year ended 31 March 2016**

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**9 Directory**

**Trustee** Board of Trustees of the National Provident Fund

Members of the Board are:

Catherine M Savage *(Chairman)*  
Catherine McDowell  
Graeme R Mitchell  
Fiona A Oliver  
Edward J Schuck *(appointed 1 July 2015)*  
Wayne L Stechman

**Administration manager** Datacom Employer Services Limited

**Investment managers** **Fixed interest managers**

Ashmore Investment Management Limited  
Brandywine Global Investment Management, LLC  
Pacific Investment Management Company LLC  
Wellington Management Company, LLP

**New Zealand equity managers**

ANZ Investments Limited  
Harbour Asset Management Limited

**Overseas equity managers**

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

**Foreign exchange hedging managers**

ANZ Bank New Zealand Limited  
Bank of New Zealand Limited

**Actuary** Christine D Ormrod, PricewaterhouseCoopers

**Auditor** David J Shadwell, Deloitte *(on behalf of the Auditor-General)*

**Solicitor** DLA Piper New Zealand

**Bank** Bank of New Zealand

**Custodian** JP Morgan Chase Bank

**Pension National Scheme (the Scheme)  
Trustee's Report  
for the year ended 31 March 2016**

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10 All correspondence relating to the Scheme should be addressed to:

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

OR

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

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



Catherine M Savage  
*Chairman*

23 June 2016



**INDEPENDENT AUDITOR'S REPORT**  
**TO THE READERS OF**  
**THE PENSION NATIONAL SCHEME FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2016**

The Auditor-General is the auditor of the Pension National Scheme (the Scheme). The Auditor-General has appointed me, David Shadwell, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Scheme on her 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 2016, the statement of changes in net assets and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Scheme:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Scheme's:
  - financial position as at 31 March 2016; and
  - financial performance and cash flows for the year ended on that date.

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

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

**Basis of opinion**

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

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

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



An audit also involves evaluating:

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

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

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

### **Responsibilities of the Board of Trustees**

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

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

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

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

### **Responsibilities of the Auditor**

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

### **Independence**

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

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

A handwritten signature in black ink, appearing to read "David Shadwell".

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

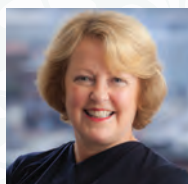
# Directory as at 23 June 2016

## BOARD MEMBERS



**Catherine Savage, BCA, CA**

Catherine Savage (appointed as a Board member and Chair in 2009) is a director of, and indirect shareholder in, CMS Capital Limited, a director of The Griffin Savage Coy Limited; a director and indirect shareholder of Savage Group Limited and its subsidiaries; a director of Savage Capital Holdings Limited, Savage Capital Limited, Pathfinder Asset Management Limited, The Todd Family Office Limited, Courtenay Nominees Limited and Annuitas Management Limited; and Chair of Guardians of New Zealand Superannuation. She is a Member of the Samuel Marsden Collegiate School Trust Board.



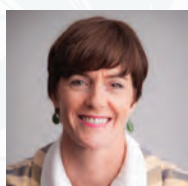
**Catherine McDowell**

Catherine McDowell (appointed 2013) is a director of ASB Bank Limited, a member of the Institute of Directors Commercial Board and a director of Annuitas Management Limited, Todd Family Office Limited and Courtenay Nominees Limited. Catherine has over 30 years' experience in the investment and financial services industry in senior executive and advisory roles, working with Executive Management and Boards. She has held management roles at Barclays both in New York and London, following which she moved to ANZ in 2006 in New Zealand. She has over 15 years of Board experience with not for profit, listed and non-listed companies.



**Graeme Mitchell, BA, CA, FCAANZ**

Graeme Mitchell (appointed 2010) is Chair of the External Reporting Board, Barnardos New Zealand and Lifetime Income Limited. He is Chair of the Audit and Risk Committee for the Ministry of Justice, the Ministry of Social Development and for the Human Rights Commission, and a member of the Audit and Risk Committee for the Porirua City Council. He is a licensed independent trustee of the Local Government KiwiSaver Scheme "Super-easy" and Honorary Consul General for Norway. Graeme was previously a senior audit partner with Deloitte in Wellington.



**Fiona Oliver, LLB, BA**

Fiona Oliver (appointed 2011) is Deputy Chair of Public Trust, a member of the Inland Revenue Risk and Assurance Committee, Chair of Vinta Funds Management Limited and a director of Wynyard Group Limited. Fiona has held Executive level leadership and consultancy roles in the financial services industry, specialising in asset and funds management. She has managed Westpac's investment arm, BT Funds Management and more recently, was GM Wealth Management for AMP, managing over \$10bn funds. Fiona's initial career was as a corporate and commercial lawyer where she worked in both private practice and in-house in New Zealand and overseas, specialising in corporate finance.



**Wayne Stechman**

Wayne Stechman (appointed 2012) is a professional director. He retired from Tower Asset Management Limited in 2008 after 18 years as Portfolio Manager and Head of Australasian Equities. Prior to that Wayne worked for a leading share broking firm as an investment advisor/portfolio manager. Wayne has 35 years' experience in the financial services and funds management industry in New Zealand. Other current roles include director and shareholder of Harbour Asset Management, and panel member of Financial Services Complaints Ltd.



**Ed Schuck**

Ed Schuck (appointed 2015) is principal of Fidato Advisory Limited, a provider of investment consulting, research and tender services to institutional investors, Crown agencies and wealth management businesses. Prior to starting Fidato in 2009, he held leadership roles in the financial services industry in New Zealand and the United Kingdom, most recently as Managing Director of Russell Investments. A Chartered Member of the Institute of Directors, Ed is also an independent director of MMC Limited, MFL Mutual Fund Limited, Superannuation Investments Limited, Continuity Capital PE2 GP Limited and Accuro Healthcare (where he also chairs the Audit & Risk Committee). Completed in 2001, Ed's doctoral thesis considered the efficiency of real estate markets and the distributional characteristics of real estate investment risk.

## MANAGEMENT



**Simon Tyler,**  
Chief Executive



**Euan Wright,**  
Board Secretary  
and Chief  
Financial Officer



**Fiona Morgan,**  
Manager,  
Finance



**Philippa Drury,**  
General  
Manager,  
Schemes



**Janet Shirley,**  
Manager,  
Schemes



**Paul Bevin,**  
General  
Manager,  
Investments



**Peter McCaffrey,**  
Manager,  
Portfolio  
Strategy and Risk



**Nicky Rumsey,**  
Manager,  
Investments

## DATACOM

### MANAGEMENT

Datacom Employer Services 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 8.30am and 5.00pm, Monday to Friday

**Phone: (04) 381 0600**

**Fax: (04) 381 0502**

### Post:

The Manager  
National Provident Fund Administration  
Datacom Employer Services Limited  
PO Box 1036  
Wellington 6140

**Email: [npfenquiries@datacom.co.nz](mailto: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](http://www.npf.co.nz).

**You may contact the Board by writing to:**

The Board Secretary  
Board of Trustees of the National Provident Fund  
Level 12, The Todd Building  
95 Customhouse Quay  
Wellington 6011

**Auditor:** David J Shadwell, Deloitte, on behalf of the Auditor-General

**Actuary:** Christine D Ormrod, PricewaterhouseCoopers

**Bank:** Bank of New Zealand Limited

**Custodian:** JP Morgan Chase Bank, N.A.

**Solicitor:** DLA Piper