ANNUAL REPORT 20 —— 18

Staying the course through times of

CHANGE

Te mārō o te haere i ngā

HURINGA O TE WĀ

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

These days, the only thing certain is that there will be change.

FIFTEEN YEARS

of investing in our future

TE TEKAU MĀ

RIMA O NGĀ TAU

e haumi ana mō ngā tau ki tua

Through all of this change, for the last fifteen years our role in preparing for New Zealand's retirement has remained constant.

We're focused on the long-term, looking for investments that will deliver the best outcomes in 20 years and beyond. Often this means we can capitalise on potential others can't take advantage of, and can invest in sectors and opportunities that others won't.

Our unique endowments allow us to stay the course through times of change.

CONSTANT

2017/18 was a significant year for the NZ Super Fund. New partnerships, new leadership, a dynamic investment environment and the resumption of Government contributions helped to reinforce our long-term mission: delivering greater certainty for New Zealanders in their retirement.

CHANGE

OUR MISSION:

Maximise the Fund's return over the long-term, without undue risk, so as to reduce future New Zealanders' tax burden.

2017/18 MAJOR ACHIEVEMENTS:

- Increased Fund size by NZD4b and added NZD703m over our passive benchmark, the Reference Portfolio.
- Generating Domestic Deal Flow – Investment Hub helping to create direct investment opportunities in New Zealand.
- Climate Change – continued the implementation of our strategy to make the Fund more resilient to the risks posed by climate change.
- Strategic Engagement – built deep and broad strategic relationships across the Guardians, targeting key partners and stakeholders.

PRIORITIES FOR 2018/19:

- Innovation and Disruption – strengthen our internal capabilities to source, execute and manage opportunities and threats from innovation and disruption.
- Long-Term Target State – develop our strategy to prepare the Guardians for future growth in the size of the Fund.
- Cloud IT – shift the Guardians' infrastructure to the Cloud and identify opportunities to use the Cloud to add value to the Fund.

FUND SIZE

$39,368,884,000

(AFTER COSTS, BEFORE NZ TAX)

2017/18 RETURN

12.43%

(AFTER COSTS, BEFORE NZ TAX)

INCREASE IN FUND SIZE 2017/18

$4.0b

(BEFORE NZ TAX)

VALUE ADDED IN 2017/18

$0.7b

(VS REFERENCE PORTFOLIO BENCHMARK, AFTER COSTS)

VALUE ADDED

$7.59b

(SINCE INCEPTION)

FUND RETURNS
As at 30 June 2018

	ACTUAL FUND RETURN (after costs, before NZ tax)	VALUE ADDED BY GUARDIANS (compared to passive Reference Portfolio benchmark)	NET RETURN (returns over and above the Treasury Bill return – the Government's marginal cost of debt)
1 Year	12.43%	2.02%	10.71%
10 Years	10.47% p.a.	1.94% p.a.	7.68% p.a.
Since Inception (September 2003)	10.37% p.a.	1.49% p.a.	6.31% p.a.

● 1 Year ● 10 Years ● Since Inception (September 2003)

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HOW TO READ THIS REPORT

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards core option. It describes the performance of the New Zealand Superannuation Fund (the 'Fund') and the Guardians of New Zealand Superannuation (the 'Guardians'), the Crown entity that manages the Fund, over the 2017/18 financial year.

The Overview of the Guardians and the Fund section provides the basics: a performance summary; who we are and what we do; key achievements; and future priorities. For more depth, the remainder of the report details four important aspects of the Guardians and Fund: investment performance & activities; governance; an overview of operations during the year; and financial statements.

An overview of the report and supplementary information are available on www.nzsuperfund.nz and www.ar2018.nzsuperfund.nz. The overview includes video interviews with our Chair and Chief Executive Officer. The supplementary information includes a detailed explanation of 'How We Invest'; a GRI Index; and a list of the Fund's global equity holdings as at 30 June 2018.

Previous annual reports, including the last report (2016/17), are available on www.nzsuperfund.nz/publications/annual-reports.

We welcome feedback to help us improve our reporting. Comments can be directed to enquiries@nzsuperfund.co.nz.

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OVERVIEW OF THE GUARDIANS AND THE FUND

This section provides high-level information on the purpose and mandate of the Guardians and the Fund, including a snapshot of our performance and key highlights from the 2017/18 financial year. It also provides detail on our people-related initiatives.

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INVESTMENT REPORT

Following on from the information provided in the Overview, the Investment Report provides details on the Fund's performance, including comparisons with previous years. This section also contains investment case studies, a feature on our climate change strategy and a Responsible Investment Report.

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GOVERNANCE

This section provides detailed information on the Guardians' governance structure and principles. We discuss our risk management and provide detail on our remuneration and discretionary incentive scheme.

04

OPERATIONAL REPORT

Information on our operational activities, as well as our environmental performance, is covered in the Operational Report.

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STATEMENT OF PERFORMANCE

This section provides a report on our performance benchmarked against our Statement of Performance Expectations and information on our external managers and custodians.

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FINANCIAL STATEMENTS

As well as the financial statements for the Guardians and the Fund, this section provides an overview of key elements such as tax and the five-year financial summary.

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APPENDIX

Where possible, we have tried to avoid the use of industry-specific words and language. In some cases, however, in the interest of brevity and clarity, these words are unavoidable. Industry terms are explained in our Glossary. This section also provides our compliance statements.

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Investing for the
next generation.

SECTION 1/7

Overview of the Guardians and the Fund

He Tiro Whānui ki ngā Kaitiaki me te Tahua

1

OVERVIEW

OVERVIEW

Investing for the long-term

The Fund invests money, on behalf of the Government, to help pay for the increased cost of universal superannuation entitlements (New Zealand Superannuation) in the future.

WHAT IS THE CHALLENGE THE FUND IS HELPING TO SOLVE?

All New Zealanders aged 65 and over are eligible to receive New Zealand Superannuation payments (also known as the pension, National Super, Government Superannuation or Super). The Government pays for these through taxes paid by today's taxpayers. In a nation such as New Zealand with an ageing population, the burden of funding a pay-as-you-go national superannuation scheme falls on a shrinking group of working-age New Zealanders. These demographic changes mean that in order to keep funding universal superannuation, future generations face a much higher tax burden than their predecessors.

HOW DO WE FIT IN?

The Fund was created as a means of partially pre-funding (save-as-you-go) future retirement benefits to help smooth the cost of New Zealand Superannuation between today's taxpayers and future generations. The New Zealand Superannuation and Retirement Income Act 2001 (the Act) established:

- the New Zealand Superannuation Fund (the Fund), a pool of assets on the Crown's balance sheet; and
- the Guardians of New Zealand Superannuation (the Guardians), a Crown entity charged with managing the Fund.

Between 2003 and 2009, the Government contributed NZD14.88b to the Fund. Contributions were suspended in 2009, during the Global Financial Crisis, and restarted in December 2017. The Government contributed NZD500m to the Fund in 2017/18 and is projected to contribute a further NZD7.2b over the next four years. Full funding, as per the formula in the Act, is projected to commence from 2022.

From around 2034/35, the Government is expected to begin to withdraw money from the Fund to help pay for New Zealand Superannuation. On current forecasts, a larger, permanent withdrawal period will commence in 2053. The Fund is expected to peak in size as a percentage of GDP in the early 2070s (see **www.treasury.govt.nz/government/assets/nzsf/** contribution rate model for projections by New Zealand Treasury).

On current Treasury projections, capital withdrawals from the Fund will be meeting 10% of the net cost of superannuation by 2066, peaking at 12.7% in 2078, and averaging 11.3% for the 30 years to 2090. The Fund will also be paying tax to the Government in addition to the capital withdrawals. At the Fund's peak, the capital withdrawals and tax payments combined will total 21.2% of the total net cost of pensions, and more than 44% of the incremental cost increase due to the rising proportion of retirees in the population.

In this way, the Fund adds to Crown wealth, improves the ability of future Governments to pay for superannuation and, ultimately, reduces the tax burden on future New Zealanders.

WHAT DO WE DO?

The Guardians invests the money the Government has contributed in a growth-oriented and highly diversified global portfolio of investments: the Fund. The Guardians has operational independence from the Government regarding its investment decisions.

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Our mandate

By serving its mandate, the Fund adds to Crown wealth, improves the ability of future Governments to pay for superannuation and, ultimately, reduces the tax burden of the cost of superannuation on future generations of New Zealanders.

OUR MANDATE

Under the Act, the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- best-practice portfolio management;
- maximising return without undue risk to the Fund as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

OUR MISSION

Maximise the Fund's return over the long-term, without undue risk, so as to reduce future New Zealanders' tax burden.

OUR VISION

A great team building the best portfolio.

OUR VALUES

- Inclusiveness: We combine diverse skills and seek relevant views and rigorous analysis in a supportive environment.
- Innovation: We encourage initiative taking, continuous learning and smart decision making.
- Integrity: We consistently behave in a transparent and commercial manner for the long-term benefit of the Fund.

NEW ZEALAND GOVERNMENT	GUARDIANS OF NEW ZEALAND SUPERANNUATION	NEW ZEALAND SUPERANNUATION FUND
	('DOUBLE-ARM'S-LENGTH' CROWN ENTITY. SEE PAGE 72)	(LONG-TERM SAVINGS VEHICLE)
	The Guardians is the Auckland-based manager of the Fund.	The Fund is a pool of assets on the Crown balance sheet.

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CHAIR'S STATEMENT
TE TAUĀKĪ A TE KAIHAUTŪ

Staying the course through times of change

Te mārō o te haere i ngā huringa o te wā

CATHERINE SAVAGE
CHAIR

He tau whakawhiti te tau pūtea o te 2017/18 ki Ngā Kaitiaki nā te kopoutanga o tētahi Tumu Whakarae hou, nā te tīmatanga anō o ngā takoha a te Kāwanatanga me te kokenga tonutanga ki ā mātou whāinga whakahekenga waro. Ka whakakotahi te rōpū o Ngā Kaitiaki i a rātou anō kia mau tonu ai te kairangi i te roanga o te tau hurihuri, ka mutu, ka nui te putanga o ngā hua o te Tahua, i te wā tonu e arohia ana e te ao nā te tini o āna mahi.

TE ĀHUA O TE TAHUA

Ko te 12.43% te whakamōmonatanga ake o te Tahua (e 4 piriona tāra ki Aotearoa) i te tau 2017/18, e matomato tonu ai te tupu o ngā hua haumi, me te aha, i te paunga o te tau, ka eke tērā ki te 39.37 piriona tāra ki Aotearoa.

Ko te tapeke o ngā hua o te Tahua, otirā, ko te 0.70 piriona tāra ki Aotearoa, arā, ko te 2.02% te tuhene atu i te Huinga Haumitanga Tūāpapa. Kei tua noa atu tēnei i te pae tawhiti i manakohia ai e mātou, i te 1% o te tuhene atu i te Huinga Haumitanga Tūāpapa i ia tau i te rerenga o ngā huinga tau e 20. I ngā tau 14 mai i te tīmatanga o tā te Tahua haumitanga i te tau 2003, ko te 10.37% te nui o ngā hua kua puta i ia tau. E 7.59 piriona tāra tēnei pikitanga ake i te paeraro o te Huinga Haumitanga Tūāpapa e torohū ana.

I pai te whai hua o te paeraro o te Huinga Haumitanga Tūāpapa tonu i te roanga o te tau, ko te 10.42% te nui o ngā hua i puta, he mea ārahi nā te pakari tonu o ngā papa tauhokohoko tūtanga o te ao. I ahu mai te āpitihanga o te uara i puta i te Tahua, i tua atu i ngā hua o te Huinga Haumitanga Tūāpapa, i te pakari

The 2017/18 financial year has been one of transition for the Guardians, with the appointment of a new Chief Executive, the restart of Government contributions and further progress towards our carbon reduction targets. The Guardians team pulled together to maintain excellence through a year of change and the Fund continued to produce strong returns, while achieving global recognition for many of its activities.

FUND PERFORMANCE

The Fund grew by 12.43% (or NZD4.0b) in the 2017/18 year, continuing its run of strong returns, and ended the year at NZD39.37b.

The Fund's total return exceeded the Reference Portfolio by NZD0.70b or 2.02%. This remains well ahead of our long-run expectation that the Fund will exceed the Reference Portfolio by 1% p.a. over rolling 20-year periods. In the 14 years since the Fund started investing in 2003, it has achieved returns of 10.37% p.a. This is NZD7.59b more than the passive Reference Portfolio benchmark.

The Reference Portfolio benchmark itself performed well during the year, generating a 10.42% return, driven by the steady performance of global equity markets. The additional value produced by the Fund over the Reference Portfolio return came from the continued strong performance of our strategic tilting strategy, timber investments and our internally managed credit mandates. More detail on where we added value to the Fund can be found on page 40.

tonutanga o te whai hua o tā mātou rautaki whakatītaha, o ngā haumitanga mahi rākau me ngā whakahau ā-moni tāwere e whakahaerehia ana i roto. Kei te whārangi 40 ētahi atu taipitopito mō ngā wāhi i āpitihia ai he uara ki te Tahua.

Nō te tīmatanga o tana haumitanga, e 23.08 piriona tāra ki Aotearoa te tāpiritanga a Ngā Kaitiaki ki te Tahua, e whakatauritea ana ki tērā atu o ana paeraro, arā, ki te hua ā-pānga rawa o te Kāwanatanga.

Nō tōna tīmatanga, ko te 15.38 piriona tāra ki Aotearoa tā te Kāwanatanga i tāpae ai i te wā e utua ana hoki e te Tahua ki te Kāwanatanga te tāke o te 6.42 piriona tāra ki Aotearoa. Nā konei, e 42% o tā te Kāwanatanga i tāpae ai ki te Tahua kua whakahokia i te utu tāke kau noa iho.

TE TUMU WHAKARAE

I a Hakihea, i te tau 2017, ka rihaina tō mātou Tumu Whakarae, a Adrian Orr, kia tū kē ai ia i te tūranga o te Kāwana o Te Pūtea Matua, i mana ai i a Poutū-te-rangi, i te tau 2018.

Tū ai a Adrian ki te ihu o te waka o Ngā Kaitiaki i ngā tau 11. I wehe ia i te whakahaere me te ngākau pai, ka mahue mai ko tētahi rōpū pakari me tētahi ōhākī whakatutuki hei wenerautanga. Ko Adrian tētahi rangatira e whakaaro nuitia ana, ā, i te roanga o tana tūranga, nāna i whakapakari ake ngā āheinga me te ahurea o Ngā Kaitiaki. E mihi ana te Poari ki a Adrian i tana ārahitanga. Ahakoa, i tēnei whakawhitinga o Ngā Kaitiaki, me tikoki ai pea te waka o ngā mahi, ka haere tonu ngā mahi a te whakahaere, ā, ka pai tana tū i te wā o te whakawhitinga. He whakaaturanga tēnei i te hōhonu o te puna pūmanawa i te Rōpū Kaiārahi, otirā, i te katoa o te whakahaere.

He mea kimi e te Poari tētahi Tumu Whakarae i te ao whānui, ā, i whai āwhina i tētahi umanga e mātanga ana ki te kimi tumu whakarae. He kairangi ngā kaitono nō te ao whānui i kitea, engari ko te huia tūrae o ngā kaitono ko te Āpiha Matua ā-Haumi, ko Matt Whineray. Ka koa ō mātou ngākau ki te kopou i a Matt hei Tumu Whakarae i tīmata mai rā i a Hōngongoi, i te tau 2018.

Ka hono a Matt ki Ngā Kaitiaki i te tau 2008 hei Kaiwhakahaere Matua, i te Papa tauhokohoko Tūmataiti, ā, ka huri ia hei Āpiha Matua ā-Haumi i te tau 2014. I taua tūranga, i raro i ana haepapatanga, nāna tonu, mā ngā kaiwhakahaere haumi hoki, i waihangatia ai he huinga haumitanga, i whai haumi ai i ngā papa tauhokohoko e hoko hea ana, me ērā kāore e hoko hea ana. Ko ia tētahi o ngā take matua i angitu ai Ngā Kaitiaki i te tekau tau kua hipa ake nei, ā, e mōhiotia ana ia i te ao whānui hei kaiārahi i te haumitanga ā-whakahaere.

E mihi ana te Poari ki ngā kaimahi katoa o Ngā Kaitiaki i tā rātou tōngakingaki i tēnei wā o te whakawhitinga, otirā, ki ērā i whai wāhi ki te tukanga o te whai kaimahi, ki ērā hoki i whakakapi i ngā tūranga mō tētahi wā, i whai kawenga āpiti rānei.

NGĀ TAKOHA A TE KĀWANATANGA

I paingia e te Poari te tīmatanga anō o ngā takoha a te Kāwanatanga ki te Tahua i a Hakihea, i te tau 2017, i muri i te tārewatanga i ngā tau e waru. Mā reira e kaha ake ai te whakapono o ngā reanga o muri ki te kaha o Aotearoa ki te tuku pūtea ki ngā utu penihana whānui.

He pūtake whakahirahira tonu tō te Tahua: i te taumata o ngā unuhanga e matapaetia ana, ka kapi i a ia te 12.7% o te nama more o te penihana ā-motu. Ko te tāke e whakapaetia ana ka utua e te Tahua ka piki atu anō ki te 8.5% o te utu ā-tau o te penihana.

Since it started investing, the Guardians has added NZD23.08b to the Fund, compared with its other benchmark, which is the Treasury bill return.

Since inception, the Government has contributed NZD15.38b while the Fund has also paid the government NZD6.42b in tax. In effect, 42% of what the Government has contributed to the Fund has been returned in tax payments alone.

CHIEF EXECUTIVE OFFICER

In December 2017, our CEO, Adrian Orr, resigned to take up the position of Governor of the Reserve Bank of New Zealand, with effect from March 2018.

Adrian was at the helm of the Guardians for 11 years. He left the organisation in good heart, with a strong team and an enviable track record. Adrian is a highly regarded leader, and over the course of his tenure, he built up the capabilities and culture of the Guardians. The Board thanks Adrian for his leadership. While this changing of the guard could have had a destabilising effect on performance, the organisation continued to function as usual and to perform well during the transition. This demonstrates the depth of talent in the Leadership Team and in the organisation as a whole.

The Board conducted a global search for a new CEO, with the assistance of a specialist executive search firm. There were a number of excellent international candidates, but the most outstanding candidate was Chief Investment Officer Matt Whineray. We were delighted to be able to appoint Matt as CEO starting from July 2018.

Matt joined the Guardians in 2008 as General Manager, Private Markets, and became Chief Investment Officer in 2014. In this role, he was responsible for the Guardians' portfolio construction and investment activity in listed and unlisted markets, both directly and through investment managers. He has been instrumental in the Guardians' successes over the past decade and is recognised globally as a leader in institutional investment.

The Board would like to thank all of the staff at the Guardians for their commitment during this transition, particularly those who were involved in the recruitment process and those who took on acting positions or additional responsibilities.

GOVERNMENT CONTRIBUTIONS

The resumption of Government contributions to the Fund in December 2017, after an eight-year suspension, was welcomed by the Board. The move provides future generations with greater certainty over New Zealand's ability to fund universal superannuation payments.

The Fund has an important purpose: at the projected peak of withdrawals, it will be covering 12.7% of the country's net superannuation bill. The projected tax paid by the Fund will equate to a further 8.5% of the annual superannuation cost.

BOARD CHANGES

Philippa Dunphy, who first joined the Board in 2012, resigned during the year. I would like to sincerely thank Philippa for her service to the Guardians and Fund during that period, especially for her contribution as Chair of the Audit Committee. Great thanks are also due to Lindsay Wright, Board Deputy Chair and recently Chair of the Audit Committee, and Dr Craig Ansley, two long-standing Board members whose terms will end in the coming year.

CHAIR'S STATEMENT
TE TAUĀKĪ A TE KAIHAUTŪ

NGĀ PANONITANGA Ā-POARI

I te tau nei, ka rihaina a Philippa Dunphy, i hono tuatahi mai rā ki te Poari i te tau 2012. E tuku ana au i ngā mihi nui ki a Philippa i ana mahi mā Ngā Kaitiaki me te Tahua i te wā i a ia, otirā, mō tana tū hei Kaihautū i te Komiti Tātari. Me mihi nui hoki a Lindsay Wright, te Kaihautū Tuarua o te Poari, ā, inā noa nei, te Kaihautū hoki o te Komiti Tātari, a Dr Craig Ansley anō hoki, tētahi tokorua kua roa e noho ana i te Poari ka pau nei te wā ki a rāua hei te tau e tū mai nei.

E koa ana hoki mātou i te kounga o ngā mema ka hono mai ki te Poari inamata nei: ka hono mai a Simon Botherway ki te Poari i a Here-turi-kōkā, i te tau 2018, ā, ko ōna hoa ko tētahi pūkenga whare wānanga, ko Henk Berkman, ka tīmata hei a Whiringa-ā-nuku o te tau 2018, ko tētahi kaiwhakahaere ngaio, ko Catherine Drayton, ka tīmata hei a Whiringa-ā-rangi o te tau 2018. Ko Simon tētahi e tino mōhiotia ana e ngā papa tauhokohoko pūnga rawa ki Aotearoa, ā, i te whakatōpūtanga, inā kē te whānui o ngā wheako mō te mana hautū o ō mātou mema hou o te Poari, ka mutu, e hōhonu ana tō rātou mārama ki ngā take ōhanga me ngā take pūtea. E āritarita ana ō mātou ngākau ki te mahi i ō rātou taha.

NGĀ WHĀINGA MATUA A TE POARI

Ko ngā whāinga matua a te Poari hei te tau e tū mai nei, ko te aroturuki ki te kokenga o ngā ara mahi, tae atu ki ngā mahi e pā ana ki te āhua o te whāinga pae tawhiti a te Tahua, ki te hangarau, ki te rautaki o te raraunga me te pārongo, ki te panonitanga o te āhuarangi, ki te pāhekoheko hoki me ō mātou kaiwhai pānga matua. Me mātua whai hoki mātou kia tōtōpū te whakataunga o ngā mema hou o te Poari, kia whai hua, ki tōna taumata teitei katoa, i ngā pūkenga me ngā tohungatanga o ngā mema katoa o te Poari, kia mātua whai kiko hoki ngā mahi a te Poari. Ka tautoko mātou i te Tumu Whakarae i tana whakawhitinga mai ki te tūranga hou.

HE KŌRERO WHAKAKAPI

Nō te taenga ki te marama o Mahuru, i te tau 2018, ka eke ki te 15 tau mai i te tīmatanga o tā te Tahua haumi, e 2.4 piriona tāra ki Aotearoa te takoha tuatahi a te Kāwanatanga. Kua 10.37% te tau toharite o ngā hua kua puta i ia tau (i muri i ngā utu, i mua i te tāke o Aotearoa), ā, kei mua noa atu tenei i te utu o te nama a te Kāwanatanga me te paeraro torohū e whāia ana e mātou, otirā, kua tino whakahekea te taumata o te utu a ngā kaiutu tāke o muri i te penihana nā te putanga me te whai hua o te Tahua. I te tīmatanga anō o tā te Kāwanatanga takoha i te tau 2017, i te pakari hoki o ngā hua mai i ngā haumitanga, kua tupu te Tahua ki te 39.37 piriona tāra ki Aotearoa. I tōna taumata hei te tau 2071, e whakapaetia ana ka kapi i ngā unuhanga haupū rawa a te Kāwanatanga i te Tahua, i ngā utu tāke hoki, te 21.2% o te tapeke o te utu more o te penihana ki Aotearoa.

E hōhonu ana te rongo a te Poari me ngā kaiwhakahaere o Ngā Kaitiaki i te haepapatanga o te whakahaere i tētahi puna haupū rawa pēnei i tēnei. E houtupu ana te hīkaka me te hiamo o te rōpū nā te pūtake o te Tahua me te kaha ki te whai wāhi ki te oranga o ngā reanga o muri o ngā tāngata o Aotearoa. I a mātou o te Poari, e rere ana ngā mihi ki ngā kaimahi i tō rātou pukumahi me te tōngakingaki i te roanga o te tau.

We are also delighted with the calibre of our incoming Board members: Simon Botherway, who will join the Board in August 2018, along with university academic Henk Berkman and professional director Catherine Drayton, who will start in October and November 2018 respectively. Simon in particular is well known to the capital markets in New Zealand, and between them, our new Board members have extensive governance experience, as well as a deep understanding of economic and financial matters. We look forward to working with them all.

BOARD PRIORITIES

The Board's priorities in the year ahead are to monitor progress on work streams including work on the Fund's long-term target state, technology, data and information strategy, climate change, and engagement with our key stakeholders. We will also ensure that the new Board members receive a thorough induction, to make the most of the skills and expertise of all members of the Board and to ensure that the Board is working effectively. We will support the CEO through his transition into the new role.

CONCLUDING REMARKS

September 2018 marked 15 years since the Fund began investing with an initial contribution of NZD2.4b from the Government. Returns since then have averaged 10.37% per year (after costs, before NZ tax), significantly ahead of both the Government's cost of debt and our passive benchmark, meaning the burden on future taxpayers of the cost of superannuation has been materially reduced as a result of the existence and performance of the Fund. With the resumption of Government contributions in 2017 and those strong investment returns, the Fund has grown to NZD39.37b. At its peak in 2071, the Government's capital withdrawals from the Fund, as well as tax payments, are expected to cover 21.2% of the total net cost of New Zealand superannuation.

The responsibility of managing such a significant pool of capital is felt deeply by the Board and management of the Guardians. The team is genuinely motivated and excited by the Fund's purpose and the ability to make a contribution to the well-being of future generations of New Zealanders. On behalf of the Board, I thank the staff for their hard work and commitment during the year.

CHIEF EXECUTIVE'S STATEMENT
TE TAUĀKĪ A TE TUMU WHAKARAE

Investing for future generations

Te haumi mō ngā reanga o muri

MATT WHINERAY
CEO

Ko Ngā Kaitiaki tētahi o ngā wāhi mahi whakaihiihi katoa i te ao mō te kaupapa o te haumi ā-whakahaere. Nā te ture whakatū i a mātou e motuhake nei ā mātou whakahaere, e mārama nei hoki ā mātou whāinga: ko te haumi ināianei hei painga mō ngā reanga o muri. Mā te whai wāhi ki tēnei ohu e whai wāhi nui ai mātou ki te anamata o Aotearoa. He ohu e eke nei nei ā mātou mahi ki tētahi taumata teitei, e tōngakingaki ana ki tā mātou whāinga, ki te oranga tauroa, ki te ita hoki o ngā hononga. Nōku te maringanui ki te ārahi i tēnei whakahaere.

Ka whakahaere mātou i tētahi wāhanga nui o te pūtea a te marea. I te Tahua e tupu haere ana, ka noho tērā hei wāhanga nui tonu mō ngā rawa a te motu. He haepapa tēnei e whakaaro nuitia nei e mātou.

I ngā tau 10 kua hori e mahi ana au mā Ngā Kaitiaki, kua whakatupuria e mātou ngā anga whakatau e hōhonu ai tō mātou māramatanga ki te huinga haumitanga me te āhua o te whakapiki i te uara i roto i te wā.

TE NOHO TAKATŪ KI TE TUPURANGA

I tēnei tau, i tīmata mātou i tētahi arotake ā-roto i te āhua pae tawhiti o Ngā Kaitiaki e whāia ana, hei tūāpapa mō ngā matapakihanga me tō mātou Poari. Ko te pūtake o te arotake, ko te noho takatū ki te tupuranga o te Tahua hei ngā tau e heke mai nei, i runga i te aranga anō o ngā takoha a te Kāwanatanga me te whakapae ka whiwhi te Tahua ki ngā hua e matapaetia ana i te pae tawhiti. Mā reira mātou e mārama ai ki te āhua o te panoni haeretanga o te rautaki haumi a Ngā Kaitiaki i te wā e tupu ana te Tahua. Mā reira hoki e tohu ngā hiahia mō te taha ki ngā kaimahi, ki ngā pūnaha me te hangarau.

The Guardians is one of the most exciting places to work in institutional investment globally. Our founding legislation gives us operational independence and clarity of purpose: to invest now for the benefit of future generations. Being a part of this team means we can make a real difference to the future of New Zealand. We have a high-performing team, a deep commitment to our purpose, sustainability and strong partnerships. It is a real privilege to lead this organisation.

We manage a large amount of the public's money. As the Fund grows in size, it will represent a significant portion of the country's wealth. It is a responsibility we take very seriously.

In the 10 years I have worked for the Guardians, we have developed decision frameworks to give us a deep understanding of the portfolio and how to add value over time.

PREPARING FOR GROWTH

This year, we started an internal review of the Guardians' long-term target state as the basis for a discussion with our Board. The purpose of the review is to prepare for the Fund's future growth, given the restart of Government contributions and the assumption the Fund achieves expected long-run returns. It will give us a detailed understanding about how the Guardians' investment approach will need to evolve as the Fund grows. It will also determine future needs for staffing, systems and technology.

As we prepare for future growth, efficiency will continue to be a high priority. We continue to benchmark our costs and value add performance against peer funds each year. The findings from the 2017 CEM research, which showed the Fund was

CHIEF EXECUTIVE'S STATEMENT
TE TAUĀKĪ A TE TUMU WHAKARAE

Nō mātou ka takatū ki te tupuranga e heke mai nei, ka mātāmua tonu te aro ki te whakarite pai i ngā rauemi. E whakataurite tonu ana mātou i ā mātou utu ki ngā tahua a ngā aropā i ia tau me te āpiti uara ki ā mātou mahi. Ka kitea ngā hua i puta ai i te rangahau CEM o te tau 2017, e whakaatu mai nei he iti iho te utu o te Tahua, he nui ake hoki te uara kua āpitihia tēnā i ngā aropā o te ao whānui, i te whārangi 102.

I te tau 2019, ka tū te arotake ā-rima tau e motuhake nei o Ngā Kaitiaki me te Tahua i runga i ngā here i whakatakotoria ai i te ture e maru nei i a mātou. Ko te tuawhā tēnei o ngā arotake motuhake, ā, e āritarita nei mātou ki te whai wā ki te whakataurite i ā mātou mahi ki ngā tikanga mahi kounga katoa i te ao whānui. Mā te Minita Tahua e kopou te kaiarotake, māna hoki e whakatau ngā paearu mahi, i runga i ngā kupu ārahi a Te Tari Tātari Pūtea.

TE ĀRAI TŪRARU ME NGĀ HUA HAUMI

Ko tētahi o ngā āhuatanga whai hua o te Tahua ko tana pae tawhiti, e toka tū moana ai ia i te wai karekare o te pae tata, i te papa tauhokohoko. E taea ana e mātou te titiro ki tua o ngā whakapōreareatanga i te papa tauhokohoko e wehi ai pea ētahi atu kaihaumi, ka mārō tonu ai te haere kia tau rā anō ngā hua haumi.

Nā tō mātou pae tawhiti me te teretere o ā mātou pūtea e mōhiotia nei - kua mōhio mātou ki te wā e tīmata ai te Kāwanatanga ki te tango pūtea i te Tahua - e anga ana tō mātou huinga haumitanga ki ngā rawa ka tupu. Kua takoto i te Poari te paeraro mō te Huinga Haumitanga Tūāpapa kia 80% ngā tūtanga ā-ao, ā, kia 20% te moni whiwhi pūmau ā-ao. Ko tā mātou he whakatinana i taua whakaaro me te āpiti uara i ngā wāhi ka kitea e mātou he huarahi penapena pūtea, he huarahi āpiti uara rānei i tēnei taha o ngā tawhā tūraru kua whakaaetia. Ko ētahi o ā mātou rautaki āpiti uara, ko te rautaki whakatītaha, ko te whakamahi tika i te pūtea taituarā me te haumi tōtika. Ko te whāinga o ia rautaki, kia pai ake ngā hua haumi ka puta ake ki te Tahua i runga i te nui o te mōreareatanga.

Kei a mātou te pūtea teretere e wātea ai ki te whai i ngā huarahi o te hoko rawa e iti iho ana te utu i te utu e tika ana. E taea ana hoki e mātou te pupuri rawa, te hoko rawa hoki i te wā e iti ana ngā utu i te papa tauhokohoko. E tika ana ngā rautaki pao ā-tōrea me ngā rautaki ātete nei mō tētahi Tahua pae tawhiti, e aro nui ana ki te tupuranga.

Nā tā mātou kōwhiri i te taumata o ngā rawa tupu kei roto i te huinga haumitanga me tā mātou whai kia kaha te hokohoko haumitanga, ka kumukumu te āhua o ngā hua haumitanga, ā, i ōna wā, ka puta he hua tōraro. Ka āta matapakihia ngā taipitopito o te āhua o tā mātou ārai tūraru me te whānuitanga o ngā momo hua haumitanga ka puta pea i te roanga o te wā i te whārangi 20 o tēnei pūrongo.

TE RAUTAKI MŌ TE PANONITANGA I TE ĀHUARANGI

I a Whiringa-ā-nuku o te tau 2016, i pānui mātou i te rautaki haumi e hāngai ana ki te panonitanga i te āhuarangi me ngā whāinga ā-putanga waro me whakatutuki, me hipa rānei i mua i te tau 2020. I tēnei tau i whakaurua e mātou ngā whakakorenga waro i ētahi mana whakahaere ā-tūtanga e whakahaerehia ana e waho, ā, i āpitihia te tūraru ā-āhuarangi ki ā mātou tauira whakatau uara. E whakaheke haere tonu ana mātou i tā mātou whai pānga ki ngā kamupene 'he nui te waro o roto', ā hei ngā whārangi 56 kitea ai te whakahoutanga o tā mātou whakamahinga waro e whakaatu ana i te kokenga ki te whakatutukihanga o ā mātou whāinga.

Kua tino whai wāhi atu mātou ki te kaupapa a One Planet Sovereign Wealth Fund Group, i kōkirihia ai e te Perehitini o Wīwī, e Emmanuel Macron, hei whakawhanake i tētahi anga mō ngā

lower cost and added more value than global peers, are noted at page 102.

In 2019, there will be a five-yearly independent review of the Guardians and the Fund, a requirement set down in our legislation. This will be our fourth independent review, and we look forward to the opportunity to benchmark against global best practice. The Minister of Finance appoints the reviewer and sets the terms of reference, on the advice of Treasury.

MANAGING RISK AND RETURN

One of the Fund's endowments is its long-term horizon, which allows it to withstand short-term fluctuations in the market. We are able to look beyond the kind of market disruptions that might spook other investors and hold a steady course until returns normalise again.

Because of our long-term horizon and our known liquidity profile – we know when the Government will start to make withdrawals from the Fund – our portfolio is oriented towards growth assets. The Board has set the benchmark Reference Portfolio at 80% global equities and 20% global fixed income. Our task is to implement that approach and to add value where we can identify cost efficiencies or value-creating opportunities within agreed risk parameters. Our value-adding strategies include strategic tilting, collateral optimisation and direct investing. The objective behind every strategy is to get better returns for the Fund for the amount of risk taken.

We have the liquidity to take advantage of opportunities to buy under-priced assets. We can hold and also buy when the market is down. These opportunistic and contrarian strategies are appropriate for a long-term, growth-oriented Fund.

Given our choice of the level of growth assets in the portfolio and our approach to active investment, we will experience volatility in our returns and negative returns from time to time along the way. We discuss how we manage risk and the range of possible returns over the long run in detail on page 20 of this report.

CLIMATE CHANGE STRATEGY

In October 2016, we announced a climate change investment strategy and carbon exposure targets to meet or exceed by 2020. This year, we introduced carbon exclusions in selected external manager equity mandates and added climate risk to our valuation models. We have continued to reduce our exposure to 'carbon-heavy' companies and an updated carbon footprint showing progress towards our targets is covered on page 56.

We have been closely involved in the One Planet Sovereign Wealth Fund Group initiative, championed by French President Emmanuel Macron, to develop a climate change framework for sovereign investors. The publication of the framework in Paris in July 2018 was the culmination of six months' work by six sovereign wealth funds, including four from the Middle East, which collectively manage over USD3 trillion in assets. Our Head of Responsible Investment, Anne-Maree O'Connor, a recognised global leader in this field, was instrumental in the process.

NEW ZEALAND INVESTMENTS

Because New Zealand is a small economy, most of the Fund is invested offshore. This is prudent from a diversification perspective and is considered global best practice. We are, however, committed to finding attractive investment opportunities in New Zealand, and a significant proportion of panonitanga i te āhuarangi mā ngā kaihaumi ā-kāwanatanga. Ko te tānga o te anga i Parī i te marama o Hōngongoi i te tau 2018 te otinga o ngā mahi i tutuki ai i roto i te ono marama i ngā tahua whai rawa e ono nā te kāwanatanga, e whā o ērā nō Te Pokapū o Āhia ki te Uru, e whakahaere ngātahi ana i ngā rawa e neke atu ana i te 3 tiriona tāra ki Amerika te uara. Ko tō mātou Upoko mō te Haumi Whai Tikanga, ko Anne-Maree O'Connor, ko tētahi rangatira e mōhiotia ana i te ao mō tēnei tūāhuatanga, i tino whai wāhi ki te tukanga.

NGĀ HAUMITANGA I AOTEAROA

Nā te mea he ōhanga paku a Aotearoa, kei tāwāhi te nuinga o ngā haumitanga a te Tahua. Matawhāiti ana tēnei i runga i te whakaaro kia whānui ngā momo haumitanga, ā, e kīia ana, koinei te tikanga whai hua katoa i te ao whānui. Heoi, e ū ana mātou ki te whakaaro me rapu ngā huarahi haumitanga arotau i Aotearoa tonu, ā, ko tētahi wāhanga nui o ngā haumitanga e kaha ana te hokona me te āpiti uara, kei tēnei whenua. He tau nui te tau pūtea 2017/18 nā te whanake tonutanga o tā mātou rautaki hou e whakatupuria ai ngā haumitanga i tēnei whenua mā te Pū Haumitanga. Ko tētahi tohu nui o tērā ko te whakaterenga o te tahua haumi Māori o Te Pūia Tāpapa, e whakaae nei tātou kia hono atu hei hoa mātāmua.

NGĀ PANONITANGA Ā-WHAKAHAERE

He wāhanga matua tō mātou ahurea ā-mahi ki tō mātou angitu. Kua roa tonu tā mātou whakapau kaha puta i te whakahaere e pai ai te mahi ngātahi, ā, he ahurea mārohirohi tō mātou, hangore ana te taiao o te wāhi mahi, e whai whakaaro ana anō hoki ki te whānau. Ka haere tonu tēnei arotahitanga i raro i te maru o tōku kaiārahitanga; e whakapono ana au mā reira tātou e whai painga ai i te nui o te whakataetae i te papa tauhokohoko kia whai kaimahi i te rāngai tahua.

E mihi atu ana au ki ngā kaimahi katoa kua whakakīkī tūranga wāpoto i te wā e panonitia ana te kaiārahi o Ngā Kaitiaki, i whakaae hoki ki te kawe haepapa atu anō - ki ngā kaimahi katoa hoki i whakaaro pai mai ki te panonitanga. He ohu pakari tō te whakahaere nei, ā, he nui tōna puna pūmanawa.

TE TIROHANGA WHAKAMUA

He nui ngā hua haumitanga i hoki mai ki te Tahua i te tau pūtea 2017/18 nā te tupuranga o te papa tauhokohoko me ā mātou rautaki āpiti uara. I puta te āhua o ngā hua haumitanga nui i te tauhokohoko tūtanga me ngā taumata pāpaku rawa atu o te kumukumu i te wāhanga tōmua o te tau pūtea, nō muri iho ka puta anō te kumukumu i te tīmatanga o te tau 2018 - koinei kē te tūāhua e waia ana mātou, ā, koinei tētahi tūāhua i whai hua rawa ai mātou nā te tika o te takatū.

Ina anga whakamua, e uaua ana te āhua o te taiao ā-waho. Kua tīmata te heke haere o te tupuranga i te ao whānui, kua tīmata te piki haere o ngā utu i ētahi papa tauhokohoko pakari, ā, e ita haere ana ngā tūāhua ā-tahua nā te tangohanga o ngā moni teretere a te pēke matua. Ahakoa kua piki haere ngā maniore ā-tauhokohoko, e whāiti ana te horanga o tērā ki roto ki ngā papa tauhokohoko ā-tahua ā mohoa. E noho ana ētahi papa tauhokohoko maha ki te taumata o te uara tika, e teitei ake ana rānei i tērā, nō reira hei urupare atu kua whakaitihia e mātou te taumata o te noho mōrearea ā-tauhokohoko me te mau tonu i ngā rawa kia nui ake te teretere o ngā huinga haumitanga i ngā taumata māori. E ū tonu ana mātou ki ā mātou rautaki haumi mō te pae tawhiti, ā, ka whai tonu kia urupū ki te rautaki e pā ana ki te tauhokohoko haumitanga.

the Fund's active, value-adding investments are domestic ones. The 2017/18 financial year was notable for the further development of our new Investment Hub approach to generating domestic deal flow. A major milestone in this was the launch of Māori investment fund Te Pūia Tāpapa, with which we have agreed to become a preferred partner.

ORGANISATIONAL CHANGES

Our working culture is a key part of our success. We have devoted considerable time and effort throughout the organisation to ensure that we work well together and have a constructive culture and a flexible and family-friendly working environment. This focus will continue under my leadership; I believe it gives us an advantage in the highly competitive market for staff in the finance sector.

My personal thanks go to all the staff who have stepped up into interim roles during the changes in the Guardians' leadership and taken on additional responsibilities - and to all staff for their positive response to the change. This organisation has a strong bench to call on and a great pipeline of talent.

OUTLOOK

The Fund achieved strong returns in the 2017/18 year thanks to a combination of market growth and our value-adding strategies. Equity markets were characterised by strong returns and exceptionally low levels of volatility in the first half of the financial year, followed by the re-emergence of volatility at the start of calendar 2018 – a more normal situation and one from which we were well positioned to profit.

Looking ahead, the external environment appears challenging. Global growth is beginning to decelerate, inflation is starting to rise in some developed markets and financial conditions are tightening with the withdrawal of central bank liquidity. While trade tensions have been escalating, the contagion into financial markets has been limited to date. With many markets at or above fair value, our response has been to lower the level of active risk and maintain higher than normal levels of portfolio liquidity. We remain committed to our long-term investment strategies and will continue to take a highly disciplined approach to active investment.

HOW WE INVEST

Volatility and risk: understanding the difference

MATT WHINERAY
CEO

For the Fund to meet a significant portion of the future cost of New Zealand Superannuation, the ability to take market risk to earn investment returns over long periods of time is crucial. But market risk means the Fund will experience mark-to-market losses from time to time when financial markets fall in value.

In addition to taking market risk, the Fund's endowments (long-term horizon, known cash flow profile, operational indepedence and sovereign status) enable it to embrace active, contrarian investment strategies in order to further enhance returns.

The Fund takes market risk to earn investment returns over the long-term

In keeping with the Fund's long investment horizon (no sustained withdrawals are projected until the 2050s), and in order to meet its mandate of "maximising return without undue risk", we have deliberately weighted the Fund towards growth assets (80% equities, 20% fixed income). This is a similar approach to the "growth" mandates offered by typical KiwiSaver funds.

The Fund's high exposure to growth assets is set by the Board in the Reference Portfolio, a simple passive low-cost portfolio of listed equities and bonds that serves as a benchmark for the Fund's investing activities.

In the short-term, growth assets can be volatile, moving up and down in price. The Fund has the ability to ride out and potentially benefit from these short-term movements. In the long-term, the Fund's exposure to market risk from growth assets such as shares is expected to pay off in the form of higher returns than the cost to the Government of contributing to the Fund.

The Fund uses active investment strategies to earn additional returns

The Fund uses active investments to diversify away from equity markets (for example, into timber and rural land). It also employs active investment strategies that take advantage of its long-term horizon and known cash flow profile, such as investing in illiquid, privately held assets.

The Fund has the ability to act as a contrarian investor, buying when other investors are selling (and vice-versa). This is the purpose of the Fund's strategic tilting programme, which uses derivatives to take positions across a number of investment markets (equity, bond and currency). This programme relies on a belief in mean reversion in asset prices towards fair value and is a buyer of "risky" assets during financial market downturns. Since the tilting programme began in 2009, it has been a significant contributor to the value the Guardians has added to the Fund. See page 40 for further details.

In a market crisis, the Fund may suffer large financial losses

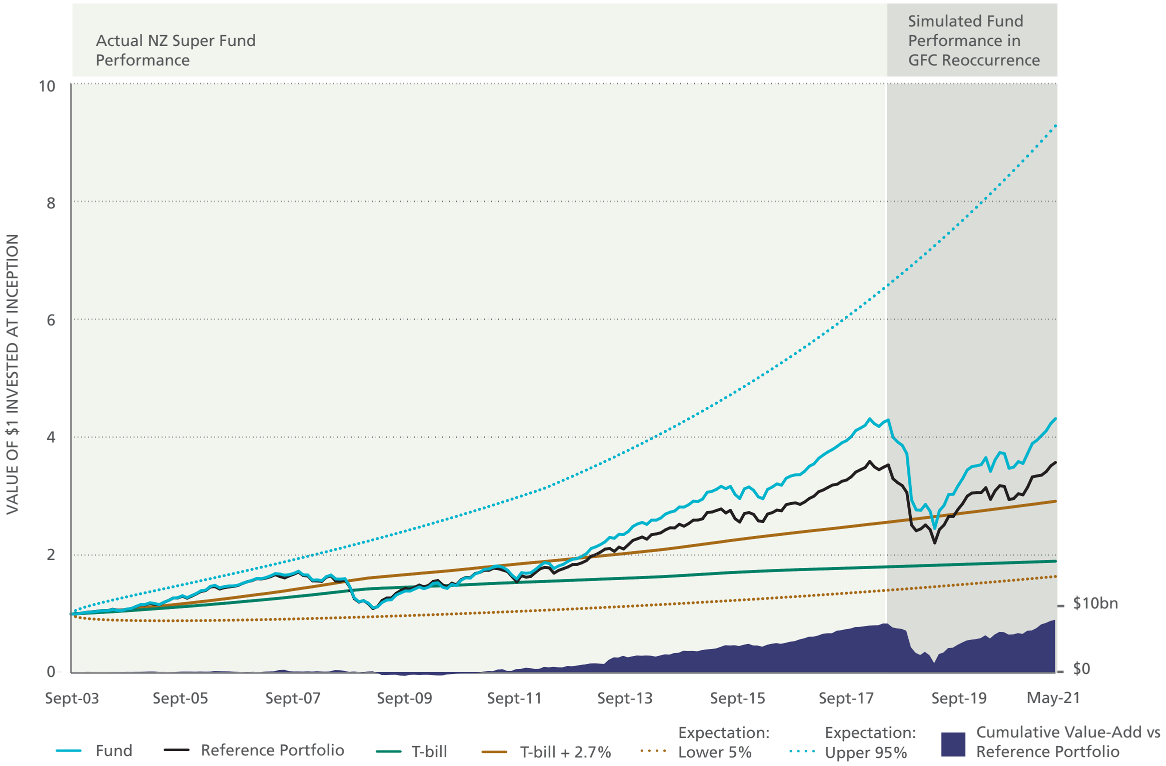
By taking on the market risk associated with growth assets, the Guardians accepts the risk that markets may experience sharp drops in value, be they driven by financial or political shocks, large commodity price movements, natural disasters or war. It is largely unavoidable that a growth-oriented portfolio such as the Fund will fall in these periods.

The Fund is well-placed to withstand such losses, as there is no immediate need to withdraw capital from it.* Short-term, volatility in the Fund's return is an expected outcome of the Board's choice of the level of equities in the Reference Portfolio. These fluctuations can be treated as "paper losses" with little long-term ramifications for the Fund's ability to fulfill its purpose.

102 - 15
103 - 1
103 - 2
103 - 3

* On current projections, sustained withdrawals from the Fund begin in 2053.

Simulated Fund performance if the GFC were to reoccur



Having made the choice to expose the Fund to short-term volatility in order to generate long-term returns, the key is to ensure we have the discipline and resources to hold our course when volatility happens. Critical in this is understanding what these times could look like, before they happen. The chart above shows a simulation of what would happen to the Fund if the Global Financial Crisis (GFC) period of returns (2008-2011) were to repeat themselves. For this scenario, we used the Fund's current asset mix and a representation of how the Fund's active investment strategies would react to market movements.

From peak to trough (a ten-month period), we estimate the Fund would lose **$20.3b (-52.6%)** in a repeat of the GFC. The notional Reference Portfolio benchmark would fall by 44.7%. The reason we estimate that the Fund would lose more money than the Reference Portfolio benchmark is largely because we expect our strategic tilting programme would buy more growth assets as they fall in value. This is because the times when the global economy and financial markets are in distress are those that present the best buying opportunities for long-term investors such as ourselves.

These numbers would not necessarily be reflected in our annually reported returns, as market volatility does not always line up with our fiscal years - hence the largest annual downturn we experienced in the actual GFC was -22%.

The Fund expects to recoup any investment losses over the recovery period

The GFC was characterised by both an unusually sharp drawdown and rapid recovery in financial market values. This is a relatively rare occurrence; recoveries from significant market crises can often take longer than this. In general, however, the Guardians believes that equity markets eventually mean-revert to higher fair values following transitory periods of crisis. As a result, the Guardians expects the Fund would earn back losses suffered by our active strategies in subsequent years as markets recover.

The above simulation also illustrates how, in a repeat of the GFC, the Fund would recover its initial value, and catch-up lost ground, within 20 months.

Holding the Course

The expected recovery in the Fund's value, however, is only feasible if we are able to "hold the course" with our investment strategies through a market cycle.

So, the major risk to the Fund is not that it will experience significant volatility in its returns - we know that will happen. The major risk to the Fund is that we lose our nerve, close down our investment positions and lock in the losses experienced in the crisis. This would significantly impair the ability of the Fund to fulfill its long-term purpose.

The next 60 years

As the Fund becomes bigger in dollar terms, and grows as a share of the economy, its gains and losses from short-term market volatility will also increase in size. We encourage stakeholders to understand that the main challenge in persisting as a long-horizon investor is in looking through short-term shifts in value and focusing instead on more appropriate and long-term metrics of success.

Even considering the risk of market crises, the Guardians' view is that the Fund's market risk and active strategies are appropriate and compensated risk exposures for a long-term investor.

102 - 15
103 - 1
103 - 2
103 - 3

PROGRESS AGAINST OUR STRATEGIC PLAN

Here we provide an overview of progress made during 2017/18 against the medium-term objectives in our 2017–2022 Strategic Plan.

For more information, see our 2016–2021 Statement of Intent and 2017–2018 Statement of Performance Expectations, available at www.nzsuperfund.nz/publications/statement-intent.

WHAT DOES SUCCESS LOOK LIKE IN 2022?

OBJECTIVE:
BEST PORTFOLIO

- Single top-down view across a wide range of opportunities.
- Greater internal capability in identifying opportunities.
- Structured and consistent opportunistic investing.
- Broad assessment of access points (e.g. investment managers).
- Institutionalised systematic monitoring of strategies and managers.
- Best practice across governance, enterprise risk management, data and information management.

The implementation of which will:

- Add value (net of costs) to the Reference Portfolio.
- Improve the Sharpe ratio (a ratio of return achieved vs risk taken).
- Maximise cost efficiency and effectiveness.

OBJECTIVE:
STRONG EXTERNAL RELATIONSHIPS

- Active membership and leadership of influential global forums.
- Co-ordinated programme of engagement and collaboration with international and domestic parties.

The implementation of which will:

- Provide access to investment opportunities.
- Result in the regular exchange of best practice and wider benchmarking.
- Set global standards where relevant.
- Lead to a better understanding of and support for the Fund's purpose and activities.

OBJECTIVE:
BUILDING AND MAINTAINING A GREAT TEAM

- Strong leadership throughout the Guardians.
- Culture and values strongly defined and identified with.
- Focus on talent development and staff retention.
- Diversity of perspectives encouraged, understood and used.

The implementation of which will:

- Make the Guardians an attractive place to work.
- Help the Guardians attract and retain the talented staff we need to be able to achieve our mission.

2017/18 AWARDS

WINNER
Excellence in Treasury, INFINZ Awards 2018

WINNER
APAC Institutional Manager of the Year, Volatility & Risk Premia Awards

FINALIST
CFO of the Year Awards (Stewart Brooks)

HIGHLY COMMENDED
Best RI Report by an Asset Owner Medium & Small Funds, Responsible Investor Reporting Awards

WINNER
Best Cover Design, 2018 Australasian Reporting Awards

FINALIST
Report of the Year, 2018 Australasian Reporting Awards

OBJECTIVE:
EFFICIENCY, SCALABILITY AND INNOVATION

- Frameworks and processes are embedded and guide efficient operations by managing uncertainties and simplifying decisions.
- These frameworks and processes are also scalable and flexible to accommodate new initiatives and products.

The implementation of which will:

- See lower costs.
- Lead to better information management.

ACHIEVEMENTS DURING 2017/18:

- Collateral optimisation – completed implementation of initiatives commenced in 2016/17 to generate a return and manage collateral supply and demand in the most efficient manner possible.
- Strategic engagement – built out deep and broad strategic relationships across the Guardians, targeting key stakeholders.
- Cloud implementation – assessment to replace end-of-life Guardians IT infrastructure completed. This will involve, in part, moving to cloud services.
- Climate change – continued implementation of the strategy to make the Fund more resilient to the risks posed by climate change.
- Data management – developing data warehouse capabilities and rolling out a data governance framework.
- Generating domestic proprietary deal flow – established and progressed a domestic engagement plan ('Investment Hub') to improve opportunity identification, access and implementation.
- People/Culture – leveraged talent agenda programme, with a particular focus on maximising (and growing) team members from a whole of Fund perspective. This included opportunities for secondments, internal transfers and job rotations.

PRIORITIES FOR 2018/19:

- Longer-term target state – prepare for the growth of the Fund, given the restart in contributions and assumption that the Fund achieves expected long-term returns.
- Strategic leadership – enhance strategy formulation and value creation skill-sets both internally and with our pool of external directors. Build within the external directors' pool a deeper understanding of the Guardians' values and investment beliefs.
- Innovation and disruption – strengthen our internal capabilities to source, execute and manage opportunities and threats from innovation and disruption for the Guardians and the Fund.
- Diversity and Inclusiveness – continue to embed the diversity and inclusiveness policy through people-related initiatives and identify specific measures of success.
- Cloud implementation – complete the "lift and shift" cloud implementation commenced in 2017/18 and identify opportunities to leverage cloud capabilities for business value-add.
- Data management – establish a clear investments-led data strategy and roadmap to guide development of our investment data capabilities.

103–1
103–2
103–3

IDENTIFYING OUR MATERIAL TOPICS

As described in our 2016 Annual Report, two years ago we carried out a comprehensive four-part process to better understand the material topics of our organisation.

Our aim was to understand what our stakeholders considered important when they evaluated our performance and the impact of those issues on our performance.

This year, noting that comprehensive stakeholder perception research is planned for 2018/19, we undertook an abbreviated materiality analysis to reflect the aspects of our organisation that may have increased or decreased in importance over the past two years. We have also sought to align our assessment with the Global Reporting Initiative (GRI) Standards' refined definition of impact: impacts the Guardians and Fund have on the environment, society and the economy.

This process has included:

- Identifying issues of significant media interest during the year;
- Seeking feedback from The Treasury on our proposed annual report content and discussing reporting priorities with them;
- Reviewing results of a targeted stakeholder perception audit to support our Auckland light rail proposal;
- Seeking feedback on current issues and emerging trends from industry bodies including the International Forum of Sovereign Wealth Funds (IFSWF); and
- Considering the 2017 Letter of Expectations received from the Minister of Finance, which includes expectations of renewed emphasis on the risk-adjusted performance of the Fund and the maintenance of a robust approach to ethical investment policies.

We have made the following enhancements to our reporting:

- Revised our materiality matrix to incorporate changes in impact assessment (see page 25).
- Included a feature explaining the Fund's risk-return profile, providing information about how the Fund would perform in times of market stress and encouraging stakeholders to focus on appropriate long-term metrics of success (see page 20).
- Expanded our Responsible Investment Report to further report on active ownership (voting statistics) and engagement, including a breakdown on climate change engagement carried out by our third-party engagement provider (see page 58).
- Made proactive disclosures on **www.nzsuperfund.nz** of official information (e.g. Board papers and key correspondence) on topics including climate change, CEO remuneration, and our cannabis exclusion policy.

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Our annual report aligns with our Statement of Intent (which is based on our five-year Strategic Plan) and our Statement of Performance Expectations. In the Statement of Performance at page 104, we report against the performance measures set out in the Statement of Intent, as well as on our achievement of the priority Strategic Plan activities for 2018/19.

Decisions about the information we include in our annual report are also based on:

- Legislative reporting requirements for New Zealand Crown Entities and for the Guardians and Fund, and
- Best practice disclosure guidelines for sovereign wealth funds and financial institutions, including the:
  - New Zealand Financial Market Authority's Corporate Governance Principles;
  - New Zealand Corporate Governance Forum's Best Practice Guidelines;
  - New Zealand Human Rights Commission's Good Employer Obligations;
  - International Forum of Sovereign Wealth Fund's Santiago Principles;
  - United Nations Principles for Responsible Investment; and
  - Global Reporting Initiative (GRI) standards.

The GRI is an international, independent reporting standard for best practice disclosure and reporting. The GRI defines Material Topics as reflecting significant economic, environmental and social impacts of an organisation or issues and risks that influence stakeholders' assessment of that organisation.

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BOARD MEMBERS

DOUG PEARCE — PHILIPPA DUNPHY — JOHN WILLIAMSON — CATHERINE SAVAGE — CRAIG ANSLEY — LINDSAY WRIGHT — STEPHEN MOIR

CATHERINE SAVAGE

CHAIR
APPOINTED TO GUARDIANS' BOARD IN 2009

Committees:

Employee Policy and Remuneration (Chair) and Audit

LINDSAY WRIGHT

DEPUTY CHAIR
APPOINTED TO GUARDIANS' BOARD IN 2012

Committees:

Audit (Chair)

STEPHEN MOIR

APPOINTED TO GUARDIANS' BOARD IN 2009

Committees:

Employee Policy and Remuneration

JOHN WILLIAMSON

APPOINTED TO GUARDIANS' BOARD IN 2016

Committees:

Audit

DOUG PEARCE

APPOINTED TO GUARDIANS' BOARD IN 2016

Committees:

Employee Policy and Remuneration

CRAIG ANSLEY

APPOINTED TO GUARDIANS' BOARD IN 2011

Committees:

Audit

After nearly six years with the Guardians, Philippa Dunphy finished her time on the Board at the end of March 2018.

For bios of our Board members, visit www.nzsuperfund.nz/nz-super-fund-explained-governanace/board

LEADERSHIP TEAM

SARAH OWEN — MARK FENNELL — MATT WHINERAY — STEWART BROOKS — MIKA AUSTIN — DAVID SARA

MATT WHINERAY
BCom, LLB (Hons)

CHIEF EXECUTIVE OFFICER

Areas of responsibility:

General management of the Guardians under delegation from the Board.

MIKA AUSTIN
BA, LLB

GENERAL MANAGER HUMAN RESOURCES

Areas of responsibility:

People and performance, culture, administration, travel.

STEWART BROOKS
BCom, CA

GENERAL MANAGER FINANCE AND RISK

Areas of responsibility:

Enterprise risk (including records management), external audit process, financial control, financial reporting, portfolio risk and compliance, tax.

MARK FENNELL
MSocSci (Hons), DipAcc, CA, CTP

GENERAL MANAGER PORTFOLIO COMPLETION

Areas of responsibility:

Treasury operations, including passive exposure, currency overlay, liquidity management and portfolio rebalancing; portfolio investments.

SARAH OWEN
BA, LLB, DipAcc

GENERAL MANAGER CORPORATE STRATEGY AND GENERAL COUNSEL

Areas of responsibility:

Board Secretariat, communications, legal, strategic development.

DAVID SARA
BMS (Hons), MBS (Dist)

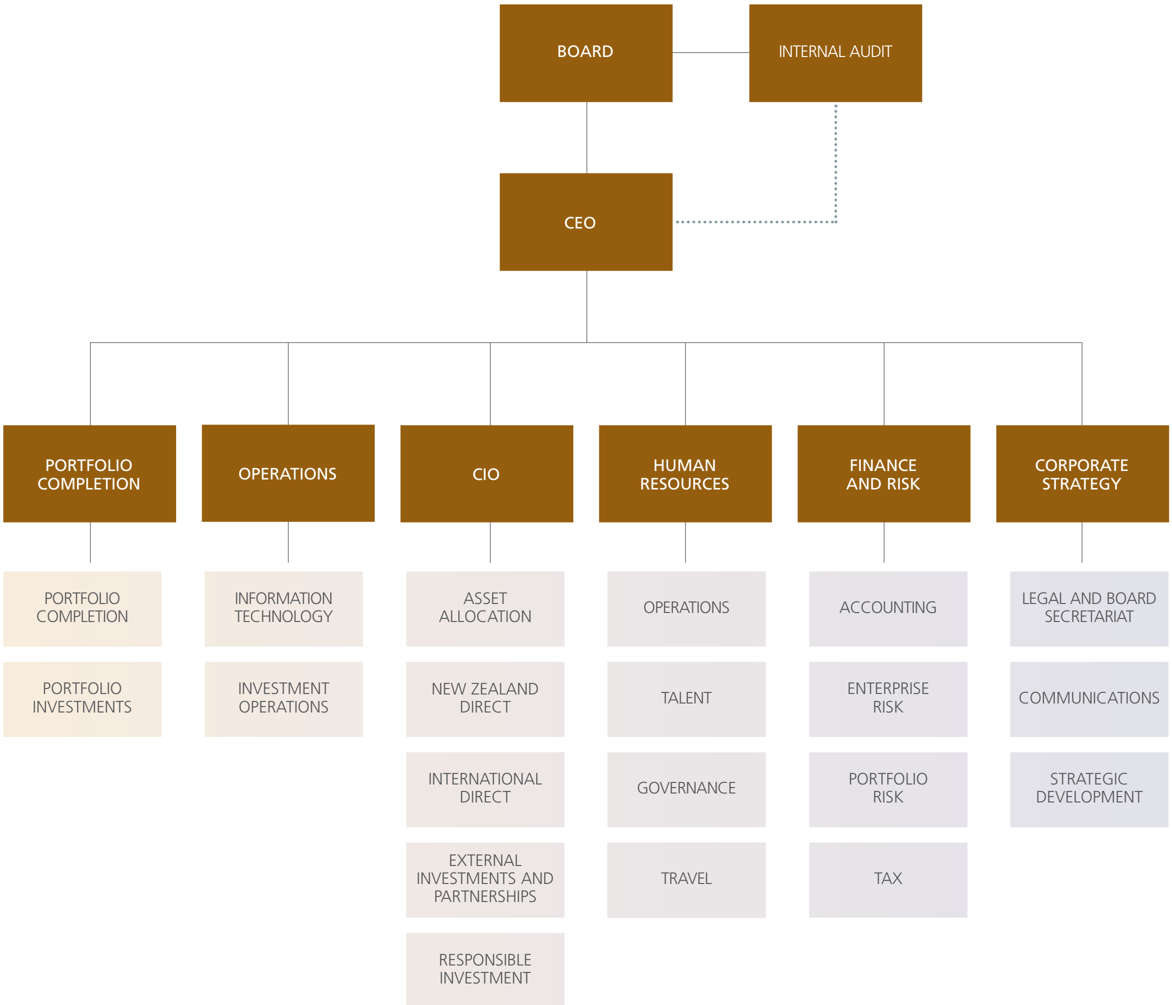
GENERAL MANAGER OPERATIONS

Areas of responsibility:

Chair of Funding Treasury Group, information technology, investment operations.

For bios of our Leadership Team members, visit www.nzsuperfund.nz/nz-super-fund-explained-governanace/board

ORGANISATIONAL CHART



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OUR PEOPLE

In an industry that is highly competitive, our people are our biggest asset. We recognise that staff attraction, retention and development are critical to our success.

We place a high priority on attracting the best candidates, retaining our talent and building the capability of our team. We strive to be a good employer and are committed to offering equal employment opportunities to prospective and existing staff. Workplace flexibility, investing in professional development and offering staff career progression opportunities are central to our employment offering.

We aim to embed the Guardians' vision, values and culture into our day-to-day activities; translate business strategies into clear role requirements, accountabilities and competencies; and improve productivity and business performance through compensation, performance management and leadership and coaching programmes.

Achievements during 2017/18

- Talent agenda programme leveraged through secondments, internal transfers and job rotations;
- Completed the review of the Guardians' leave and benefits offerings;
- Migrated to an upgraded online employee performance review tool;
- Restructured the Human Resources business unit to increase capacity and align to the Guardians' expectations by adding new roles in talent and governance.

Priorities for 2018/19

- Continue to embed diversity and inclusion aspirations through people-related initiatives and measured outcomes;
- Refresh and review of our organisational values;
- Develop internal and external director pool capability, through strategy, value creation and strong alignment with the Guardians' values and investment beliefs.

OUR CULTURE

Our focus on developing and strengthening our workplace culture continued into 2017/18, building on the survey results from the organisational culture inventory (OCI) and organisational effectiveness inventory (OEI) carried out in previous years. We place a strong emphasis on creating a high-performing and constructive environment. We will continue to coach staff about expected behaviour and values in order to maintain and progress our common culture.

CEO RECRUITMENT

Following former Guardians' Chief Executive Adrian Orr's resignation in December 2017, the Board commissioned Caldwell Partners to conduct the executive search for Mr Orr's replacement. Upon Mr Orr's departure in March 2018, Matt Whineray, formerly the Guardians' Chief Investment Officer, assumed the role of Acting Chief Executive; the General Manager of Portfolio Completion, Mark Fennell, became Acting Chief Investment Officer; and Head of Portfolio Completion, Brad Dunstan, became Acting General Manager of Portfolio Completion.

Caldwell Partners conducted a global, publicly advertised search, and in June 2018, the Guardians' Board announced it had appointed Mr Whineray as Chief Executive Officer. Board Chair Catherine Savage said "Mr Whineray was the stand-out candidate amongst a high-quality field of international applicants. He has been instrumental in the Guardians' successes over the last decade and is recognised globally as a leader in institutional investment. The Board has the utmost confidence in his leadership ability, intelligence and integrity."

Mr Whineray's appointment took effect on 1 July 2018. A full search for a new Chief Investment Officer is being undertaken.

INTERNAL PROMOTIONS

During the 2017/18 year, we confirmed eight permanent internal transfers and three promotions. The Guardians has highly skilled staff, and it is important to us to be able to offer opportunities in different teams to help our staff to grow and develop. Being able to offer employees career progression opportunities and the ability to gain new skills helps us retain valuable institutional knowledge.

NEW CHIEF EXECUTIVE OFFICER

Matt was appointed Chief Executive Officer of the Guardians in July 2018. He is responsible for the general management of the Guardians of New Zealand Superannuation and of the New Zealand Superannuation Fund under delegation from the Board.

Matt first joined the Guardians in May 2008 as General Manager, Private Markets. In 2014, he became Chief Investment Officer, overseeing the Investments Group, responsible for the Fund's portfolio construction and investment activity in listed and unlisted markets, both directly and through investment managers. Matt's achievements in this role included overseeing the development of the Fund's climate change strategy, risk allocation process and risk budget framework, along with strengthening of the Guardians' New Zealand and international direct investment capabilities.

Before joining the Guardians, Matt was at Credit Suisse (Hong Kong) where he was Head of Financial Sponsor Coverage for non-Japan Asia. Prior to this, he was a Managing Director at First NZ Capital in New Zealand and a Vice President at Credit Suisse First Boston in New York. Matt began his career as a barrister and solicitor with Russell McVeagh in Auckland.

Matt is a member of Focusing Capital on the Long Term and a Director of Netball New Zealand. Matt has previously served as a member of the World Economic Forum General Agenda Council on the Future of Investing and as Chair of the InZone Education Foundation.

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OUR PEOPLE (CONTINUED)

STAFF DEVELOPMENT

At the Guardians, we continue to encourage secondments to improve staff capability and build stronger relationships with our managers and peers. One of our strategic objectives for the 2017/18 financial year was to leverage our talent management tools, with a particular focus on developing team members' skills across the organisation.

Cristina Billett, the Guardians' Head of Legal, undertook a secondment at Direct Capital, a local fund manager specialising in mid-market private equity investments in New Zealand and Australia. Katie Beith, Responsible Investment (RI), and Rishab Sethi, External Investments & Partnerships (EIP), visited US financial services firm Northern Trust Asset Management as part of an information sharing and knowledge share with the Guardians, focusing on factor investing and responsible investment, while team members Arti Prasad (RI) and Hamish Blackman (EIP) spent one week at Bain Capital, conducting discussions on credit risk and ESG policies and processes. George Crosby and Paul Gargan from the Portfolio Investments team also spent time with fund manager Canyon at its offices in Los Angeles.

Within the Guardians, internal secondments undertaken included Operational Due Diligence Analyst Ryan McCulloch's three-month term with Internal Audit, completing audits on securities lending, fund investment vehicles and delegated authorities. Senior Accountant Jenny Brown was seconded to the Operational Due Diligence team, and Legal Counsel Craig Douglas spent two weeks in the Portfolio Completion team.

SUMMER INTERNSHIP PROGRAMME

Continuing to build on the success of previous summer internships at the Guardians, we had six interns join us in 2017/18. Our interns were drawn from a range of academic disciplines including law, finance, computer science, mathematics, physics and human resources.

The Guardians again partnered with the TupuToa programme (www.tuputoa.org.nz/), with three of our six interns appointed via the programme. TupuToa is an organisation set up to help pave the way for Māori and Pasifika tertiary students to establish careers in the corporate sector. The partnership aligns with the Guardians' desire to build up the capability of our team by attracting the best candidates from a range of different backgrounds and disciplines.

This year, the interns undertook roles with the NZ Direct Investments, NZ Equities, Corporate Strategy, Human Resources, Application Development and Responsible Investment teams. Long term, the Guardians' summer internship programme is intended to support the development of our talent pipeline.

HEALTH AND SAFETY

Our Human Resources Policy, available on www.nzsuperfund.nz, sets out our commitment to provide a safe and healthy working environment for all employees and visitors. We strive to:

- reduce and, where possible, eliminate any hazards;
- educate employees on health and safety issues;
- prevent injury to people at work; and
- comply with the requirements of the Health and Safety at Work Act 2015.

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Being mainly office based, the Guardians is a relatively low-risk environment from a physical safety point of view. Identified potential hazards include overseas travel, gradual process injury and stress.

We are managing our key risk areas constantly and provide a comprehensive programme of support services to staff.

The Health, Safety, Security and Environment (HSSE) Committee comprises staff from various business units and leads the response to, and prevention of, HSSE-related risks across the organisation. The Committee aims to promote a culture that identifies and takes steps to mitigate unsafe situations and behaviours before they have an impact on people, the environment and the Guardians' reputation.

The Committee meets once a quarter and reports to the Board on an annual basis.

This year, we were pleased to retain tertiary-level standard in the Accident Compensation Corporation's (ACC) Workplace Safety Management Practices Programme. Under this programme, the Guardians receives a discount on the standard ACC Workplace Cover levy in recognition of our establishment of health and safety systems and good practices in injury prevention.

In 2017/18, the Committee's core focus was on preparing a comprehensive Environmental Policy and mandate to look at reducing the Guardians' footprint over time.

Other Guardians' health, safety and wellness activities include:

- annual health and safety training;
- subsidised health, trauma and income continuance insurance;
- workstation assessments for all employees;
- height adjustable desks provided for all staff;
- advice on safe travel practices and international travel support including wallet-sized travel safety booklets and advice on the International SOS travel safety service;
- free healthy heart checks and influenza injections;
- provision of emergency kits to comply with Civil Defence and Emergency Management recommendations;
- access to counselling via independent Employee Assistance Programme providers; and
- regular occupational health nurse visits.

GOOD EMPLOYER

The Guardians is committed to being a good employer. This includes offering equal employment opportunities (EEO) to prospective and existing staff and recognising the employment aims of Māori, ethnic minorities, women and people with disabilities. All staff are employed on individual contracts and are able to be involved in the development of our good employer and EEO programmes. They also have the opportunity to provide input into our Human Resources Policy and approach.

We believe that being a good employer will help us achieve our long-term business goals. To us, being a good employer means that our people enjoy and feel safe in their workplace; trust the processes and procedures around their development, recognition, promotion and exit; and are enthused and professionally satisfied by their roles.

GOOD EMPLOYER REPORTING

The Human Rights Commission gave the Guardians a compliance rating of 100% for its good employer reporting in their review of the annual reports of 91 Crown Entities.

Our activities against seven key elements of being a good employer are summarised below:

ELEMENT	GUARDIANS ACTIVITY
Leadership, accountability and culture	Alignment between Strategic Plan objectives, individual objectives and performance measures
	Implementation of our most recent Organisational Culture and Organisational Effectiveness surveys
Employee development, promotion and exit	Programme in place to identify and develop talent
	Vacancies advertised internally
	Secondment programme
	Exit interview process
Recruitment, selection and induction	Robust recruitment and selection processes
	Orientation and induction for all staff
	Summer internship programme
Remuneration, recognition and conditions	Transparent, equitable and gender-neutral job evaluation practices
	Remuneration benchmarked against third-party New Zealand data
	Incentive programme into its eighth year
Flexibility and work design	IT systems facilitate remote working from home
	Flexible working arrangements supported
	100% return rates from parental leave
Harassment and bullying prevention	Employee Code of Conduct and relevant policies available and endorsed at all times
	Performance management process rewards positive and constructive behaviour
Safe and healthy environment	Strong focus on employee health, safety and well-being through provision of support services (see page 30)
	Retained tertiary-level standard in ACC's Workplace Safety Management Practices Programme

DIVERSITY AND INCLUSIVENESS

In 2015/16 we introduced a Diversity and Inclusiveness Policy. The objective of the Policy is to ensure that we have a workforce profile that delivers a competitive advantage by leveraging diversity of thought, supporting our ability to make the best investment decisions. It also seeks to foster an inclusive workplace environment where every individual is engaged and able to add value regardless of gender, cultural identity, sexual orientation or age.

As part of our commitment to diversity and inclusion, we aim to support staff in balancing their work and personal lives. Our flexible work practices provide a process by which any employee may apply for a variation in their work arrangements, whether it be flexi-place, flexi-time, part-time hours, condensed work weeks or a job-share arrangement.

We have made the implementation of our Diversity and Inclusiveness Policy a key activity in our Strategic Plan for 2018/19. Over the next financial year, we will seek to further embed the policy into our organisational culture through a range of people-related initiatives and the identification of specific measures of success.

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OUR PEOPLE (CONTINUED)

In June 2018, the Guardians signed up to the New Zealand Law Society's Gender Equality Charter, available on the Law Society website (www.lawsociety.org.nz). We believe the charter complements and enhances our current internal policies on diversity and inclusiveness. We fully support the New Zealand Law Society and the NZ Bar Association's joint efforts to promote the advancement and retention of female lawyers in the legal profession. Signatories to the Charter are required to:

- implement unconscious bias training for all lawyers and key staff and take action to address identified bias;
- conduct annual gender pay audits and take action to close any gender pay gaps; and
- report on progress against Charter commitments every two years to the New Zealand Law Society.

SEXUAL HARASSMENT

There has been extensive discussion in the New Zealand and international media about sexual harassment in the legal and corporate environment this year. The debate has highlighted the serious harm endured by victims, the legal obligations of employers and the importance of creating and maintaining an open, safe and inclusive workplace culture for all employees.

Harassment of any kind is not tolerated at the Guardians. It is a violation of our code of conduct, which covers our expectations of the ethical and professional behaviour of Guardians' employees and contractors. Employees who engage in this form of conduct are liable to be summarily dismissed.

We value our employees and we are committed to having a positive and respectful workplace environment. Preventing harassment is of the utmost priority at the Guardians, and we will continue to work through our policies, practices and cultural initiatives to ensure that we protect and empower those who choose to work for us.

LEAVE AND BENEFITS REVIEW

A major focus for the Human Resources team during the year was, for the first time since the Guardians' inception, a comprehensive review of staff leave and benefits, in order to reflect:

- changes to employment legislation;
- social trends;
- employee demographics; and
- ongoing diversity efforts, including gender pay equity and equal opportunity outcomes.

The team also considered the Fund's purpose, our desire to attract and retain talented people, our commitment to flexible work practices, specific employee feedback and externally benchmarked practices.

As a result of the review, the Guardians now offers employees*:

- 8% KiwiSaver employer contributions (subject to matching by the employee);
- flexible work practices;
- paid parental leave for primary carers (of 26 weeks);
- paid parental leave for partners (of 2 weeks);
- company paid insurance cover (health, life, trauma, and income continuance);
- sick leave extended to include elder care, and sick leave accrual to 13 weeks;
- purchased employment leave (up to an additional 2 weeks of leave per annum);
- cultural leave;
- long service leave; and
- school term contracts.

WORKFORCE PROFILE

COMPONENTS	2018	2017	2016	2015	2014
Our Workforce					
Full Time Equivalent (FTE) employees	127.8	124.4	112.20	111.0	96.6
People	130	127	115	113	98
Full time (FTE)	95%	93%	93%	94%	96%
Part time (FTE)	5%	7%	7%	6%	4%
Staff members with disabilities	0%	1%	1%	1%	1%

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* For some benefits on offer a Guardians employee must meet a set of criteria in order to be eligible.

COMPONENTS	2018	2017	2016	2015	2014
Female Representation					
Female staff members	48 (37%)	47 (37%)	44 (38%)	40 (35%)	32 (33%)
Female Board members	2* (29%)	3 (43%)	3 (43%)	3 (43%)	3 (43%)
Female Leadership Team members and direct reports to CEO	2** (33%)	2 (29%)	2 (22%)	2 (22%)	2 (22%)
Female Heads of Teams	5 (31%)	6 (33%)	4 (22%)	4 (25%)	4 (25%)
Female Investment Professionals	12 (22%)	12 (25%)	13 (28%)	11 (23%)	9 (22%)
Gender Pay Gap* **					
Gender pay gap – mean	20%	25%	Not reported	Not reported	Not reported
Gender pay gap – median	29%	37%	Not reported	Not reported	Not reported
Turnover****					
Turnover – all staff	6.9%	13.8%	10.7%	4.4%	5.0%
Turnover – male (of male FTE)	6.2%	7.6%	7.1%	2.7%	5.2%
Turnover – female (of female FTE)	8.6%	17.3%	3.6%	8.3%	4.6%
Educational Qualifications					
% of staff with a postgraduate tertiary qualification	53%	51%	50%	53%	57%
% of staff with an undergraduate tertiary qualification	90%	88%	90%	92%	91%
Investment in staff training as a % of total Guardians operating expenditure	1.2%	1.3%	1.1%	1.4%	1.4%
Return to Work and Retention after Parental Leave (as primary carer)					
Return to work – male	None taken	None taken	None taken	None taken	None taken
Return to work – female	100%	100%	50%	100%	50%
Retention as at 30 June 2018 after returning during the year – male	N/A	N/A	N/A	N/A	N/A
Retention as at 30 June 2018 after returning during the year – female	100%	100%	100%	100%	100%
Health and Safety					
Lost-time work injuries	0	0	0	0	0
Absenteeism as measured by days of sick leave per FTE	4.7	4.1	4.1	3.1	3.2

* There are seven Board members, but only six in seat at 30 June 2018.

** There are seven LT members including the CEO, but only six in seat at 30 June 2018 with the CEO vacancy.

*** In line with reporting guidelines from the Human Rights Commission, we commenced reporting on the gender pay gap in 2016/17. We report contractual base hourly rate of pay for the entire permanent workforce (including CEO, and for full and part time work); the calculation does not include bonus payments, Kiwisaver and other staff benefits such as insurance. The numbers reported are the difference of male pay less female pay, divided by male pay. If there was no gap, the result would be 0%.
The mean gender pay gap is the difference between the mean hourly base pay of males and females.
The median gender pay gap is the difference between the midpoints in the range of hourly base pay of males and females. The midpoint is calculated by taking all hourly base pays in the sample, lining them up in order from lowest to highest and picking the middle-most hourly base pay.

**** We define turnover as voluntary turnover.

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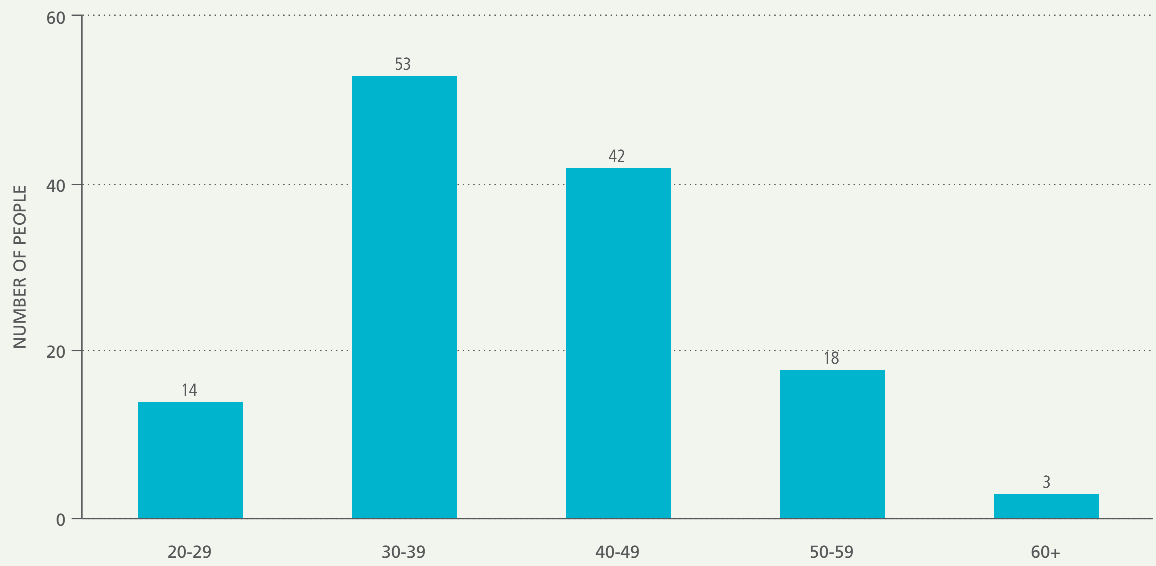
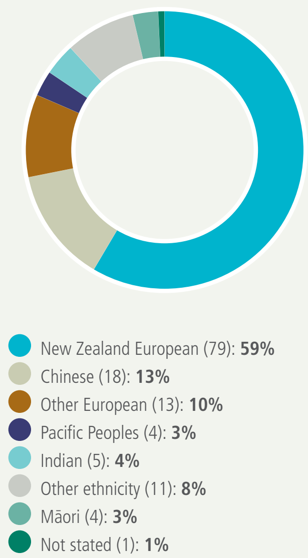
OUR PEOPLE (CONTINUED)

WORKFORCE AGE

Workforce Age as at 30 June 2018

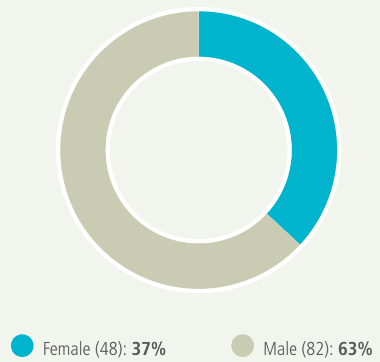


Ethnic Profile* 30 June 2018



* Five employees identify with more than one ethnic group.

Gender Balance as at 30 June 2018



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SECTION 2/7

Investment Report

Te Pūrongo Haumi Pūtea

2

INVESTMENT

Viewing opportunities through a long lense.

PERFORMANCE REPORT

TOTAL RETURN 2017/18
(AFTER COSTS AND BEFORE NZ TAX)

12.43%

FUND SIZE UP BY

$4.0b

THE YEAR IN SUMMARY

The Fund again out-performed global markets, returning 12.43% (after costs, before NZ tax) over 2017/18. The Guardians' active investment activities added value of 2.02% (NZD0.7b) on top of a Reference Portfolio (market) return of 10.42%.

The Fund finished the year at NZD39.37b before New Zealand tax, an increase of NZD4.0b.

The overall Fund's out-performance of the Reference Portfolio was due mainly to the success of its strategic tilting programme, a positive performance by its single largest investment, Kaingaroa Timberlands, and the active collateral mandate. See page 40 for more details.

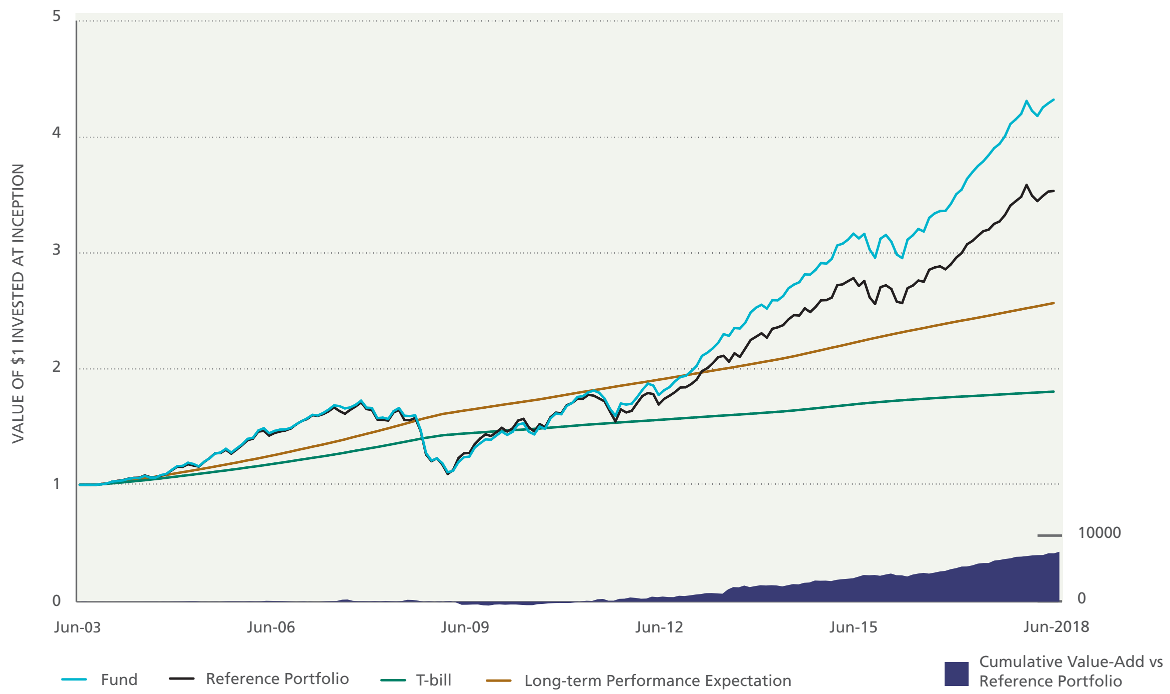
REFERENCE PORTFOLIO RETURNS

Around two-thirds of the Fund is invested passively, in line with the Reference Portfolio. Therefore, the composition of the Reference Portfolio is the biggest single influence on Fund returns. The table across shows how the components of the Reference Portfolio performed during the year. The returns are shown on a hedged to NZD basis.

PERFORMANCE SINCE INCEPTION

As detailed in the Chair's Statement on page 14, the Fund is well ahead of its performance benchmarks since inception.

Reference Portfolio benchmark	Weight	2017/18 Return
Global Equities – developed markets	65%	13.03%
Global Equities – emerging markets	10%	9.05%
New Zealand Equities	5%	17.63%
Global Fixed Income	20%	2.20%
Total	100%	10.42%



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The preceding graph shows the cumulative NZD Fund return since inception, relative to its key benchmarks:

- The Reference Portfolio return;
- Treasury bills – a measure of the cost to the Government of contributing capital to the Fund, instead of using the money to retire debt; and
- Long-term Reference Portfolio Performance Expectation (to 30 June 2017, Treasury bill return + 2.7%).

The gap between the Treasury Bill return and the Fund return shows the return earned in excess of the Government's marginal cost of short-term debt (NZD23.08b or 6.31% p.a.).

The gap between the Reference Portfolio return and the actual Fund return (also represented by the shaded area of the graph), as at 30 June 2018, illustrates the value the Fund's active investment strategies have added since inception (NZD7.59b or 1.49% p.a.).

Note: the Reference Portfolio was introduced in July 2010. Figures prior to then are based on the Strategic Asset Allocation model at the time. From 1 July 2015, the long-term Reference Portfolio performance expectation changed from Treasury bills + 2.5% to Treasury bills + 2.7%.

Fund Performance as at 30 June 2018	Fund Size NZD39.37b before NZ tax			
	SINCE INCEPTION (SEPT 2003)	**TEN YEARS**	**FIVE YEARS**	**ONE YEAR**
Actual fund returns (after costs, before NZ tax)	10.37%	10.47%	13.59%	12.43%
Reference Portfolio return (after costs, before NZ tax)	8.88%	8.53%	11.37%	10.42%
Value-added (actual return less Reference Portfolio return)	1.49%	1.94%	2.22%	2.02%
Estimated $ earned relative to Reference Portfolio	$7,585m	$6,660m	$3,724m	$703m
New Zealand income tax paid	$6,424m	$4,898m	$3,380m	$862m
New Zealand Treasury Bill (T-Bill) return	4.06%	2.79%	2.42%	1.72%
Net return (actual return less T-Bill return)	6.31%	7.68%	11.18%	10.71%
Estimated $ earned relative to T-Bills	$23,080m	$21,327m	$16,193m	$3,743m
$ change in net asset position	$39,369m	$25,240m	$16,398m	$3,996m

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Benchmarking our performance

DAVID IVERSON
HEAD OF ASSET ALLOCATION

Benchmarking performance is important because it allows the public, the Government, the Board and Guardians management to assess the effectiveness of investment strategies and activities relative to the risks taken.

Our Fund-wide benchmark is the Reference Portfolio. It serves a number of roles:

- it is the starting point for meeting our long-term purpose and mission;
- it defines the benchmark for the actual portfolio, allowing us to determine whether value has been added; and
- it provides an accountability structure for the Guardians when undertaking active investments – we must do better than a simple, low cost implementation of the Reference Portfolio.

STARTING POINT

The Fund is a long-term, growth-oriented global investment fund, which assists the Government in smoothing the tax burden of superannuation payments on future taxpayers. The Government sets aside some assets now that can be drawn down later, while earning a risk premium* by investing these assets in capital markets. The Guardians' mandate is to invest the Fund so as to maximise return without undue risk, while employing best practice portfolio management and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Reference Portfolio is a portfolio that combines broad, well-diversified market exposures to global equities and global bonds. Following the last Reference Portfolio review in 2015, the allocations are:

- 65% developed market equities;
- 10% emerging market equities
- 5% NZ equities; and
- 20% global fixed income.

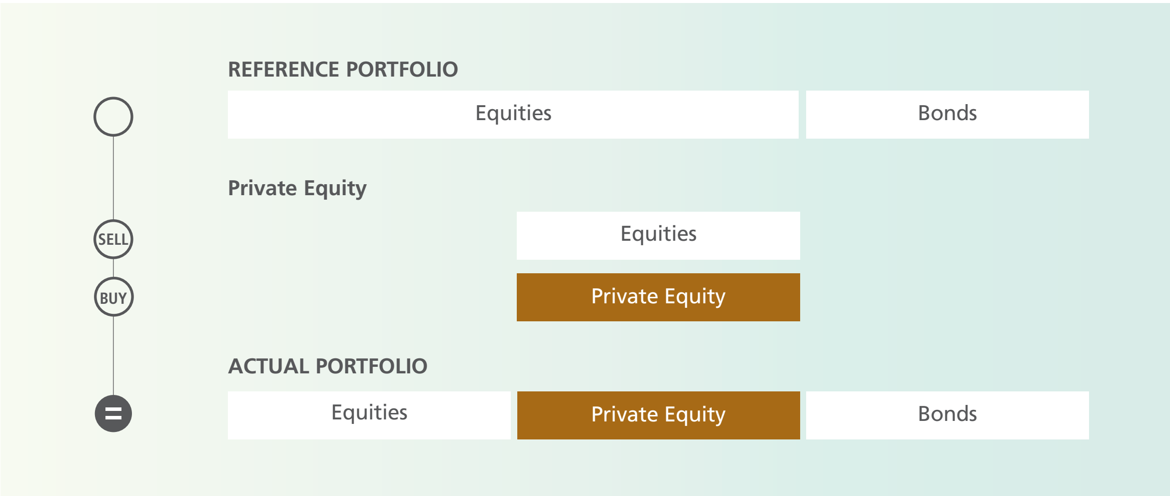
Such a portfolio could achieve the Fund's purpose and mission through a simple, low-cost investment structure. However, we believe we can do better than this simple, low-cost portfolio.

DEVIATING FROM THE REFERENCE PORTFOLIO

We see three reasons for deviating from the Reference Portfolio:

- increased diversification;
- opportunities to benefit from market level mispricing; and
- opportunities to benefit from individual asset level mispricing.

Our risk budgets are broadly assigned according to these sources of return. We assign the diversifiers to a 'structural' risk basket that also contains other opportunities such as risk factors. See page 40 for value-add by each risk basket.



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* The return in excess of cash earned by investors as compensation for taking on passive exposure to the market or an asset class.

The market level mispricing opportunities are split into three risk baskets – 'broad markets', 'real assets' and 'arbitrage, credit and funding risk'. Lastly, the individual asset level mispricing is assigned to an 'asset selection' risk basket.

When we make active investments, we usually need to sell Reference Portfolio assets in order to fund the purchase of the new assets. Let's take an investment via an external private equity manager. We would need to sell liquid equity assets in the Reference Portfolio to fund the private equity manager. This is shown in the diagram on the preceding page.

The resulting portfolio would have about the same amount of total equity risk as the Reference Portfolio. This is important because if we funded the private equity investment with bonds, we would have a higher allocation to equity assets in the actual portfolio. Over time, we would almost certainly outperform the Reference Portfolio because of the greater market risk and return of equities relative to bonds. We have essentially "doubled up" on the equity exposure already in the Reference Portfolio.

We aim to avoid this by selling down equities. This way, we ensure that the actual portfolio is matched to the risk profile of the Reference Portfolio benchmark. Outperformance would then come from the decision to invest in superior assets rather than simply "doubling up" on equity-like exposures already contained in the Reference Portfolio.

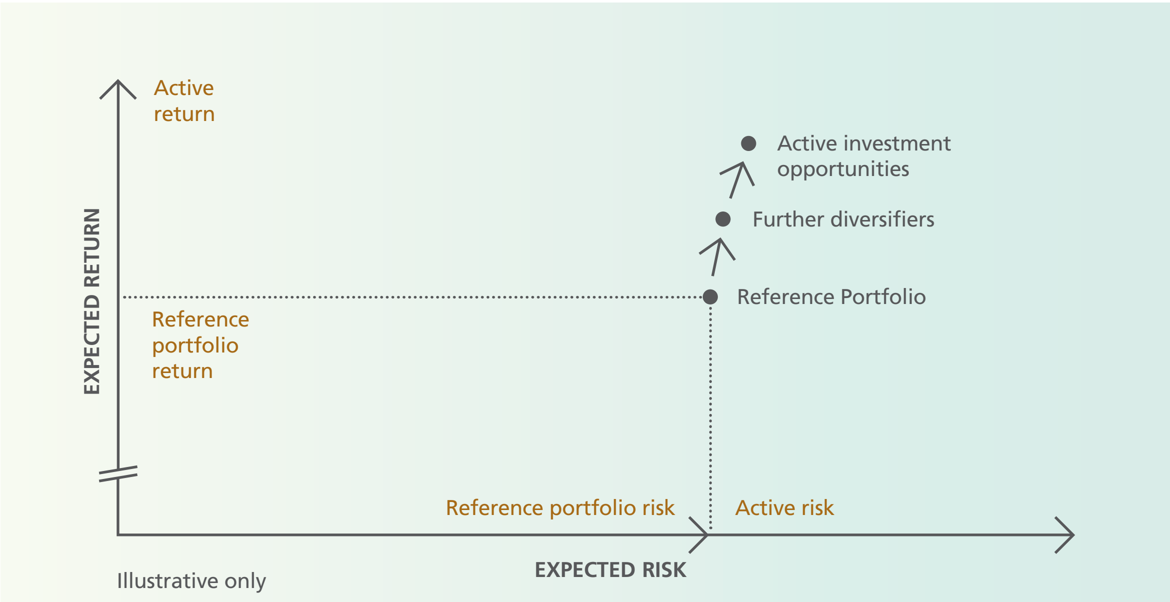
Of course, not all new investments are equity-like. Some may be bond-like, which means we would sell bonds to fund the investment. Some investments may be somewhere between bonds and equities. In these cases, we would sell some combination of bonds and equities to fund the investments.

For this reason, to the extent possible, we look through asset labels to the underlying risks of the active investments and fund these new investments to ensure the actual portfolio risk matches the Reference Portfolio risk.

ACCOUNTABILITY STRUCTURE

Active investments result in some additional risk being introduced into the actual portfolio. We call this "active risk", the risk associated with our active decisions. We expect to be compensated for bearing this active risk – we call this "active return".

The ownership of active risk resides with management. This provides a structure that makes management unequivocally accountable for the performance of the actual portfolio relative to the low cost, passive benchmark – the Reference Portfolio.



In taking active risk, we look to leverage our endowments and investment beliefs – such as our long-horizon, our known liquidity profile and our belief in mean reversion. The way we fund new investments means we look to take on additional risks not already in the Reference Portfolio. If an active investment contained no new risks, there is no reason to expect it to outperform the Reference Portfolio assets sold to fund it.

As mentioned previously, our active investments fit into three broad categories. Each category aligns with our endowments and beliefs.

- **Diversifiers** – these assets help diversify the Fund's portfolio, such as timber and rural assets. These investments exploit the Fund's long horizon and known liquidity profile.
- **Market pricing** – investments that respond to current market pricing by adding exposures to cheap asset classes and reducing exposure to expensive asset classes. Our strategic tilting programme is an example of this. This category leverages the Fund's long horizon and belief in mean reversion.
- **Asset selection** – investments that rely on an ability to select individual investments expected to outperform relevant benchmarks. This relies on a belief in relative market inefficiencies, although we also believe true skill is rare and so only engage in a small amount of this kind of active investing.

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VALUE-ADD IN 2017/18

NZD 703m

IN VALUE-ADD (NET OF COST)

Figures show Performance vs. Reference Portfolio.

In this section, we report on value added or detracted by our active investments, by risk basket, relative to our passive Reference Portfolio benchmark. In total, the Fund out-performed the Reference Portfolio by 2.02% (NZD703m) over the year. This compares with a 1.49% annual (NZD7.59b) out-performance since inception. We expect to outperform the Reference Portfolio by 1% per year, over the long-term, based on the level of risk we expect to take. It is important to appreciate that our active investment strategies are designed to maximise returns over the long-term. Negative returns as well as positive, and movements up and down between years, are expected.

Risk baskets	2017/18	2016/17	2015/6
ASSET SELECTION e.g. opportunistic, buyout, active equities. This basket contains opportunities that involve the skill to pick assets. These include internal and external mandates such as NZ and emerging market active equities, as well as one-off direct investments. This year our active equity portfolios in aggregate underperformed their benchmarks and a small number of our direct investments underwent modest negative revaluations. As an investor with known liquidity, we have the ability to support companies' growth over time with a view to maximising long-term returns.	-0.18%	-0.05%	0.20%
MARKET PRICING – ARBITRAGE, DISTRESSED CREDIT AND FUNDING e.g. active collateral, merger arbitrage These opportunities are mainly in the area of credit and funding and often draw on the Fund's sovereign status and known liquidity. They tend to have lower risks than opportunities in the other two market pricing baskets, since interest rate risks are generally hedged and trades may be implemented via arbitrage strategies. Our active collateral, merger arbitrage and direct arbitrage strategies all added value this year.	0.46%	1.20%	0.20%
MARKET PRICING – BROAD MARKETS e.g. global macro, strategic tilting The opportunities in this basket draw on the Fund's long-term horizon and ability to look through short-term market movements. This year, our strategic tilting programme and global macro investment in the Bridgewater Pure Alpha II Fund both added value. Strategic tilting, a mandate that is run by our in-house team, systematically takes on risk after markets have fallen and takes risk off again where markets are expensive. The tilting programme, which began in 2009, has been a strong source of value-add for the Fund; a white paper on it is available on our website.	1.22%	2.27%	-0.53%
MARKET PRICING – REAL ASSETS e.g. alternative energy, expansion capital, infrastructure, real estate These opportunities are mainly driven by our views on the pricing of real assets in their respective markets. Our infrastructure and real estate investments increased in value (but not relative to their benchmarks). Our alternative energy/expansion capital investments experienced mixed results. These assets are considered long-term investments, are largely at an early stage and are not expected to generate strong returns until they are more mature. Their performance will also tend to lag equity markets, which was the case this year with their benchmark performing well off the back of rising global equity markets.	-0.52%	-0.20%	0.91%
STRUCTURAL e.g. emerging markets equity up-weight, insurance-related securities, timber This basket includes diversifying assets, not represented in the Reference Portfolio, such as timber, life settlements and catastrophe bonds. The basket also includes opportunities that we intend to maintain an allocation to based on our favourable views on the medium to longer-term opportunity drivers (e.g. an overweight to emerging market equities). The vast majority of the value added by this basket during the year can be attributed to cash returns and a revaluation of our Kaingaroa Timberlands forestry investment, driven by stronger log prices .	0.62%	1.05%	0.10%
TOTAL	**1.60%**	**4.27%**	**0.88%**

Small revisions have been made to previous years' value-add contributions due to several factors, including changes to the structure of the risk baskets and retrospective recognition of distributions from terminated unlisted assets that had exited the structure.

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RISK-ADJUSTED RETURN PERFORMANCE

Focusing solely on returns ignores how smooth the ride was in generating those returns and the risk taken to achieve them. A commonly used risk-adjusted performance metric, the Sharpe ratio, compares the portfolio returns above cash returns as a ratio of the volatility of returns. The higher the ratio, the greater the return for the risk taken, and vice-versa.

The Sharpe ratio enables us to compare the risk-adjusted performance of our benchmark, the Reference Portfolio, with that of our Actual Portfolio, and against our expectations. This is shown below.

	Since introduction of Reference Portfolio (July 2010) to 30 June 2018	Since inception (Dec 2003) to 30 June 2018
Reference Portfolio Sharpe ratio* (expected)	0.20	0.20
Reference Portfolio Sharpe ratio (realised)	1.27	0.47
Actual Portfolio Sharpe ratio (expected)	0.26	0.26
Actual Portfolio Sharpe ratio (realised)	1.42	0.53

* The Sharpe ratio is the portfolio return in excess of the T-Bill return (excess return) divided by the volatility of the excess return. Given that the Fund operated under a Strategic Asset Allocation framework between 2003 and 2009, with more limited active investments, we provide Sharpe ratio figures for both the period since then and for the Fund since inception.

Our long-run expectation is that the 80% growth, 20% fixed income Reference Portfolio will achieve a Sharpe ratio of 0.20. For the Actual Portfolio, we expect a slightly higher Sharpe ratio of 0.26, representing an increase in return for the value we expect to add through active investment, adjusted for the risk taken to generate this.

REFERENCE PORTFOLIO

The Reference Portfolio has generated a higher Sharpe ratio than the 0.20 we expected. On a since inception basis, the Sharpe ratio of the Reference Portfolio is 0.47. Since its introduction in 2010, the Reference Portfolio has had a Sharpe ratio of 1.27. This means that the Reference Portfolio has experienced higher than expected returns, and lower than expected risk, over both periods.

ACTUAL PORTFOLIO

The Actual Portfolio has also generated a better Sharpe ratio than we expected it would, over both periods. Since July 2010 the Actual Portfolio's realised Sharpe ratio has been 1.42, greatly exceeding the expected ratio of 0.26. Again, this has been driven largely by returns exceeding expectations and, to a lesser extent, lower than expected risk. On a since inception basis, the Actual Portfolio has realised a Sharpe ratio of 0.53. Over both periods, the Sharpe ratio of the Actual Portfolio compares favourably with that generated by the Reference Portfolio.

WHERE WE INVEST

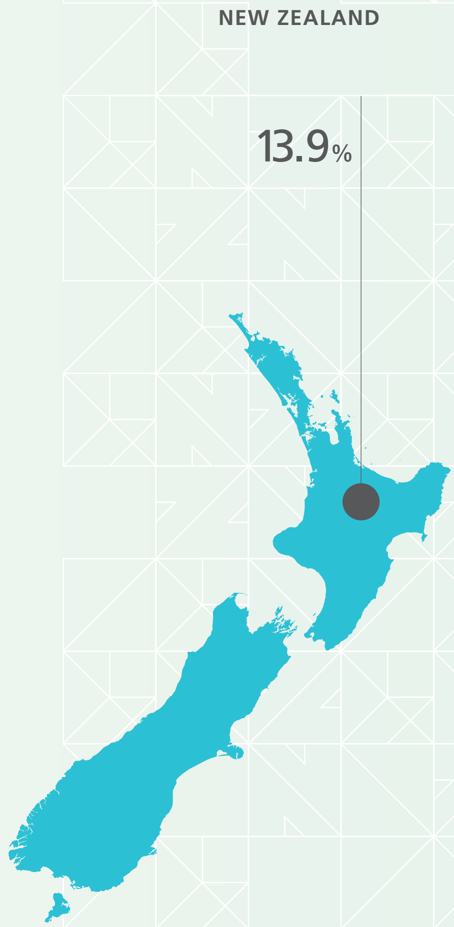
The Fund is highly diversified, with investments in a range of markets and sectors all around the world. More than 80% of the Fund is invested offshore, in both developed and emerging markets. This diversification is in keeping with the Guardians' mandate to manage the Fund in line with best practice portfolio management and to invest it on a prudent, commercial basis.

The majority of the Fund's global investments are held passively. These holdings give us cost-effective, diversified exposure to global sharemarkets. We also invest globally in a range of active investment opportunities, including timber, private equity, insurance-linked securities and distressed credit.

Exposure	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
New Zealand	13.9%	12.0%	12.6%	13.5%	13.8%
Australia	2.7%	2.6%	2.1%	2.7%	2.5%
Africa	0.7%	0.8%	0.8%	1.1%	0.7%
Europe	19.3%	19.9%	21.2%	20.9%	24.5%
Asia (excl. Japan)	10.2%	10.1%	8.9%	9.3%	6.0%
Japan	6.1%	6.1%	6.1%	6.2%	6.5%
North America	45.8%	47.0%	46.7%	44.3%	44.6%
South America	1.3%	1.5%	1.6%	2.0%	1.4%

The main driver of changes to the Fund's geographic exposure over time is the relative performance of the different markets over time and, as a consequence, their weightings in international equity indices.

See page 45 for further information on our New Zealand investments.



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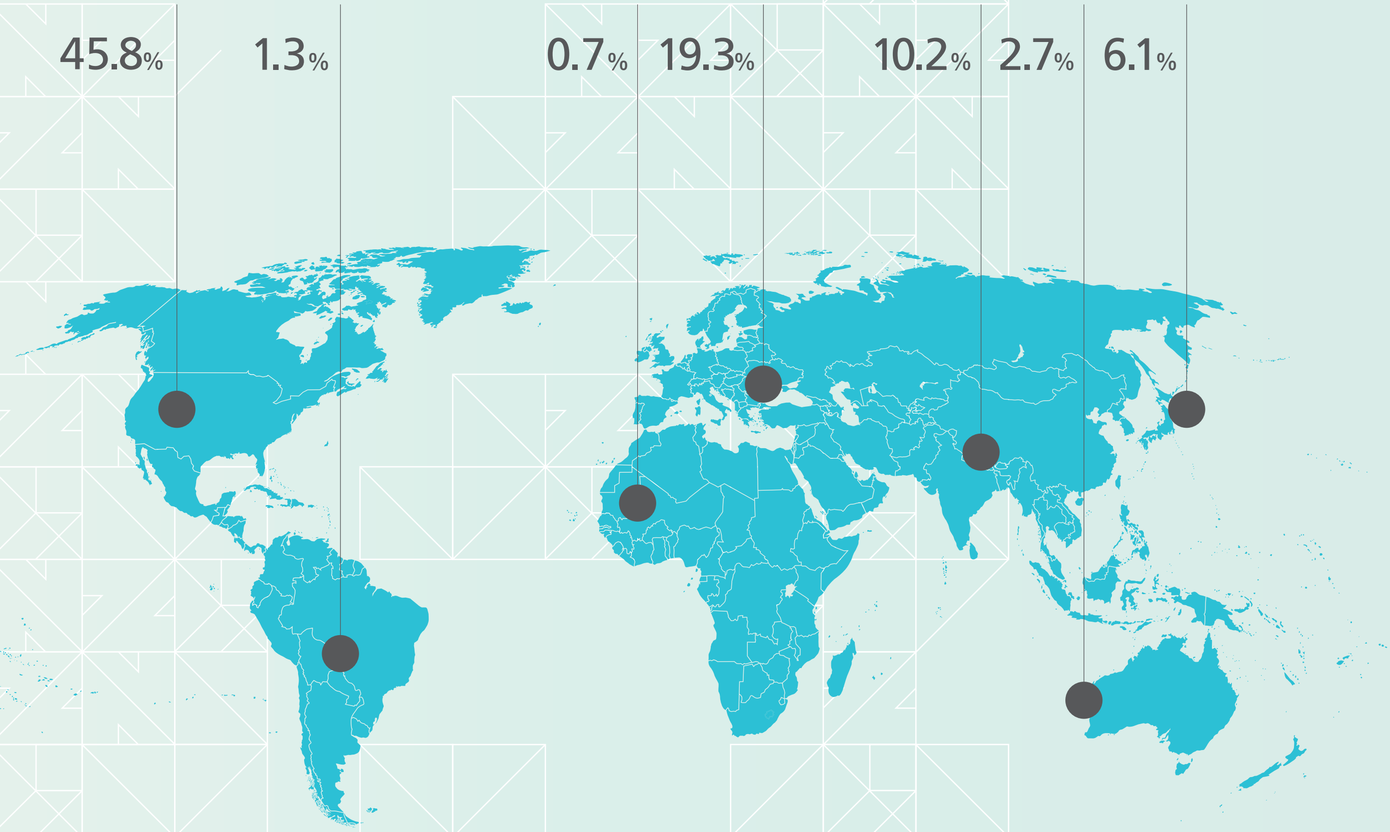
GLOBALLY



0.95%

INVESTED IN RURAL LAND AND FARMS ACROSS NEW ZEALAND

$2.3b

INVESTED IN FORESTRY WORLDWIDE AND IN NEW ZEALAND

2.4%

INVESTED IN NATURAL CATASTROPHE REINSURANCE AND LIFE SETTLEMENTS

$1.9b

INVESTED IN NEW ZEALAND EQUITIES

CASE STUDY

How we manage our international tax position

The worldwide income of the Fund is subject to tax in New Zealand.

Foreign-sourced income of the Fund may also be taxed overseas. The tax rules of the applicable jurisdiction will determine the tax treatment of each investment subject to any modifying effect provided for in a double tax agreement between New Zealand and the foreign country.

As a general rule, earnings derived from Fund investments in foreign countries will then be taxed in New Zealand in accordance with the relevant domestic tax rules. When the Fund brings these foreign earnings back to New Zealand, they may be subject to foreign withholding taxes in the country of source for which a foreign tax credit may be available in New Zealand.

The Fund is measured on a post-foreign tax, pre-New Zealand tax basis. For the Crown, as owner of the Fund, any foreign tax paid represents leakage from the Crown's fiscal perspective. However, as a sovereign entity, the Fund is generally entitled to various exemptions from offshore withholding taxes and, in limited circumstances, may also qualify for an offshore tax exemption. The availability of the "sovereign immunity" exemption is a relevant factor when evaluating various offshore investments as it impacts the rate of return on the investment.

To implement its investment strategies, the Fund needs the flexibility to access a range of investment vehicles, including collective investment funds (CIVs), some of which may be located in tax neutral jurisdictions such as Bermuda or the Cayman Islands. These jurisdictions have low or nil tax rates but are transparent and allow for the exchange of information between international revenue authorities.

Using a CIV based in a tax-neutral jurisdiction ensures the CIV is not exposed to a second layer of foreign tax on its collective income where applicable foreign taxes have already been paid at source. The Fund then pays New Zealand income tax on income from the CIV. The Guardians requires CIVs in which the Fund invests to provide tax transparency, to co-operate with tax information exchange programmes and to comply with all relevant laws.

As at 30 June 2018, 5.7% of the Fund was invested via tax neutral jurisdictions.

INVESTMENT ACTIVITY – NEW ZEALAND

OUR APPROACH TO INVESTING IN NEW ZEALAND

The Fund is one of the largest institutional investors in New Zealand and plays a significant role in New Zealand's capital markets.

While we believe the Fund has an advantage when investing domestically (versus internationally), in a global context, New Zealand is a very small investment market (it comprises just 0.1% of global listed equities markets). For our New Zealand investments, therefore, we require an additional return that will compensate us sufficiently for the risk of concentrating more of the Fund's portfolio here. As one of a few investors of scale in the country, we also maintain a high level of price discipline.

The Fund takes an active approach to New Zealand investment, targeting five specific areas: listed equities, direct investment, expansion capital, rural land, timber and infrastructure.

VALUE OF NEW ZEALAND INVESTMENTS

The graph below illustrates the growth in the value of the Fund's New Zealand investments since 2009, when we received a direction on New Zealand investment from the Minister of Finance. In the seven years since 1 July 2009, the value of the Fund's New Zealand investments has risen from NZD2.4b to NZD6.0b.

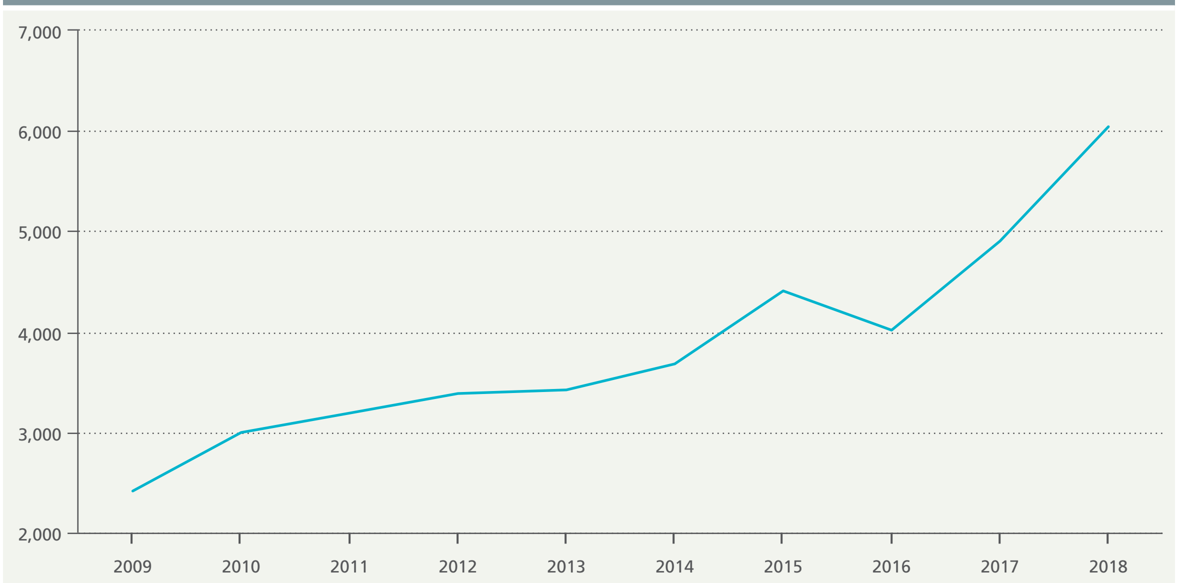
MINISTER OF FINANCE'S DIRECTION

In May 2009, then Minister of Finance Bill English issued a Direction to the Guardians regarding the Fund's New Zealand investments.

"… I direct the Guardians to note that it is the Government's expectation, in relation to the Fund's performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians.This direction is not considered to be inconsistent with the Guardians' duty to invest the Fund on a prudent, commercial basis, in accordance with section 58 of the Act, and the above paragraph is subject to that duty."

NZ Gourmet's glasshouse operation in Woodhill, Auckland. The Fund took a 27% stake in NZ Gourmet in June 2018.

Value of NZ Investments ($m)



SECTION TWO
INVESTMENT REPORT
02

INVESTMENT ACTIVITY – NEW ZEALAND (CONTINUED)

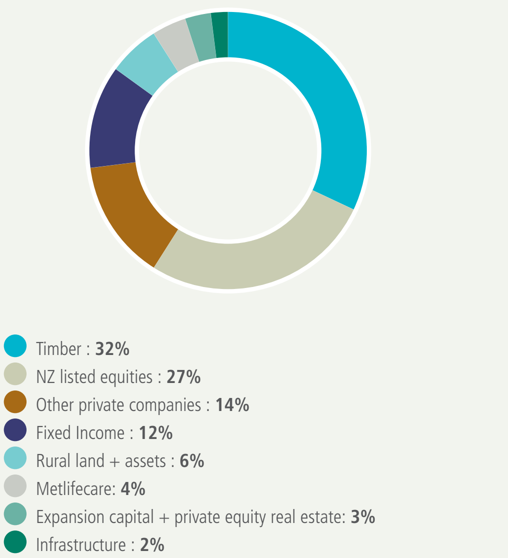
PROPORTION OF NEW ZEALAND INVESTMENTS

While the dollar figure of our investments in New Zealand has increased from NZD2.4b to NZD6.0b in the seven years since 1 July 2009, the proportion of the overall Fund that is invested in New Zealand (in value terms) has reduced from 21.3% to 15.4%. The proportional drop reflects the strong performance of global equities in recent years, even after significant new investments by the Fund in New Zealand.

In contrast to the exposure analysis provided in the 'Where we invest' section on page 42, this figure is calculated based on the value of the Fund's New Zealand investments, as a proportion of the value of the Fund's investments figure in our financial statements.

This calculation includes investments in rural and forest land, but excludes foreign exchange hedging instruments such as FX contracts and cross-currency swaps.

NZ Investments as at 30 June 2018



INVESTMENT HUB

If the Fund is to have a higher proportion of assets in New Zealand than the 5% in listed equities allocated in the Reference Portfolio, having sufficient capacity and capability to make active, direct investments is critical (we are limited by market capacity from substantially increasing the Fund's exposure to listed equities and expansion capital funds). To help achieve this, two years ago we established an Investment Hub to research and shape new investment opportunities of scale that would otherwise be unachievable in the New Zealand market, and added more staff to our New Zealand direct investment team.

The formation of the Investment Hub has resulted in increased domestic market engagement by the Guardians across a range of sectors. During the 2017/18 year the Investment Hub team considered a number of investment opportunities, developed the PPI model (see page 47) as a mechanism for investment (e.g. in large-scale infrastructure) and submitted an unsolicited proposal to invest in Auckland Light Rail to the Government. We added some new investment opportunities to our investment pipeline and developed a deeper understanding of how to execute on Investment Hub opportunities.

We also implemented several new investments during the year.

NZ GOURMET

In late June the Fund took a 27% stake in NZ Gourmet. Our decision to invest in the company, and our confidence in its long-term prospects, is backed by growing demand for fresh fruit and vegetables, and an increasing focus by consumers on health and wellness. Established in 1982 as a specialist exporter of premium quality New Zealand produce, NZ Gourmet produces and markets a range of high-quality fresh fruit and vegetables including capsicums, blueberries, asparagus, tomatoes, strawberries and cherries. The company operates extensive growing facilities across New Zealand, including a purpose-built blueberry farm in Hawke's Bay, glass-house capsicum operation in Auckland and Taupo, and a cherry and blueberry orchard in Central Otago. NZ Gourmet also has operations in the United States, Australia, Mexico, Peru and Ecuador. Led by CEO Paul Martin, NZ Gourmet has approximately 500 full time employees globally.

RURAL LAND

Over the year to 30 June 2018, we added two beef farms, located in Southland and the Hawke's Bay, as well as a Marlborough vineyard, to the Fund's local rural portfolio of 22 dairy farms. In late 2017, the Guardians also made its first offshore rural investment, taking a stake in leading Australian beef stud Palgrove (www.palgrove.com.au).

Our farm investments provide diversifying benefits to the Fund, and we are confident in their long-term value, driven by evolving trends like population growth and increasing consumer wealth. Consistent with our role as long-term, active owners, we are committed to the best practice management of our rural assets in respect of governance, animal welfare and environmental and social outcomes. We work closely with our local rural manager, FarmRight, to implement initiatives designed to improve the governance and sustainability of our operations. For example, we have invested significantly in the upgrade of our farms' effluent and irrigation systems, health and safety initiatives and have phased out the use of palm kernel extract on our farms.

We continue to look for rural investment opportunities in New Zealand and offshore.

KAINGAROA TIMBERLANDS

The Fund acquired an initial 20% stake in Kaingaroa Timberlands, the owner of the Kaingaroa forest plantation, in 2006, and we have increased the shareholding to 42% over subsequent years. Located in the central North Island between Taupō and Rotorua, Kaingaroa covers around 180,000 hectares of planted forest, the bulk of which is radiata pine, with a small quantity of Douglas fir and other species.

Over the past year, the business has continued to focus on operational excellence and sustainability initiatives. This year, following a stringent audit process, and with the support of CNI Iwi, Kaingaroa achieved Forest Stewardship Council (FSC) certification for a further five years, indicating to consumers that Kaingaroa operates in an environmentally, economically and socially responsible way. Kaingaroa Timberands has also commissioned the construction of a NZD12m debarking facility at Murupara for the treatment of export logs. Debarking logs prior to export reduces the need to use the fumigant methyl bromide, an ozone depleting substance the use of which is strictly controlled under an international treaty.

Continued domestic and export demand for timber buoyed log prices in the market during 2017/18, contributing to another year of strong returns.

EXPANSION CAPITAL

Last financial year, we entered into three new New Zealand expansion capital mandates. The Fund committed up to NZD90m in and alongside Direct Capital's Fund V, up to NZD120m in Pioneer Capital's Fund III and up to NZD50m in Movac's Fund 4. Notable transactions over the twelve months to 30 June 2018 have included:

Acquisitions - Direct Capital V:

- AS Colour (August 2017) – international print-wear company providing high-quality blank apparel and other merchandise to the screen and digital printing industry.
- Complectus (August 2017) – financial services group comprising NZ Guardian Trust and Perpetual Trust businesses that provide estate planning and corporate regulatory supervision services.
- Marvel Packers (October 2017) – manufacturer of frozen French fries, supplying fish and chip shops, cafés and takeaway outlets throughout Australia.

Divestments - Pencarrow IV:

- Icebreaker (November 2017) - the merino clothing company was sold to VF Corporation (NYSE:VFC). Founded in 1899, VF is one of the world's largest apparel, footwear and accessories companies with operations spanning numerous geographies, product categories and distribution channels.

Acquisitions - Pioneer Capital Partners III:

- Molemap (June 2018) – mole surveillance service provider enabling the detection of melanoma at an early stage.
- Tom & Luke (June 2018) – manufacturer of wholefood fruit and nut snack products.

Acquisitions - Movac 4:

- Unleashed (September 2017) – provider of real-time inventory management software ideally suited to manufacturing companies with sophisticated inventory and supply chain requirements.
- Parking Sense (October 2017) – provider of software and hardware parking technology.
- Timely (November 2017) – provider of cloud-based appointment booking SaaS solutions for personal service businesses, primarily beauty and well-being clinics.

More information about how we define expansion capital in a New Zealand context, how we access it and how it aligns with our endowments and investment beliefs can be found in our New Zealand expansion capital white paper, available at: **www.nzsuperfund.nz/publications/papers-reports-reviews**.

DIRECTOR POOL

Linked to one of the Guardians' core investment beliefs (that good governance drives improved shareholder returns), we have established a pool of independent directors to represent the Guardians' interests on investee company Boards. The model of a director pool is common among large institutional investors and will enable us to leverage unique skills and insights from our aligned directors and complement the activities of our internal investments team. It is critical that members of the director pool are not only aligned to the mission and purpose of the Guardians, but also receive continual personal education. In supporting these activities, the Guardians undertakes internal investment and governance development programmes to ensure our representative directors (both staff and independent) are investing in themselves to deliver better governance and ultimately value outcomes for our investee companies.

PPI MODEL

A number of procurement models have been used globally to develop, deliver and operate major infrastructure projects. The table below compares the principal models, of which the Public-Public Investment (PPI) model is favoured by the Guardians. The proposed PPI model is a partnership between a public investor, such as a sovereign wealth fund, and the Government as long-term, aligned co-investors and owners.

LIGHT RAIL

In May 2018, we submitted an unsolicited proposal to the New Zealand Government offering to assess the viability of the Auckland Light Rail Project for commercial investment. Our consortium partner is CDPQ Infra, a wholly owned subsidiary of Caisse de Dépôt et Placement du Québec (CDPQ), a CAD300b pension fund owned by the Government of Quebec. CDPQ Infra is responsible for developing and operating infrastructure projects including Montreal's 67km light rail network. Together with CDPQ Infra, we are now participating in a NZ Transport Agency-led procurement process for the project.

	Government Procurement Model	Public-Public Investor (PPI) Model	Public-Private Partnership (PPP) Model
Model Definition	Government will conduct a tender process for completion of the construction and/or design. The Government retains the whole-of-like asset risk and payment is often fixed or lump sum.	Public investor and Government form a partnership and take an equity interest in the project. The public investor assumes end-to-end accountability for the project (from design through to operation and long-term ownership) and procures best private sector delivery partners for each work package.	Typically, Government will appoint a private consortium as responsible for the full delivery of services including operating, maintenance, construction, management etc. The consortium is responsible for all capital investment.

CASE STUDY

Te Pūia Tāpapa and the NZ Super Fund

In March 2018, the Fund signed a Memorandum of Understanding (MoU) with Te Pūia Tāpapa Fund, establishing a preferred partnership agreement.

Te Pūia Tāpapa was set up in late 2017 as a way for Iwi and Māori organisations to collectively and effectively invest together. The venture enables Iwi/Māori groups to pool resources in order to access large-scale, direct investment opportunities.

Developed as a partnership project by the Ministry of Business, Innovation and Employment, *He kai kei aku ringa* – the Crown-Māori Economic Partnership, Ngāti Awa Group Holdings Limited and the Fund, Te Pūia Tāpapa today comprises 48 iwi (the largest social units in New Zealand Māori society), Māori land incorporations and trusts, Te Tumu Paeroa (the Māori Trustee) and other Māori organisations. Over NZD115m has been committed.

Under the MoU, Te Pūia Tāpapa and the Fund have committed to a preferred partnership relationship to be conducted in a spirit of mahi tahi (working together), transparency and good faith. This will involve the formal sharing of ideas and collaboration in areas of mutual interest. The two funds are aligned in a number of important respects - through an inter-generational investment horizon and focus, as well as similarities in investment approach, including the exercise of kaitiakitanga (stewardship) over assets.

Since signing the MoU, the Te Pūia Tāpapa Fund has recruited an investment manager, four independent Investment Committee members and two independent Board directors, and confirmed its Chairs.

Working together with aligned people and groups will continue to be fundamental to our future success as a Fund. While there are various ways we can work collaboratively, Te Pūia Tāpapa is a new and exciting expression of mahi tahi as a basis for mutual commercial benefit. By coming together with compatible partners, Iwi/Māori investors and the Fund will have access to, and will seek to stimulate, opportunities that would not have existed otherwise.

END OF THE BEGINNING

Te Pūia Tāpapa investors gifted a carved stone to the Fund, signifying the beginning of a long and enduring relationship. A long-term investment horizon is a key source of commonality between the Funds and is reflected in the name "Te Pūia Tāpapa": a reference to a cluster of seed beds used to grow kūmara, symbolising the creation of a co-investment fund for better growth and returns.

Front row (L – R): Tama Potaka, NZSF; Paul Quinn, Te Pūia Tāpapa GP Limited; Debbie Birch, Te Pūia Tāpapa GP Limited; Adrian Orr, NZSF; Hinerangi Raumati, Te Pūia Tāpapa GP Limited

Middle row (L- R): Paul Majurey, Te Pūia Tāpapa GP Limited; Stuart Allan, Te Pūia Tāpapa GP Limited; David Rae, Te Pūia Tāpapa GP Limited; Vanessa Eparaima, Te Pūia Tāpapa GP Limited; Cristina Billett, NZSF; Catherine Etheredge, NZSF; Rishab Sethi, NZSF

Back row (L – R): Sarah Owen, NZSF; Jamie Tuuta, Te Pūia Tāpapa GP Limited; Matt Whineray, NZSF; Andrew Harrison, Te Pūia Tāpapa GP Limited; Will Goodwin, NZSF; Mark Fennell, NZSF

CASE STUDY

Fidelity Life

In January 2018, the Fund invested in Fidelity Life, New Zealand's largest locally owned and operated life insurer. The transaction saw the Fund take a NZD100m, 41.1% cornerstone stake in the company.

Founded in 1973, Fidelity Life's vision is powering the New Zealand sense of adventure. The company distributes its life insurance products to Kiwi consumers and businesses via a network of 2,700 independent financial advisors and strategic alliance partners. Fidelity Life has an established track record of performance in the competitive insurance market. It is well capitalised, holds an A- (Excellent) rating from agency A.M. Best (maintained for 21 consecutive years), and is the third largest life insurer operating in New Zealand with a market share of approximately 11%.

"This is an exciting step forward for Fidelity Life. The new capital from the NZ Super Fund will help us build our digital capability - supporting innovation, enhancing productivity and improving support for our 300,000 customers as well as our advisers and partners."

NADINE TEREORA, CEO OF FIDELITY LIFE

Nadine Tereora, CEO of Fidelity Life

The Fund's investment in Fidelity Life is consistent with our local investment strategy to target large transactions in the private markets where our endowments give us a unique opportunity to add value. In the case of Fidelity Life, we believe we have found closely aligned partners, with our patient capital and outlook allowing the company to drive its long-term growth strategy.

Since the investment, the Guardians has appointed Lindsay Smartt and Hamish Rumbold as its external representatives on the Fidelity Life Board. Mr Smartt has had an extensive career in risk, finance and governance across New Zealand, Australia and Asia. He currently holds a number of other directorships, including with the BT Financial Group insurance companies and The Infants' Home and is Chair of The Salvation Army Employment Plus. Mr Rumbold is a widely experienced leader and director, with a demonstrated track record in digital retailing, customer and user experience and data analytics across a range of industries. He is currently the CEO of ClearPoint Ltd, a New Zealand-based software development company.

INVESTMENT ACTIVITY – GLOBAL

DIRECT INVESTMENTS

The Fund is well suited to investment opportunities where its endowments, particularly its long investment horizon and tolerance of illiquidity, are a good fit for companies that are high growth, capital intensive, have long development cycles and are operating at a large scale.

The Fund made one new international direct investment in this style during the year, in US-based waste and recycling technology company Rubicon Global (www.rubiconglobal.com - see page 52 for case study). Rubicon is one of a number of expansion capital investments made by the Guardians as we seek to maximise long-term returns for the Fund. These sorts of investments (comprising approximately 1.3% of the total Fund) have a relatively high risk-return profile, but are an appropriate part of the mix for long-term, growth oriented and diversified investors.

LONGROAD ENERGY

The Fund, alongside NZX-listed Infratil, has had an investment in Longroad Energy Holdings (www.longroadenergy.com) since 2016. Longroad focuses on renewable energy developments, primarily the development of utility-scale wind and solar generation in North America. As at financial year end, the Fund held a 45% stake in Longroad, as did Infratil, with the remainder held by Longroad management (at the time of publication the Fund held a 40% stake in Longroad). Investment management company Morrison & Co manages both the Fund's stake and Infratil's.

In May 2018, the Fund participated in financing Longroad's 238 megawatt Rio Bravo wind farm in Starr County, Texas, committing USD46.25m toward the USD300m construction cost. Construction has commenced, with the project due to be completed in June 2019.

A Longroad solar generation project in Winkler County, Texas, was successfully sold to Canadian investor Innergex Renewable Energy. When completed in mid-2019, the development will be the largest solar facility in Texas. Longroad will oversee construction of the project.

LanzaTech, in partnership with Shougang Group, have commissioned their first commercial production facility, located in China.

LANZATECH

The Fund is a cornerstone investor in New Zealand-founded carbon recycling company LanzaTech (www.lanzatech.com), now headquartered in the United States. LanzaTech's technology uses anaerobic bacteria to convert carbon-rich waste gases into high-value fuels and chemicals through a process of gas fermentation. These gases include emissions from heavy industry, gasified agricultural residues and gasified unsorted, unrecyclable municipal solid waste that would otherwise be landfilled or incinerated.

These recycled carbon products can be used in a number of applications to create sustainable and commercially viable fuels, including aviation fuel, or a variety of chemicals that can be converted to everyday products (rubber, synthetic fibres, packaging) that would otherwise be made from fresh fossil resources. Importantly, by using waste products as an input, the process does not compete with land, food or water, providing the world with a wholly sustainable alternative energy solution.

In 2018, the company announced further investments from China-based CITIC Capital; Indian Oil Corporation Limited (IndianOil), India's flagship national oil company and from BASF Venture Capital GmbH (BVC) the investment arm of German chemical producer BASF.

The team at LanzaTech are currently operating their first commercial facility with Shougang Group in China. They are finalising engineering works for commercial facilities in the refining sector in India with Indian Oil; in the ferroalloy sector in South Africa; using gasified orchard waste in California; and, with the world's largest steel company, ArcelorMittal, they are constructing a second steel facility in Belgium.

BLOOM ENERGY

Bloom Energy (www.bloomenergy.com) is a California-based start-up that utilises fuel-cell technology to deliver sustainable on-site power generation around the world. The Fund first invested in Bloom Energy in 2013. In a significant milestone that the company had been working towards for some years, Bloom Energy listed on the New York Stock Exchange shortly after the end of the financial year. Consistent with the terms of the initial public offering, which included a six month lock-up for existing shareholders, the Fund has retained its stake in the company; as a long-term investor we have the ability to choose our investment horizon with a view to maximising long-term returns.

COPENHAGEN AIRPORT

Over the past financial year the Fund sold a long-held position in Copenhagen Airport. Our decision to sell was prompted by a change in ownership; Australian fund Macquarie Infrastructure and Real Assets sold its holding in the asset to Danish pension fund ATP and Canadian pension fund OTTP. A mandatory tender offer for the outstanding shares in the airport was issued, which we accepted. The offer provided us an opportunity to sell at an attractive price, valuing our position at around NZD106m. This allowed us to realise a substantial gain.

View's dynamic glass installed in the CenturyLink Technology Center, Monroe, Los Angeles.

RETIREAUSTRALIA

RetireAustralia (**www.retireaustralia.com.au**) is the largest privately owned retirement village owner, operator and developer in Australia, with an established portfolio of retirement villages located across New South Wales, Queensland and South Australia. The Fund purchased a 50% stake in RetireAustralia in December 2014, alongside Infratil.

Responding to opportunities stemming from the changing aged care regulatory environment, in the financial year to June 2018, RetireAustralia became an approved Government home care provider. Following a successful pilot, the company will next roll out new services to 75% of the existing portfolio.

With close to 4,000 dwellings and more than 800 additional dwellings in the development pipeline, and a target to deliver 200 new dwellings year-on-year over the coming decade, RetireAustralia is growing its offering to meet the senior housing needs of Australia's ageing population.

VIEW, INC.

Based in Silicon Valley, View, Inc. (**www.viewglass.com**) manufactures high-tech, "smart" windows that let in natural light and views, and enhance mental and physical well-being. View has over 450 completed installations across 35 million square feet of real estate, with an additional 250 committed projects. The company also has over 700 patents filed and has doubled its employee headcount to around 750 over the last two years in order to scale operations.

Recent findings from a study undertaken by Cornell University found a number of health benefits associated with the installation of View's dynamic glass, including a 51% reduction in eye strain, a 63% reduction in headaches, a 56% decrease in drowsiness and a 2% increase in employee productivity, compared with regular window environments. The Fund first invested in View in 2015 and participated in further capital raising rounds during the 2017/18 year.

CASE STUDY

Rubicon Global

This year the Guardians invested USD65m in Rubicon Global (Rubicon). Headquartered in Atlanta, Georgia, Rubicon is a technology company that provides waste, recycling, and smart city solutions to businesses and governments worldwide. The company's goal is to provide an easier, more cost-effective waste disposal service that helps corporates, governments and other organisations confidently deliver on their sustainability goals through their waste management operations.

Rubicon provides affordable waste and recycling solutions for businesses seeking a smarter, sustainable alternative.

Rubicon's technology works by connecting waste producing organisations with a network of waste haulers via an innovative cloud-based platform. Rubicon's customer-facing portal allows organisations to lodge waste collection requests, which are then fed through to a network of haulers via an app that sits on the hauler's dashboard. The portal hosts a six-step system that helps customers set up and maintain a successful business recycling programme, and collects waste and recycling data to allow customers to track progress toward their sustainability goals. The programme works across a range of organisations, including those in the restaurant, grocery, retail, real estate, manufacturing and hospitality sectors.

Rubicon's SmartCity product helps municipal governments gain greater insight into their waste and recycling operations while driving operational improvement and cost savings. RUBICONSmartCity™ has been rolled out to over 25 cities across the United States.

Founded in 2008, Rubicon currently has over 400 employees, a network of 5,000 independent haulers and more than one million user service locations. The company has been able to secure large blue-chip national accounts with clients such as Dollar General, 7-Eleven and Wegmans, and has expanded into small and medium-sized businesses.

In its support for high-growth companies such as Rubicon, the Guardians plays to the Fund's timeframe and large scale advantages, seeking diversification and the potential for high returns. The investment also aligns with our strategy to identify investments that have the potential to benefit from the global transition to a low-carbon economy. Rubicon, which aims to divert waste from landfills and reduce greenhouse gas emissions, has strong sustainability credentials and complements the Fund's climate change investment strategy.

INVESTMENT ACTIVITY - GLOBAL

NEW MANDATES

One new mandate was entered into in 2017/18. We invested NZD165m in Apollo Global Management's third US life settlements fund.

There has also been a significant amount of portfolio management activity associated with our existing mandates. We provided additional capital funding to three incumbent managers:

- BlackRock (merger arbitrage);
- Bridgewater (global macro); and
- Leadenhall (natural catastophe reinsurance).

We continue to monitor changing opportunity attractiveness, assess new investment ideas, maintain understanding of underlying portfolios and evaluate our conviction* in our managers.

MANAGER SEGMENTATION

The Guardians' external manager segmentation framework is premised on a commitment to fewer, deeper relationships, with a goal to focus our efforts on managers with the greatest knowledge-sharing potential. Over the past year, the Guardians refreshed its manager segmentation framework to focus more on breadth, capability and willingness. We are tracking research support, fireside chats and training and secondment opportunities to ensure managers meet our information-sharing expectations.

CLIMATE CHANGE

Over the course of the year, we have developed a detailed process to take climate change risks and opportunities into account when appointing managers. The process requires the Guardians to assess the materiality of climate change risks in the investment, the manager's climate change policy and willingness to engage with us on Environmental, Social and Governance (ESG) issues, including climate change. The major achievement of the year was the application of climate-related exclusions to our emerging markets equities mandates. Our next focus is on decarbonising our existing equity factor mandates (see climate change feature on page 56).

BAIN CAPITAL MANDATE EXPANSION

We have expanded Bain Capital's mandate, previously confined to distressed credit, to include portfolios of European non-performing loans. This was on the basis that these assets are attractive and driven by similar sources of value to that of distressed credit. We have confidence in the manager's capability and seek to access Bain's depth of capability in this space.

MANDATES CLOSED

DE Shaw provided notification of the closure of the global macro fund we were invested in. The capital refunded was partially allocated to Bridgewater's global macro mandate.

* A measure of the degree of confidence we have in a manager's capability.

TEAM PROFILE – EXTERNAL INVESTMENTS & PARTNERSHIPS

(L – R): Rishab Sethi, Doug Bell, Talapo Uivaa, Del Hart, Christopher Myers, Hamish Blackman, Nathan Tuck

A significant proportion of the Fund (17.6%, NZD6.9b) is invested actively by external fund managers on behalf of the Guardians. We work with many investment and asset managers around the world, representing a wide variety of investments, listed and unlisted. These external managers have discretion to make investment decisions on behalf of the Fund. Selecting managers and monitoring the performance of their mandates is a very important part of our work.

This is the role of the External Investments and Partnerships (EIP) team of seven investment professionals, led by Del Hart.

EIP's responsibilities include:

- researching and keeping abreast of the best managers globally across investment opportunities;
- negotiating investment mandates with managers, including fees and risk limits;
- monitoring and reviewing manager capability, including mandate performance;
- maximising the value of each manager relationship, including knowledge sharing; and
- identifying and assessing new investment ideas and ongoing monitoring of opportunity attractiveness.

The team is also responsible for coordinating the Guardians' relationships with our global peers, including peer funds and global industry forums such as the International Forum of Sovereign Wealth Funds. We are seeing the benefit of forming strong relationships with our global peers, most recently through discussions with peers who greatly assisted our research efforts on emerging markets and ESG factors.

Ms Hart, a graduate of Waikato University, joined the Guardians in 2010 in the then Unlisted Mandates team. Her previous experience was in a risk management role with Pictet Asset Management in London and Russell Investments in Auckland. She moved to EIP in a Portfolio Manager role in 2016 before taking over the Head role in late 2017. Del is part of the 2018 Global Women Breakthrough Leaders Programme.

Rishab Sethi is a Manager within the EIP team. Prior to joining the EIP team, in a previous role with the Guardians, Mr Sethi was closely involved in managing our global peer relationships, including with the International Forum of Sovereign Wealth Funds and the Pacific Pension and Investment Institute. Other senior members of the EIP team are Portfolio Manager Hamish Blackman and Senior Investment Strategist Doug Bell. The team has three analysts, Nathan Tuck, Talapo Uivaa and Christopher Myers.

WHERE DOES IT MAKE SENSE FOR THE GUARDIANS TO USE EXTERNAL MANAGERS?

Our investment approach is based on a clear separation between identifying an investment opportunity and the way it is accessed (be it internal or external, physical or synthetic, listed or unlisted). The decision about an access point is based on cost, efficiency, effectiveness, alignment and control.

We prefer to invest directly where we have the capability to do so. Where we lack in-house capability or are geographically too far removed from the investment opportunity, using external managers makes sense.

We also make extensive use of external investment managers for much of our passive market exposure because they provide us with scale, systems, market breadth and depth capabilities at a low cost. These relationships are managed by our Portfolio Completion team.

Over the past six years, we have reduced the number of active managers we invest with in favour of a partnership approach – our aim has been to have deeper relationships with a smaller number of managers. This approach means we get to know each other better and encourages transparency. We aim to extract value through the exchange of market intelligence and industry knowledge, and develop a deeper understanding of the investment and its drivers.

WHAT DO WE EXPECT OF OUR MANAGERS?

We have a very structured approach to relationship management and a detailed policy, which is available on our website (www.nzsuperfund.nz/how-we-invest/investment-managers). The policy includes information on our manager search and selection process and our preferred fee structures. We formally benchmark fees annually to ensure the fees we are paying are in line with the market or better.

External managers are required to satisfy a set of demanding due-diligence hurdles. Before appointing an external manager, we need to:

- have a thorough understanding of the organisation and its background;
- assess the motivation and focus of its investment team;
- understand its investment philosophy, capability and investment process;
- review its compliance and operational procedures; and
- cover other issues, such as its environmental, social and governance (ESG) policy.

We expect our managers to have a high-quality and stable team, a high level of investment insight, appropriate incentives and strong internal controls.

Over a number of years, we have developed a "conviction framework" to help us assess the managers' capabilities. This framework comprises eight factors:

- viability;
- structure and focus;
- trust;
- risk awareness;
- people capability;
- process capability;
- opportunity match; and
- performance.

No matter how impressive a manager looks on paper, we will not appoint a manager unless they score well on all these factors.

We pay close attention to the manager's awareness of ESG issues relevant to their investments. This is consistent with our investment belief that asset owners who exercise best-practice portfolio management should have concern for ESG. In fact, we believe improving these factors can improve the long-term financial performance of an investment.

We do not take a "set and forget" approach to manager relationships. We apply the conviction framework for each manager every quarter, and we visit them in their offices at least once a year. And, in reality, every time we meet or speak to our managers, we are updating our conviction view.

These processes, supported by our connections with our global peer funds, are all designed to ensure that our external managers meet the standards necessary for investing on behalf of current and future generations of New Zealanders.

A white paper on investment manager selection and monitoring is available on our website at **www.nzsuperfund.nz/publications/papers-reports-reviews**. A list of our external managers and their mandates, including the assets under management as at 30 June 2018, is at page 105.

Given the Fund's long-term horizon and purpose, it is important that the risks and opportunities stemming from climate change are factored into our investment strategies and ownership practices.

In 2016/17, as part of our climate change strategy, we transitioned the Fund's global passive equity portfolio (40% of the Fund) to a low-carbon approach. We also developed 2020 carbon reduction targets for the overall Fund. Here we provide an update on the climate change activities we undertook during 2017/18 and our progress towards the 2020 targets.

CARBON TARGETS

Measured relative to the original Reference Portfolio, by 2020:

1. Reduce the carbon emissions intensity of the Fund by at least 20%
2. Reduce the potential emissions from reserves of the Fund by at least 40%

	Carbon emissions intensity*	Potential emissions from reserves**
2018	-18.7%	-32.1%

* Carbon emissions intensity is defined as measured tonnes CO_2e/\$m sales = tonnes of carbon emissions divided by \$m of company sales. This measures the portfolio in terms of carbon emissions per unit of output and provides a measure of the overall efficiency of the portfolio by comparing emissions with the economic activity that produces them. This metric is robust to movements in market valuations.

** Fossil fuel reserves are defined as potential future emissions: measures tonnes CO_2e/\$m invested = tonnes of carbon emissions divided by \$m invested. This measures the carbon equivalent emissions stored in fossil fuel reserves that would be released if those reserves were produced and used in the future, relative to dollars invested. MSCI ESG research calculates the potential emissions should all reserves be produced and burnt expressed as tonnes of CO_2 equivalent using the Potsdam Institute methodology. This includes proved and probable reserves.

STRATEGY OVERVIEW

The aim of the climate change investment strategy is to improve investment resilience to climate change over the long-term horizon of the Fund. Climate change considerations are factored into the Guardians' valuation investment decision-making processes and governance structures on an ongoing basis. This entails managing and monitoring the Fund's carbon exposure, managing climate-related risks, and seeking to take advantage of the investment opportunities arising from climate change action.

The Chief Executive Officer at the Guardians is ultimately responsible for the Fund's strategy. The Chief Investment Officer (CIO) is responsible for the climate change investment strategy, with both the CIO and Head of Responsible Investment overseeing its implementation, and acting as project sponsors. The different elements of the strategy are integrated into the objectives of the relevant members of the investment team, with the heads of each team responsible for ensuring delivery.

Our climate change strategy has four work-streams, which together help to make our portfolio more resilient to climate-related risks.

- **Reduce** – implement rules and activities to reduce climate change risk in the passive listed equities portfolio and other relevant portfolios;
- **Analyse** – implement framework to assist investment professionals in integrating climate change into valuations for active and prospective investments;
- **Engage** – implement an engagement programme and voting policy on climate change;
- **Search** – progress implementation of climate change opportunities identified.

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IMPLEMENTATION UPDATE

REDUCE

After initially focusing on the Fund's passive equity holdings, in 2017/18 our focus turned to reducing the carbon exposure of the Fund's actively managed equity holdings. A low carbon approach was implemented within the Fund's emerging markets equities mandates. We will continue to work on reducing carbon exposure across other active mandates, focusing next on our factors mandates. We are also focusing on how emissions can be reduced across the Fund's unlisted assets.

ANALYSE

We completed a framework for investment professionals to incorporate climate change considerations into valuations. The objective is to ensure climate change risk for new and existing investments is assessed in a consistent and systematic manner by our investment professionals. This framework was approved by the Investment Committee and introduced to the wider investments team. It will be refined on an ongoing basis.

ENGAGE

The Responsible Investment (RI) and External Investments and Partnerships (EIP) teams together reviewed the engagement work conducted by our listed equity investment managers on climate change. In addition, as part of our ongoing responsible investment monitoring, all managers were asked about their climate change activities through Environmental Social and Governance (ESG) due diligence questions sent out in April 2018.

This year, we also brought our global voting activity in-house (previously, our external managers voted the shares they managed on our behalf). The change will help ensure we vote consistently on climate change related resolutions for the same company and in line with our voting guidelines on climate change. See page 62 for more detail on our new voting practices.

We also:

- made submissions to the NZ Productivity Commission Inquiry into the transition to a low emissions economy;
- provided feedback on Business NZ's submission to the Ministry of Business, Innovation and Entrepreneurship's Climate Change Adaptation Options Report
- joined the Climate Action 100+'s five year initiative to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures; and
- played a leading role in the formation of the One Planet Sovereign Wealth Fund Working Group. See page 63 for further detail.

SEARCH

The Guardians' investment research clearing house, the New Opportunities Assessment Hub (NOAH), reviewed a number of climate-related opportunities. We continue to search for investments within our alternative energy opportunity set. This year, we invested in Rubicon Global, a waste management and technology platform, which aims to reduce emissions from waste by increasing recycling rates. More information about Rubicon is available on page 52.

METRICS AND TARGETS

Carbon footprinting is a tool we use to measure carbon exposure across the whole of the Fund and to track our progress towards our 2020 carbon reduction targets.

Our 2018 carbon footprint assessment reported that the total Fund's carbon emissions intensity is 18.7% lower than our baseline level, and its exposure to potential emissions from reserves is 32.1% lower.

We will report on the Fund's footprint annually in order to track our progress. Our decarbonisation programme remains on track to achieve our 2020 carbon reduction targets.

This report summarises the Fund's responsible investment activities for the year to 30 June 2018.

We take a strong, purposeful approach to integrating environmental, social and governance (ESG) considerations into investment decisions because, as stated in our Investment Beliefs, we consider them material to long-term returns. We see ESG considerations both as a source of investment opportunity and a means of managing risk.

In this report, you will find an overview of our approach to responsible investment, including a summary of our ESG integration, voting, engagement and exclusion activities for the period under review.

"Our view is that ESG integration is both good for returns and for the advancement of our objective to be active owners and responsible investors. As such, we look to integrate responsible investment considerations throughout our investment process. We also acknowledge the wider beneficial impact on corporate practice, regulatory standards and the healthy functioning of capital markets from active, constructive engagement."

MATT WHINERAY, CEO OF NZ SUPER FUND

CERTIFIED BY RIAA

OUR APPROACH TO RESPONSIBLE INVESTMENT

Our approach to Responsible Investment (RI) is governed by our Statement of Investment Policies, Standards and Procedures (SIPSP) which can be found on our public website: www.nzsuperfund.nz/publications/policies.

The SIPSP includes a specific section on RI, which states our policy, standards and procedures as they relate to responsible investment. It defines RI activities and embeds our RI Framework as the process for implementation. The RI Framework sets out in greater detail how we seek to enhance shareholder value and protect New Zealand's international reputation. It guides all of our responsible investment decision making. Our Board has overall responsibility for the SIPSP and RI Framework. Both are reviewed annually.

More specifically, the RI Framework guides our activities relating to the integration of ESG considerations into investment analysis and due diligence and into manager selection and monitoring. It guides us on how we prioritise engagement activities, execute voting and exclusion decisions and implement our Climate Change Investment Strategy.

The RI Framework also includes a commitment to positive investment, which we define as investments that provide a financial return as well as a social or environmental benefit.

The full Framework is available on our website: www.nzsuperfund.nz/documents/responsible-investment-framework.

RESPONSIBLE INVESTMENT CERTIFICATION

In September 2018 the Guardians gained Responsible Investment certification for the Fund. The Responsible Investment Certification Programme is the first of its kind in the world and is owned and managed by the Responsible Investment Association Australasia (RIAA).

The Certification Symbol signifies that the NZ Super Fund takes certain ESG or ethical considerations into account along with financial returns. To be licenced to use the Certification Symbol, the Guardians was required to meet strict operational and disclosure practices required by the Programme for the category of 'Superannuation Fund'.

The Certification Symbol is a Registered Trade Mark owned and managed by RIAA. Detailed information about RIAA, the Symbol and the Guardians' methodology and performance can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA*.

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* The Programme does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Report against the United Nations backed Principles for Responsible Investment (UNPRI)

The UNPRI is a global network of international investors that seek to implement six principles that give guidance on how to put responsible investment into practice. The UNPRI is the internationally accepted benchmark for how institutional investors should manage environmental, social and governance issues. Our responsible investment work programme is aligned closely to its principles and priorities.

Below we outline the Guardians' performance in the UNPRI's annual benchmarking process and provide a report of our 2017/18 activities against the six UNPRI principles.

UNPRI BENCHMARKING REPORT

The UNPRI supports signatories' efforts in their implementation of the Principles for Responsible Investment through an annual reporting and assessment process based on standardised indicators. Reporting is mandatory for all asset owners. Consistent with a Board approved strategic objective for the 2017/18 year, we were very pleased to receive an A+ rating from the UNPRI for overall RI governance and strategy and an A rating in the other categories in which we reported.

For the second year in a row, we gained internal assurance pre-submission of our annual response.

This year, our voting score improved from a B to an A, which reflects our move to bring voting in-house. However, our listed equity incorporation module decreased from A+ to A, as did the listed equity part of the 'Indirect' module. This was due to a greater requirement to report on voting outcomes. This is an area we have identified for improvement going forward, with the internalisation of global voting assisting this initiative.

Module	2018 level	2017 level	2016 level	Global median	NZSF score out of maximum possible
Strategy and Governance	A+	A+	A+	A	29/30
Indirect:					
– Listed Equity	A	A+	A+	B	36/39
– Fixed Income (Sovereigns/Supranationals and Agencies)	A	A	A	C	29/36
– Fixed Income (Corporate Financial)	A	nr	nr	C	29/36
– Fixed Income (Corporate Non-Financial)	A	A	A	C	29/36
– Fixed Income – Securitised	A	A	A	E	29/36
– Private Equity	nr	nr	A	–	–
Direct and Active Ownership:					
– Listed Equity – Integration	A	A+	A+	A	Screening: 13/15 Integration: 16/18
– Listed Equity – Active Ownership	A	A	A	B	27/27

nr= not reported

REPORT AGAINST THE UNPRI PRINCIPLES

01. INTEGRATION

We will incorporate ESG issues into investment analysis and decision-making processes.

ESG considerations are a component within our Risk Allocation Process (RAP) – the process by which we choose and prioritise the best investment opportunities for the Fund.

We use the RAP to rank and map our existing and potential investment opportunities by:

- attractiveness (expected return, adjusted for confidence and risk); and
- consistency with the Fund's investment style (including ESG).

We have also developed specific ESG guidelines for different investment opportunities.

MANAGER INVESTMENTS

For our external managers, responsible investment capabilities are part of our manager selection and due diligence processes. Once a manager is selected, responsible investment requirements, such as ESG integration, voting, engagement, adherence to our exclusions and reporting requirements are incorporated into our contractual arrangements with them.

We carry out regular responsible investment reviews of the Fund's external managers. Managers are rated on ESG practices and the results integrated in the overall application of our manager conviction framework (more information on our manager conviction framework is available on page 54). This influences whether we maintain, dial up or dial down the relationship.

DIRECT INVESTMENTS

ESG due diligence is a major component of our pre-investment analysis. ESG risks and opportunities are assessed, sometimes with the support of independent experts, with a view to understanding material ESG risks and forming a view of whether the company is addressing or managing them adequately. Reporting and monitoring is ongoing post-investment.

We also carry out site visits to investee companies to assess ESG risks and activities directly.

KEY ACTIVITIES FOR 2017/18:

- 2017/18 saw significant improvements in our incumbent managers putting ESG policies in place, improving RI capabilities and hiring additional RI resources. We upgraded the (internal) ESG ratings of three of our managers.
- Climate-related exclusions implemented in Emerging Markets equities mandates.
- A framework for investment professionals to incorporate climate change considerations into valuations was approved by the Investment Committee and socialised with the investment team.
- Refreshed investment management agreements with strengthened responsible investment requirements.
- Continued focus on responsible investment training and education across team, including: 12 induction training sessions and meetings with new employees, 5 staff members completed and 11 staff members enrolled in the UNPRI Academy, and one Board Education session on corporate governance practice in New Zealand.

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02. ACTIVE OWNERSHIP

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We are committed to being an active owner of our investments. We use our influence as a shareholder to encourage companies to manage their ESG risks. We do this by encouraging high governance standards across markets and asset classes, particularly in the New Zealand market. We exercise our voting rights globally. We monitor and engage with portfolio companies that have breached – or might breach – recognised ESG standards.

If engagement is ineffective, we may make a decision to exclude that company. In most cases, however, we believe that engagement is the best tool for encouraging companies to improve their behaviour. Exclusion is a last resort.

We take a substantial interest in the management of ESG issues with companies in which we have a significant stake.

Given engagement is so resource intensive, and our portfolio of listed stocks is so large (more than 6,000 holdings), we have employed an engagement service provider, Bank of Montreal (BMO), to engage on behalf of the Guardians, alongside the other New Zealand Crown Financial Institutions (CFIs), the Accident Compensation Corporation and the Government Superannuation Fund.

KEY ACTIVITIES FOR 2017/18:

- Internalised (brought in-house) global voting to ensure that our voting policy aligns with our corporate governance principles and that we vote consistently with each company. Previously our global managers voted on our behalf. Our new policy brings a stronger focus on Board independence, ESG disclosure, risk management, climate change resilience in investee companies, remuneration and director option schemes, auditor independence and shareholder rights (see page 62 for more information).
- Responded (both directly and as a member of the New Zealand Corporate Governance Forum) to the final stage of the New Zealand Stock Exchange Listing Rule Review.
- Active New Zealand equity managers continued to provide Annual General Meeting (AGM) voting recommendations and discussions on corporate governance. Governance issues feature more regularly in discussion with companies. Our internal team has focused on Board skills, succession plans and attending AGMs as well as company-specific social or environmental issues.
- Revised our process for measuring and reporting (internally) on engagement success.
- Reviewed climate engagement conducted by listed equity investment managers.
- Joined the ClimateAction100+ (www.climateaction100.org), a five-year initiative led by investors to engage important greenhouse gas emitters across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement. We and other investors are calling on companies to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

03. DISCLOSURE

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Our integration and ownership activities are dependent on access to relevant ESG information. Therefore, we engage with investee companies and other relevant organisations to encourage disclosure on ESG and performance. We then encourage our investment professionals and managers to use this information to make more informed investment decisions.

KEY ACTIVITIES FOR 2017/18:

- Submissions on the NZX Listing Rules; the Financial Market Authority's Corporate Governance handbook; the Productivity Commission's consultation on transitioning to a low-emissions economy; and Report on a Low-Carbon Economy (see page 99 for full list).
- CEO, Chair, CIO and senior staff members spoke at national and international events on ESG related topics.
- Continued to support improved disclosure on carbon related metrics via our membership of the CDP (previously called the Carbon Disclosure Project) and other collaborations with which we are involved.

04. BEST PRACTICE 05. COLLABORATION

We will promote acceptance and implementation of the Principles within the investment industry.

We will work together to enhance our effectiveness in implementing the principles.

We participate in relevant international and local investor groups where we believe working collaboratively will help deliver better ESG outcomes. Some of these groups include:

- United Nations Principles for Responsible Investment (UNPRI);
- New Zealand Corporate Governance Forum;
- One Planet Sovereign Wealth Fund Working Group;
- CDP;
- Investor Group on Climate Change Australia/New Zealand;
- International Corporate Governance Network;
- Responsible Investment Association of Australasia (RIAA); and
- Australian Council of Superannuation Investors.

KEY ACTIVITIES FOR 2017/18:

- Completed UNPRI benchmarking assessment, achieving an A+ rating for strategy and governance and an A for all other modules (see page 59).
- Founding member of the One Planet Sovereign Wealth Fund working group, a group set up to accelerate efforts to incorporate climate change considerations into the investment decision-making process and ownership activities of sovereign wealth funds. The group has published a framework for its activities, which outlines how members will act to make meaningful progress towards the transition to a global low-carbon economy (see page 63).
- The responsible investment team presented and engaged directly with companies on ESG disclosure in New Zealand, ran workshops on exclusions and climate change, including at the NZ Environmental Management Conference, the Pacific Climate Change conference, and on climate resilience at GRESB (Green Standards for Building & Infrastructure Managers).
- Sponsored the RIAA NZ Benchmark Report and the annual RIAA NZ Conference.
- Participated in New Zealand Crown Financial Institution (CFI) quarterly meetings on responsible investment.

06. COMMUNICATION

We will each report on our activities and progress towards implementing the principles.

We seek to be as transparent as we can, subject to commercial considerations.

ACHIEVEMENTS FOR 2017/18:

- Highly Commended in the Best RI Report by an Asset Owner – Medium & Small Funds category at the RI Reporting Awards.
- Won a Gold Award at the 2018 Australasian Reporting Awards, finalist in public sector sustainability reporting, governance reporting and report of the year categories.
- Seventh annual report against GRI criteria.

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CASE STUDY

Changes to the Guardians' global voting practices

We aim to promote good corporate governance in the markets in which we invest. One lever we may use as a shareholder to help achieve this is to exercise our voting rights locally and globally across the Fund's segregated equity portfolio. This is important in maintaining oversight of directors, boards and company policies.

In 2017/18 we undertook a review of our global voting policy, practice and execution. This involved two parts:

- *Part One:* improving the influence of our voting in driving change; identification and oversight of material items; and the ability to better instruct and communicate voting intentions.
- *Part Two:* automated and traceable voting execution and reporting; overcoming voting barriers; quality and consistency of voting between markets; reducing split-voting and reducing the risk of failed votes.

Following the review, we made the decision to develop a customised internal voting policy, and return voting and execution to a proxy voting agency tasked with voting on our behalf (where previously we had relied on our investment managers). Institutional Shareholder Services (ISS) was selected to undertake this work on our behalf, effective as of April 2018.

ISS follows the Guardians' customised internal voting policy when voting on our overseas equity holdings. Our process for making voting decisions for New Zealand companies is slightly different. They are informed by the NZ Corporate Governance Forum's (**www.nzcgf.org.nz/**) guidelines, the recommendations of our New Zealand listed active equity managers, as well as the advice of our proxy voting agent. We instruct voting on our shares in New Zealand companies directly.

The Guardians' full global voting policy & guidelines is available to view on our website: **www.nzsuperfund.nz/performance-esg-management/voting-reports**.

Over 2018/19 we plan to enhance the level of information and reporting we provide about our voting activity (globally and in New Zealand) on our website.

VOTING STATISTICS 2017/18

The table below shows how we exercised our voting rights over the period under review.

	Meetings	Proposals	% For	% Against	% Abstain/DNV*
Global H1**	1,313	10,671	88	10	2
Global H2	5,314	59,355	84	12	4
New Zealand H1	55	226	92	8	0
New Zealand H2	7	25	100	0	0

* DNV = Did not vote.
** Does not include one portfolio managed by LSV. Please see https://www.nzsuperfund.nz/performance-esg-management/voting-reports.

H1 = 1 July - 31 December 2017

H2 = 1 January - 30 June 2018

The main resolutions that we voted against, both in New Zealand as well as globally, were those related to director elections, routine business and non-salary compensation.

CASE STUDY

One Planet Sovereign Wealth Fund Working Group

Given both their influence and long-term investment horizons, Sovereign Wealth Funds ("SWFs") are in a unique position to promote long-term value creation and sustainable market outcomes. Accordingly, the One Planet Sovereign Wealth Fund Working Group was established in December 2017 in order to accelerate efforts to integrate financial risks and opportunities related to climate change into the management of large, long-term and diversified asset pools.

The Guardians is a founding member of the One Planet SWF Working Group, alongside the Abu Dhabi Investment Authority, Kuwait Investment Authority, Norges Bank Investment Management, the Public Fund of the Kingdom of Saudi Arabia and the Qatar Investment Authority. Together, the founding members collectively manage over USD3t in assets. The initiative is championed by President Macron of France.

The Group's Climate Change Framework was launched in July 2018, with the Guardians contributing in particular on policy and technical leadership. Building on current industry best practice, the framework aims to foster a shared understanding among long-term asset owners with regard to the key principles, methodologies and indicators related to climate issues. It also aims to identify climate-related risks and opportunities in members' investments, while enhancing their investment decision-making frameworks to better inform SWFs' priorities as investors and participants in financial markets.

The framework's three guiding principles are:

- Alignment: build climate change considerations, which are aligned with the SWFs' investment horizons, into decision making.
- Ownership: encourage companies to address material climate change issues in their governance, business strategy and planning, risk management and public reporting to promote value creation.
- Integration: integrate the consideration of climate-related risks and opportunities into investment management to improve the resilience of long-term investment portfolios.

Matt Whineray, Chief Executive of NZ Super Fund (third from left); along with Emmanuel Macron, President of France (centre left), Erna Solberg, Prime Minister of Norway (centre right) and members of the One Planet Sovereign Wealth Fund Working Group.

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Engaging with companies helps us to understand how they are managing ESG issues that may affect their business. It is a tool that we can employ, as a shareholder, to influence a company's management if we think that it is not adequately mitigating risks or adapting to opportunities.

THE GUARDIANS' ENGAGEMENT ACTIVITIES DURING 2017/18

Our internal engagement objectives are to monitor, identify and engage with companies that breach international standards of good practice, in particular the UN Global Compact. Our engagement generally seeks to encourage companies to address poor ESG practices and improve ESG disclosure. It can be undertaken proactively, when we identify issues we believe companies should be aware of, or reactively, when we believe a company already has a problem.

For engagement efforts undertaken by our own Responsible Investment team members, we have four priority areas to help us narrow our focus and decide on which companies to engage. These are:

- Human rights (child labour, work safety, operations in weak states);
- Business ethics (bribery and corruption);
- Severe environmental damage; and
- Climate change.

Given that engagement can be very resource intensive, and considering the widely diversified nature of the portfolio, we employ BMO as a service provider to undertake engagement on our behalf. We also require our managers to engage on our behalf.

In addition, we may join local or international engagement collaborations.

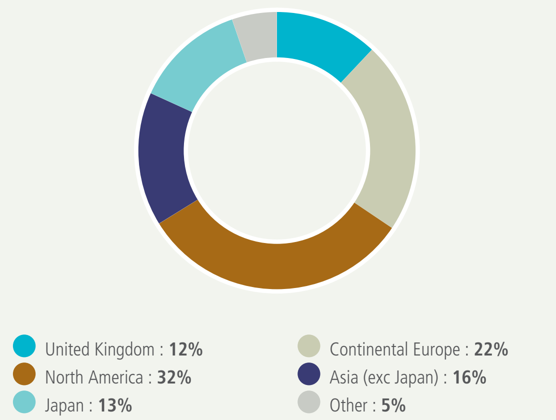
BMO'S ENGAGEMENT PROGRAMME

Appointing BMO as a service provider has expanded our engagement reach. On behalf of the Guardians, BMO conducted in-depth engagement with 1,004 companies, in 40 countries, on a range of issues over the year ending 30 June 2018. BMO recorded 212 milestones* achieved over that period.

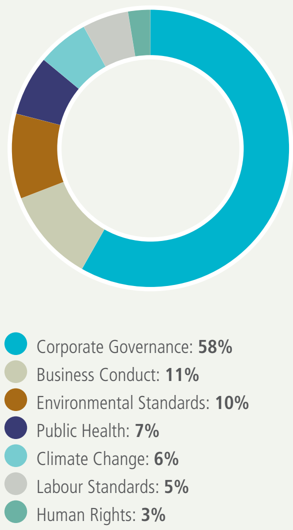
BMO is also involved in thematic engagement projects, involving multiple companies, on a range of topics spanning labour standards, human rights, climate change, operations in sensitive habitats, natural resources and corporate governance.

BMO'S ENGAGEMENT STATISTICS DURING 2017/18

BMO: Companies Engaged by Country



BMO: Companies Engaged by Issue



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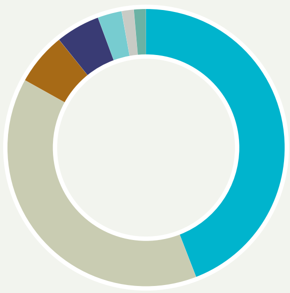
* A milestone can be described as evidential progress towards a pre-defined engagement objective.

BMO: Milestones Achieved by Issue



BMO'S ENGAGEMENT ON CLIMATE CHANGE DURING 2017/18

BMO plays a key role in helping to implement the "Engage" pillar of our Climate Change Investment Strategy. In the period under review, they held 112 unique engagements with companies on climate change and noted 83 milestones. Almost 90% of the milestones related to improved reporting or disclosure on climate change.

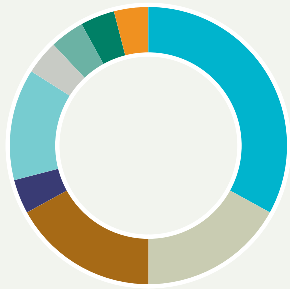
	Totals
Number of unique companies engaged on climate change	112
Total engagements	129
Total milestones	83

Sector Breakdown	Total	%
Energy	24	19
Financials	24	19
Industrials	21	16
Materials	20	15
Consumer Discretionary	16	12
Consumer Staples	10	8
Utilities	8	6
Real Estate	3	2
Information Technology	2	2
Government	1	1
TOTAL	129	100%

NEW ZEALAND ENGAGEMENT ACTIVITY

Over the past year, the internal active New Zealand equities team engaged with investee companies on issues such as board composition, board independence, remuneration, diversity and culture, climate change and ESG reporting. The team has noted a marked increase in action by New Zealand companies on both climate change and in ESG disclosure.

NZ Topics of Engagement - Financial Year to 30 June 2018



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GUARDIANS' DIRECT AND COLLABORATIVE ENGAGEMENT

ESG issues	Industry	Objective	Number of focus companies		Outcomes and achievements
			Direct	Collaborative	
HUMAN RIGHTS AND SAFETY					
Human Rights and Safety	Extractive Industries	**Human Rights in the Extractive Industries:** The Guardians joined this UNPRI-led collaboration in April 2016 and it came to a formal end late 2017. The engagement focuses on encouraging global oil and gas and mining companies to implement the UN Guiding Principles on Business and Human Rights and to improve the level of disclosure of human rights policies and processes.	–	32	Key findings: • Improved disclosure on all the core focus areas. The most disclosed indicator was on a human rights policy commitment, with 100% of companies disclosing one publicly. • By the end of the engagement, all companies showcased a commitment to human rights and most now inscribe this commitment within internal policies and management processes. • All companies responded to outreach by investors. • 75% of target companies incorporated human rights considerations into risk management processes and evaluate their potential human rights impact. This was the indicator with the greatest improvement. • In 2015, two companies reported on human rights risk identification and assessment. Now, two-thirds do in their annual disclosures. • The number of companies that provide access to grievance mechanisms and that publically report on the way they process complaints tripled. • The number of target companies monitoring the relationships with suppliers and contractors quadrupled. • 50% of the companies evaluated now report on the way they respond to human rights allegations.

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ESG issues	Industry	Objective	Number of focus companies		Outcomes and achievements
			Direct	Collaborative	
	Cross sector	**RIAA* Human Rights Working Group:** The Guardians joined this initiative in early 2018. The key objectives are to: 1. Build understanding and capabilities for assessing and respecting human rights and mitigating human risks in investment; 2. Facilitate the sharing of leading practice knowledge and resources pertaining to human rights and investment decision-making and engagement; and 3. Design and deliver significant human rights research, implementation and advocacy opportunities as relevant, through collaborating with other RIAA working groups and industry forums.	–	Number of target companies yet to be decided.	The collaboration is new and it is too early to report results.
	Cross sector	Promote protection of human rights and improved management of health and safety practices.	4	–	For one of these companies, we have moved the engagement to "monitor only" due to evidence of a sufficient response to engagement and an upgrade in ESG rating by our research provider. For the other three, engagement has begun, but we are yet to record any milestones.
	Oil and gas; mining	Promote protection of human rights and improved management of local community relations/impacts.	2	–	For one of these companies, engagement has been long-term covering a multi-year period. We note there have been milestones achieved over that time, such as improved sustainability reporting. However, we are continuing to actively monitor company progress and note a couple of outstanding issues from which we hope to see further progress. Engagement is ongoing. For the other company, we are awaiting a response to our engagement.
	Construction and engineering	Promote better labour standards for workers.	1	–	In progress as we are awaiting a response to our engagement.

ENGAGEMENT REPORT (CONTINUED)

ESG issues	Industry	Objective	Number of focus companies		Outcomes and achievements
			Direct	**Collaborative**	
	Cross sector	Strong policies to manage human rights related risk in disputed/occupied territories.	3	–	Engagement with these three companies began in June 2018. We are awaiting a response to our engagement.
SEVERE ENVIRONMENTAL DAMAGE					
Sustainable palm oil	Palm oil growers	Improve and promote sustainable palm oil practices.	5	–	Of the direct engagements the Guardians has undertaken regarding sustainable palm oil practices, we have noted milestones achieved for four out of the five companies. These include, for example, strengthening of sustainability policies, improved commitments to deforestation and commitments not to plant on peat and to re-join or join the RSPO**. Engagement is ongoing.
		Palm Oil Working Group: The Guardians has been participating in this UNPRI collaboration since 2011. Over the years, the working group has focused its efforts on palm oil buyers, growers, traders and processors, as well as on sustainable certification of palm oil through the RSPO.	–	13	The palm oil industry continues to slowly reform. The working group continues its engagement with buyers and growers but is expanding its focus to financiers of the industry. The ultimate aim is for those organisations that finance the palm oil industry to develop public commitments towards sustainable palm oil.
Environmental contamination	Metals and mining	Improved management of waste water discharge.	1	–	The company's disclosure on its pollution control efforts and environmental rehabilitation obligations and provisions has improved. Whilst not perfect and additional detail is required, this is a step in the right direction. The improved disclosure is noted as a "milestone achieved".
CLIMATE CHANGE					
Climate Change	Cross sector	**Carbon Footprint Disclosure:** The Guardians joined this UNPRI led collaboration in August 2016 and it came to a end in the second half of 2017. The engagement focused on improving the carbon footprint disclosure of companies.	–	126	This collaboration highlighted that carbon disclosure is still very limited by many companies. In the 12 months over which this collaboration was focused, 8% of target companies improved disclosure around their carbon footprint.

ESG issues	Industry	Objective	Number of focus companies		Outcomes and achievements
			Direct	**Collaborative**	
	Energy and Utilities	**Methane Risks in the Energy and Utilities sector:** The Guardians joined this UNPRI-led collaboration in early 2017. The engagement aims to strengthen understanding of the risks associated with and management of methane risks in global investor portfolios and influence companies to measure, manage and reduce their methane emissions and improve disclosure.	–	42	The collaboration began in April 2017 and is expected to end in 2019.
	Cross sector	**Climate Action 100+:** The Guardians joined this global collaboration in late 2017. The objective is to engage the world's largest and most substantial corporate greenhouse gas emitters, over a five year period, seeking to: 1. Curb emissions (consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees above pre-industrial levels); 2. Strengthen climate-related financial disclosures – aligned with the Taskforce on Climate-related Financial Disclosures (TCFD); and 3. Improve governance on climate change risks.	–	161	The collaboration is in its early stages with no results yet to report.
	Cross-sector	**CDP***:** As a signatory to CDP's investor climate change programme, we seek to increase the number of companies reporting on climate change emissions and risk management. 650 institutional investors with a combined USD87 trillion in assets under management are signatories to CDP's climate change collaboration.	–	5,651	41% of companies responded to the CDP Climate Change survey in 2017. Using a baseline sample of 18,000+ companies (representing the most significant in terms of market capitalisation and environmental impact), CDP reports the following statistics for 2017: • 89% of companies in CDP's sample report having emissions reduction targets. This is compared with 73% in 2011.

ENGAGEMENT REPORT (CONTINUED)

ESG issues	Industry	Objective	Number of focus companies		Outcomes and achievements
			Direct	**Collaborative**	
					• 14% of companies sampled had either committed to or had targets approved under the Science Based Targets initiative. This is compared with 9% just one year ago. • Over two-thirds (68%) of CDP's sample have carbon emissions reduction targets to 2020 or beyond, while 20% have set targets to 2030 or beyond. In 2016, only 14% of companies reported target to 2030 or beyond. In 2011, the vast majority of companies were still setting targets to 2020.
NZ ENGAGEMENT					
ESG management	Cross sector	Promote good practice in corporate governance and environmental and social management.	18	–	See overview on page 65.
Total companies engaged			**34**	**361**	

* RIAA = Responsible Investment Association Australasia

** RSPO = Roundtable on Sustainable Palm Oil

***CDP = Previously called the Carbon Disclosure Project

***** refers to the number of target companies of the collaborative engagement rather than the exact number of engagements undertaken in the reporting period; excludes CDP

EXCLUSIONS

Because of our commitment to engagement as the best way of persuading companies to improve their behaviour, exclusion is a last resort for the Guardians.

When we do make a decision to exclude, it is based on the clear process and principles set out in our RI Framework, and informed by international conventions, New Zealand law, Crown actions and material statements of public policy, and the companies own involvement and activities.

Companies that are directly involved in the following activities are excluded from the Fund:

- The manufacture of cluster munitions;
- The manufacture or testing of nuclear explosive devices;
- The manufacture of anti-personnel mines;
- The manufacture of tobacco;
- The processing of whale meat; and
- Recreational cannabis.

The Guardians excluded companies involved in the recreational cannabis industry in December 2017. The move followed a growing global trend to decriminalise and legalise the recreational use of cannabis, which has led to overseas share market listings of companies involved in the cannabis industry. Recreational use of cannabis is currently illegal in New Zealand under the Misuse of Drugs Act 1975, and contrary to New Zealand's commitments to international drug conventions.

PRIORITIES FOR 2018/19

- Consider opportunities for positive investment that meet our risk/return requirements.
- Continued focus on working with the internal teams to build their awareness and capabilities in the integration of ESG factors into their investment analysis and decisions.
- Seeking external assurance on some of our key RI related activities.

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SECTION 3/7

Governance
Te Mana Hautū

3

GOVERNANCE

Viewing opportunities through a long-term lense.

OVERVIEW

The Guardians has been vested with the powers and responsibilities to allow it to fulfil its investment mandate. In turn, sound governance and quality public reporting, with a high degree of transparency, are critical to maintaining stakeholder confidence in the Guardians and the Fund.

The Guardians has a governance framework that:

- exemplifies best practice in the operation of a sovereign wealth fund;
- ensures investment decisions are made on a purely commercial basis;
- reflects the New Zealand Financial Market Authority's corporate governance principles and NZX's Corporate Governance Code (to the extent applicable);
- has a strong focus on transparency, legislative compliance, risk awareness and ethical behaviour; and
- provides clarity over accountability, roles and responsibilities.

GOVERNANCE FRAMEWORK

As an autonomous Crown entity, the Guardians is legally separate from the Crown and operates at 'double arm's length'. The functions of the Guardians are to manage and administer the Fund. The Fund is a pool of Crown assets but is not an entity in its own right.

NEW ZEALAND GOVERNMENT
Appoints members to the independent Nominating Committee

INDEPENDENT NOMINATING COMMITTEE
Identifies candidates for the Guardians' Board

← **First 'arm' of independence – government does not decide pool of Board candidates**

MINISTER OF FINANCE
Selects Board candidates from the pool chosen by the independent Nominating Committee.
Can direct the Guardians as to expectations of the Fund's risk and return

BOARD AND MANAGEMENT OF THE GUARDIANS
Decide investment policy and make investment decisions

← **Second 'arm' of independence – investment decisions made by the Board and Management of the Guardians**

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HOW WE IMPLEMENT GOVERNANCE

The way that governance is implemented at the Guardians and Fund is recorded in the Board Charter (including the Board Code of Conduct) and the following organisational policies:

GREAT TEAM
Our Policies
Communications
Diversity & Inclusiveness
Human Resources
Procurement & Outsourcing
Risk Management
Travel & Sensitive Expenditure

BEST PORTFOLIO
Our Policies
Derivatives
Direct Investments
Externally Managed Investments
Investment Risk Allocation
Investment Valuation
Portfolio Completion & Internally Managed Securities
Strategic Tilting

DELEGATIONS
Statement of Investment Policies, Standards and Procedures (SIPSP) including Responsible Investment Framework

Consistent with our commitment to transparency, the Board Charter, SIPSP and the Guardians' policies are available on www.nzsuperfund.nz.

BOARD CODE OF CONDUCT

The Board Code of Conduct (the Code) sets out the standards for appropriate ethical and professional conduct for members of the Guardians' Board. It reflects the Crown Entities Act and the expectation that Board members have the highest level of integrity and ethical standards. The Board Chair is responsible for monitoring compliance with the Code. Under the Code, it is the collective responsibility of the Board to ensure that the Guardians:

- acts in a manner consistent with its objectives, functions, Statement of Performance Expectations and Statement of Intent;
- performs its functions efficiently, effectively and consistently with the spirit of service to the public;
- operates in a financially responsible manner; and
- complies with the legal requirements regarding subsidiaries and other entities.

Each Board member's individual duties include:

- exercising reasonable care, diligence and skill; and
- not disclosing information obtained in their capacity as a Board member except in the performance of the Guardians' functions.

Among other items, the Code notes the desirability of having Board members with relevant investment skills and work experience, and provides detailed guidance to Board members on disclosing and managing actual or perceived conflicts of interest.

STAFF CODE OF CONDUCT AND SECURITIES TRADING PROCEDURE

Our Human Resources Policy includes our employee Code of Conduct. Among other provisions, the Code of Conduct requires all staff members and contractors to:

- keep all non-public information confidential;
- not benefit from the possession of confidential information for personal gain;
- disclose conflicts or possible conflicts of interest; and
- comply with the law.

The Human Resources Policy includes a detailed Securities Trading Procedure that aims to reduce the risk of the Guardians, staff or contractors breaching the Financial Markets Conduct Act, or similar legislation. It does this by providing guidance on the law and the consequences of breaching it and by setting rules about information flows and trading. Staff members must seek permission in advance before trading securities and in the New Zealand dollar currency (over a threshold), and each quarter all staff are required to disclose any personal trading they have undertaken. For further information on our Human Resources Policy see page 29. There were no major non-compliance issues in 2017/18.

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PRINCIPLES

This section reports on the Guardians' governance framework in relation to each of the Financial Markets Authority's corporate governance principles in the year to 30 June 2018.

1. ETHICAL STANDARDS

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

Board members and staff are expected to demonstrate the highest level of ethical standards and integrity. This expectation is embodied in the Board and employee Codes of Conduct. The Codes, which are discussed further on page 73, address:

- professional conduct and duties of Board members and employees;
- conflicts of interest;
- confidentiality;
- securities trading obligations;
- use of Guardians' information and assets;
- fair dealing;
- gifts and hospitality; and
- political participation.

Board members and employees must at all times act honestly and in good faith and in the best interests of the Guardians.

As well as reminding staff from time to time about the requirements of the Code of Conduct, staff are required to certify six-monthly that they have complied with the Code. In the 2017 financial year, all staff were required to attend compulsory ethics training.

The Codes of Conduct are reviewed regularly. To access a copy of the Codes:

- Board Code of Conduct: **www.nzsuperfund.nz/nz-super-fund-explainedgovernance/board**
- Human Resources Policy (including Employee Code of Conduct): **www.nzsuperfund.nz/publications/policies**.

The Guardians' expectations concerning the giving of gifts, koha and donations is set out in its Travel and Sensitive Expenditure Policy (which can be found at **www.nzsuperfund.nz/publications/policies**).

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WHISTLE BLOWING

It is important that the Guardians and the Fund are protected from fraud, bribery, corruption or any other conduct that causes staff or others to feel uncomfortable (for example, harassment, bullying or discrimination). A Speak-Up line has been set up as a way for staff, contractors, managers and external parties to highlight potential issues they may have experienced or come across.

As part of the employee Code of Conduct, the Guardians has adopted a policy for employees to report instances of suspected breaches of laws or wrongdoing by the Guardians and/or any of its employees without fear of adverse consequences and for such reporting to be properly investigated.

CONFLICTS OF INTEREST

For Board members, conflicts of interest are managed in accordance with the requirements of the Guardians' governing legislation and the Board Code of Conduct.

Under the Guardians' procedures for managing conflicts of interest:

- Board members are required to make a general disclosure upon appointment of all matters that may give rise to an interest and to promptly notify the Board Chair and Secretariat of any changes to those disclosures.
- Periodically, Board members are required to review their interests register and confirm that the information disclosure is correct.
- At the beginning of each Board meeting, members are asked to confirm that they have no interest in the matters to be discussed.
- Board members with an interest in a matter may not vote on it or participate in discussions about it.
- A former role of a Board member is treated as continuing to be a relevant interest for a period of time after the role ceased. The relevant period will depend on the circumstances (for instance, how long the Board member was in the role) but may be up to two years.

2. BOARD COMPOSITION AND PERFORMANCE

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

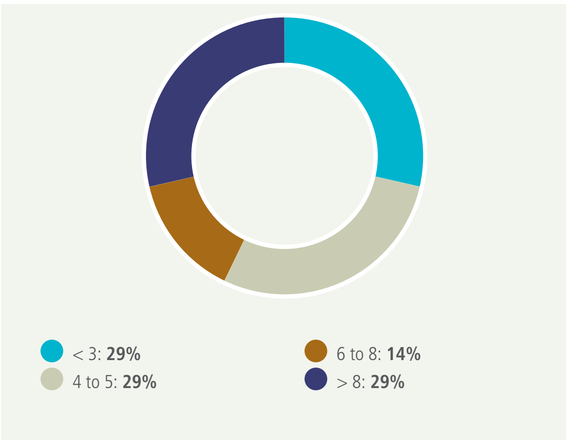
APPOINTMENT

The Guardians does not have any executives on its Board. Board members are chosen for their experience, training and expertise in the management of financial investments (which is a statutory requirement), as well as their collective mix of complementary skills. Board members are appointed by the Governor-General on the recommendation of the Minister of Finance. The Minister's recommendation follows nominations from a committee, independent of the Guardians, which is established by the Minister. On receiving those nominations, the Minister consults with representatives of other political parties in Parliament before recommending the Governor-General appoint a person to the Board.

The Board must comprise at least five, but no more than seven, members. Each Board member is appointed for a term of up to five years and is eligible to be reappointed.

The first Board members were appointed in August 2002. The Board composition at 30 June 2018 is set out on page 26.

Number of Years on the Board



RESPONSIBILITIES

The Guardians' governing legislation and the Board Charter define Board responsibilities, responsibilities of individual members, matters reserved for the Board and matters delegated to management. Details of individual Board members' backgrounds and the Board Charter are available on our website at **www.nzsuperfund.co.nz/nz-superfund-explained-governance/board**.

The principal responsibility of the Board is to supervise the management of the Guardians and the investment of the Fund. Specific responsibilities include:

- establishing the Guardians' objectives, corporate strategy for achieving those objectives, the overall policy framework within which the business of the Guardians is conducted and monitoring management's performance with respect to these matters;
- ensuring the Fund's assets and the Guardians' assets are maintained under effective stewardship;
- appointing, remunerating and monitoring the performance of the Chief Executive Officer;
- promoting ethical and responsible decision making and transparency;
- ensuring the integrity of the financial statements and reporting for the Guardians and the Fund;
- ensuring that decision-making authorities within the Guardians are clearly defined, that all applicable laws are complied with and that the Guardians is well managed; and
- establishing the level of risk undertaken by the Guardians and the Fund.

DELEGATION OF AUTHORITY

While the Board has responsibility for the affairs and activities of the Guardians, in practice the Board operates through delegation to the CEO and other executives who are charged with the day-to-day leadership and management of the Guardians.

The Board maintains a formal set of delegated authorities, which clearly define the responsibilities that are delegated to management and those that are retained by the Board. The delegations framework includes reporting requirements to ensure that the Board is informed on the exercise of certain delegated powers. There are some matters that, either because it is required by law or because the Board has decided it is in the interests of the Guardians to do so, are decided only by the Board as a whole. The Board regularly reviews its delegations and governance priorities. A copy of the Guardians Delegations Policy is available at **www.nzsuperfund.co.nz/publications/policies**.

INDUCTION AND DEVELOPMENT

There is a formal induction programme for new Board members, including education sessions at the Guardians' offices, one-on-one sessions with management and comprehensive induction papers. An ongoing education programme for Board members ensures they have the skills and expertise needed to discharge their responsibilities. The topics and calendar for the Board education programme are approved by the Board. The Board hears directly from a range of external experts on relevant topics (for example investment markets and cyber security). The Board also has the opportunity to visit international peer funds and attend international forums to assess developments in best practice.

BOARD PROCESSES

The Board Secretariat is accountable to the Board for governance matters. All Board members have access to the Board Secretariat on matters relating to the conduct of the Guardians' affairs and the corporate governance of the Guardians and on any matter pertaining to the Board Charter. The Board Secretariat is managed by the General Counsel.

The performance of the committees, Board and individual members is evaluated at regular intervals, at least once every two years. The Board and committees undertake either self-evaluation or use an outside specialist.

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BOARD SKILLS

The following table identifies the skills needed and possessed by the Guardians' Board. These skills reflect the purpose and mandate of the Guardians and the Fund. Not all Board members will or should possess skills in all areas – it is the strength of the entire Board that matters. Effective teamwork within the Board and between the Board and management is also important. Under the Act, all Board members are required to have substantial experience, training and expertise in the management of finance and investments. Refer to the Board biographies on **www.nzsuperfund.nz/nz-super-fund-explained-governance/board** for details on individual experience.

Corporate Governance	To support strong Board and management accountability, values transparency and execution of the Fund's mandate
High Level of Financial Literacy	To understand complex financial, economic and investment concepts and oversee financial reporting and internal controls
Investments and Commercial Acumen: Financial Markets/Commercial Expertise/ Academic	To evaluate the investment strategies and to set the Fund's risk appetite and Reference Portfolio
Leadership Experience – especially Chief Executive/General Manager	To advise the Chief Executive and provide insight and guidance on key areas such as change management, strategy and culture
Risk Oversight/Management Expertise	To oversee the risk management of the Fund and the Guardians
Talent Management Expertise	To attract, motivate and retain skilled personnel in the context of a fund with long term objectives
Global Investment Experience	To review and understand investment strategies and benchmarking our performance against world best practice

CORE VALUES AND ENDOWMENTS

Core values and endowments that support the strength and effectiveness of the Board include:

- Innovation, inclusiveness, integrity
- Courage
- Constructive culture
- Diversity of perspective.

DIVERSITY

The strength and effectiveness of the Board is supported by the diversity of its members. The following attributes inform the diversity of perspectives within the current Board:

PROFESSIONAL EXPERIENCE

Academia, Consulting, Banking, Funds Management, Insurance, Sales and Marketing, Manufacturing, Operational

ACADEMIC DISCIPLINES

Actuarial, Accounting, Arts, Economics, Finance, Law, Marketing, Mathematics and Science

ETHNICITY

European

COUNTRY EXPERIENCE

Australia, Canada, China, Germany, Hong Kong, Japan, Korea, New Zealand, Singapore, Thailand, United States

GENDER

Male 4
Female 3

AGE RANGE

50 — 70s

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BOARD ACTIVITY

Meetings

During the 2018 financial year, the Board held:

- six scheduled meetings and one special meeting,
- a strategy day,
- an education half-day, and
- a combined education half day with the Boards of the National Provident Fund, Government Superannuation Fund and the Accident Compensation Corporation.

There were also education sessions before four of the Board meetings, and site visits to the Kaingaroa forest and Hobsonville housing development (in which the Fund is invested).

Summary of matters considered

An important activity for the Board in the 2018 financial year was the appointment of a new CEO to replace Adrian Orr after eleven years in the position. The Board established a Nominations Committee to assist it with the search for, and selection of, a new Chief Executive. More information about the Nominations Committee is set out on page 81.

Other significant matters considered during the financial year were:

Compliance and risk

- Annual review of the Guardians' Statement of Investment Policies, Standards and Procedures and Responsible Investment Framework
- Review of the Investment Risk Allocation policy
- Responsible investment strategy
- 'Tail' risks for the Fund
- Operational risks update
- Risk Assessment Framework and Risk Appetite Statement review update
- Six monthly enterprise risk reports
- Health and safety reports for the Guardians and for direct investments
- Six monthly reports on staff compliance with policies

Investment strategy and performance

- Annual reviews of the portfolios managed by the NZ Direct, International Direct and External Investments & Partnerships teams
- Six monthly reviews of internal mandates and portfolio completion activity
- Six monthly portfolio overview and investment environment reports
- Annual Responsible Investment report
- Kiwibank investment
- Māori collective investment initiative (the Te Pūia Tāpapa Fund)
- Exclusion approach for cannabis stocks
- Use of derivatives

Organisation strategy

- Chief Executive Officer performance review
- Remuneration of the Chief Executive Officer
- Long-term target state for the Fund and the impact of the resumption of Government contributions to the Fund
- Leave and benefits review
- Review of the Board Charter and terms of reference for its committees
- Review of the Custodian
- Annual cost allocation report
- Annual review of CEM cost benchmarking report
- Cyber security reports
- IT infrastructure proposal
- Annual Statement of Performance Expectations
- Strategic plan
- Annual Report, including the financial statements and statement of performance expectations
- Appointment of auditor
- Premises proposal.

Regular Board agenda items

Regular items considered at each scheduled Board meeting are:

- Disclosures of interest
- Minutes of the previous meeting
- A report on matters arising from previous meetings
- A report from the Chief Executive Officer
- A Dashboard report
- A Secretariat report
- A report from the General Counsel

Dashboard Report

As well as receiving papers on specific topics, the Board receives a Dashboard Report with key information on the Fund's performance and the Guardians' operations covering such matters as:

- reporting against the Board's risk appetite
- portfolio performance
- use of active risk
- performance of the strategic tilting programme
- key market updates
- Investment Committee and Risk Committee activity
- Fund and Guardians' financials
- reporting on derivatives activity and counter-party exposure
- Fund liquidity
- collateral management
- human resources
- stakeholder and external relationships
- cyber security.

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BOARD AND COMMITTEE MEETING ATTENDANCE

The following table shows the attendance of Board members at scheduled Board and Committee meetings during the 2018 financial year.

Board Member	Board	Audit Committee	EPRC	Nominations Committee
Catherine Savage	5/6	4/4	3/4	8/8
Lindsay Wright	6/6	4/4	-	8/8
Stephen Moir	6/6	1/1*	4/4	8/8
Philippa Dunphy	4/4**	3/3**	-	-
Craig Ansley	6/6	4/4	-	-
Doug Pearce	6/6	1/1*	4/4	8/8
John Williamson	6/6	4/4	-	-

* All Board members attend the Audit Committee meeting that reviews the financial statements.

** Philippa Dunphy resigned as Board member with effect from 31 March 2018.

3. BOARD COMMITTEES

The Board should use committees where it will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board and Committee structure for the Guardians is set out in the following diagram.

BOARD
Responsible for the overall management of the Guardians and investment of the Fund, including setting strategic direction, standards and risk appetite, and overseeing performance

DELEGATION ↓ **REPORTING** ↑

AUDIT COMMITTEE	EMPLOYEE, POLICY AND REMUNERATION COMMITTEE	NOMINATIONS COMMITTEE
Standing Committees		**Ad-hoc Committees**

Audit Committee

Assists the Board with ensuring the integrity of financial reporting, including oversight of:

- the financial statements and internal control environment
- the external audit process and relationship with the external auditor
- the internal audit function

Employee, Policy and Remuneration Committee

Assists the Board with matters relating to human resource management policies and practices, including:

- managing the Board's employment relationship with the Chief Executive
- ensuring recruitment policies are designed to attract and retain quality staff while providing appropriate accountability for performance
- succession planning

Nominations Committee

Established to assist the Board with the search for, and selection of, a new Chief Executive, including:

- appointing an executive search agency
- developing a job description and profile
- interviewing candidates and recommending a short list to the Board

The roles and responsibilities, reporting requirements, composition, structure and membership requirements of each standing Board Committee are set out in the respective committee's terms of reference. Copies of the terms of reference are contained within the Board Charter, available on our website at **www.nzsuperfund.nz/nz-superfund-explained-governance/board**.

Each standing committee's terms of reference and performance are periodically reviewed by the Board. Minutes of the committees' meetings are provided to the Board for information. In addition, all Board members are able to attend any committee meeting.

The Board appoints the Chair of each standing committee. The Chair of the Board cannot be Chair of the Audit Committee. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

From time to time, the Board may establish a specific subcommittee to address a particular matter or for a particular purpose. This allows the Board to function effectively and to manage conflicts of interest. In the 2018 financial year, the Board established a Nominations Committee to assist it with the search for, and selection of, a new Chief Executive Officer.

The standing Board committees either meet quarterly or are convened as necessary. Each committee is entitled to the resources and information it requires to operate effectively. The Chief Executive Officer and other members of the management team are invited to attend committee meetings as necessary.

BOARD COMMITTEE ACTIVITY

AUDIT COMMITTEE

Members

Five members:

- Philippa Dunphy (Chair until 2 November 2017)
- Lindsay Wright (Chair from 2 November 2017)
- Catherine Savage
- Craig Ansley
- John Williamson

Meetings

Met four times in the 2018 financial year (once with full Board attendance).

Attendance

See page 78 for details of meeting attendance by Board members.

The external auditors are invited to each meeting and meet with the Audit Committee independently of management at least twice a year.

The Head of Internal Audit attends each meeting and meets with the Committee independently of management at every meeting.

Summary of matters considered

- Annual work plan for the Valuation Working Group
- Valuation Working Group's report on annual activities and year-end valuations
- Annual financial statements for the Guardians and Fund
- 'Deep dive' reviews of selected investment valuations
- Appointment of the external auditor
- Annual report from the external auditor
- Annual external audit plan
- Annual internal audit work plan
- Internal audit annual review of outcomes
- Internal audit reports (including cloud migration, cloud services, FX processes, proper instruction procedures, collateral management, HR processes, delegated authorities, securities lending, cyber security maturity assessment and Fund investment vehicles)
- Regulatory changes report
- Audit Committee terms of reference
- Audit Committee performance evaluation
- Annual tax compliance strategy
- Update on emerging IFRS issues (including IFRS 9)
- Business continuity testing
- Allocation of costs
- Tax updates
- Internal Audit evaluation

EMPLOYEE AND REMUNERATION POLICY COMMITTEE (EPRC)

Members

Three members:

- Catherine Savage (Chair)
- Stephen Moir
- Doug Pearce

Meetings

Met for four scheduled meetings and seven special meetings in the 2018 financial year.

Attendance

See page 78 for details of scheduled meeting attendance by Board members.

Summary of matters considered

- Chief Executive Officer succession planning
- Chief Executive Officer remuneration
- Strategic activities achievement
- Bonus programme and remuneration summary
- Leadership development and talent management activities
- Talent agendas for specific teams
- Leadership Team succession planning
- HR policy update including leave and benefits review
- HR team restructure
- Committee performance evaluation
- Review of terms of reference
- Future Board skill sets

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NOMINATIONS COMMITTEE

Members	Summary of work
Four members: • Catherine Savage (Chair) • Stephen Moir • Doug Pearce • Lindsay Wright **Meetings** Met eight times in the 2018 financial year. **Attendance** See page 78 for details of meeting attendance by Board members.	• Appointment of an executive search agency • Development of a job description and profile for the Chief Executive Officer (for approval by the Board) • Approved the candidate identification strategy and developed a short list of candidates • Conducted candidate interviews and recommended final candidates to the Board. Considered feedback from the State Services Commission and the Minister of Finance as part of the consultation process. • Reviewed employment contract terms for recommendation to the Board

4. REPORTING AND DISCLOSURE

The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures.

Transparency and quality public reporting are critical to maintaining stakeholder confidence in the Guardians and Fund. The Guardians has adopted an approach of being as transparent as commercial sensitivities allow about its investment approach, the Fund's performance and the organisation in general. Our aim is to keep our stakeholders well-informed about what we do and why we do it, as well as compliance. The quality of our reporting has been recognised with regular awards (see **www.nzsuperfund.nz/performance/awards**).

The Guardians is required to prepare and present a range of reports to its responsible Minister and Parliament to facilitate its oversight and accountability. The reporting framework for the Guardians' key reporting documents is included in its Communications Policy. The table below summarises the Guardians' reporting requirements.

Three yearly	Annually	Quarterly to Minister	Monthly	As it happens
Five-year Statement of Intent setting out key strategic objectives and performance measures	Annual Statement of Performance Expectations forecasting Fund performance and setting out priority activities for the year Annual Report summarising the year's performance against the Annual Statement of Performance Expectations Review by Parliamentary Select Committee annually or on request with participation from the Office of the Auditor-General	Fund Performance Important developments relating to the Fund Important developments at the Guardians	Fund Performance Portfolio composition Major listed holdings	Anything necessary to comply with the expectation that we will operate on a 'no surprises' basis with the Minister of Finance Responses to questions from Parliament, media and via the Official Information Act 1982

The latest Statement of Intent, setting out strategic objectives and performance measures for the five years from 2016–2021 was published in June 2016. The Annual Statement of Performance Expectations sets out a detailed plan of work and financial forecasts for the coming financial year.

The Guardians' objectives for the 2018/19 financial year are reported against in the Statement of Performance at page 102 of this annual report.

The Annual Report, which is tabled in the House of Representatives, is available to the public in hard copy and at **www.nzsuperfund.nz/publications/annualreports**.

An online microsite is also available at **www.ar2018.nzsuperfund.nz/**. The report contains both audited financial statements for the Fund, which are signed by the Chair of the Board and the Chief Executive Officer, and audited financial statements for the Guardians, which are signed by the Chair and one other Board member.

The Audit Committee and Board review the Guardians' and the Fund's financial statements. The Chief Executive Officer and the General Manager Finance and Risk state in writing to the Board that the Guardians' and the Fund's financial statements present fairly, in all material respects, the Guardians' and the Fund's financial conditions and operational results, in accordance with relevant accounting standards. They are also required to sign off on the adequacy of the systems of internal control. The Guardians appeared before the Finance and Expenditure Select Committee in February 2018.

The disclosures are available at **www.nzsuperfund.nz/publications/disclosures**.

The Guardians received seven requests under the Official Information Act 1982 during 2017/18 (twenty in 2016/17). Copies of our responses, where we consider these to be of material public interest, are available at: **www.nzsuperfund.nz/publications-disclosures/oia**.

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5. REMUNERATION

The remuneration of Directors and Executives should be transparent, fair and reasonable.

The remuneration of Board members is set by the Minister of Finance operating in accordance with the Fees Framework for Members of Statutory and Other Bodies Appointed by the Crown, and as such is not controlled by the Guardians. The remuneration set for Board members in the 2018 financial year was:

Chair	$96,000 pa
Deputy Chair	$61,250 pa
Audit Chair	$53,900 pa
Board Members	$49,000 pa

The Guardians' Human Resources Policy includes its remuneration policy. The Employee Policy and Remuneration Committee assists the Board in reviewing the remuneration policy and in setting the Chief Executive Officer's remuneration.

Comprehensive information regarding executive remuneration, including details of the Guardians' discretionary incentive scheme, is disclosed at page 90 and at Note 3(b) of the Guardians' financial statements.

6. RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business and should regularly verify that there are appropriate processes that identify and manage these.

The Board has a number of strategies to safeguard the Fund's and the Guardians' assets and interests and to ensure the integrity of reporting. This includes the Board's development of a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on. Further information on the Guardians' approach to risk management is contained on page 85.

7. AUDITORS

Boards should ensure the quality and independence of the external audit process.

The Guardians does not appoint the external auditor; this is undertaken by New Zealand's Auditor-General. Graeme Bennett of Ernst & Young has been appointed to carry out the external audit of the Guardians and the Fund on the Auditor-General's behalf. Typically the audit partner is rotated every six years. This is the third year of the new rotation.

The Audit Committee is responsible for overseeing the external audit of the Guardians and the Fund. Accordingly, it monitors developments in the areas of audit and threats to audit independence to ensure the Guardians' policies and practices are consistent with emerging best practice in these areas. The external auditors are not permitted to perform non-audit work assignments without the approval of the Audit Committee and the Auditor-General. Any non-audit work conducted by the audit firm is disclosed in the financial statements.

Both the external auditor and Head of Internal Audit attend Audit Committee meetings. The Audit Committee meets with the external auditor and Head of Internal Audit independently of management as often as is appropriate, but not less than once per annum for the external auditor and twice for the Head of Internal Audit. The Guardians' Head of Internal Audit has a direct reporting line to the Chair of the Audit Committee.

8. SHAREHOLDER RELATIONS AND STAKEHOLDER INTERESTS

The Board should respect the rights of shareholders and foster constructive relationships with stakeholders that encourage them to engage with the entity.

ACCOUNTABILITY

The Guardians is a Crown entity and its assets, and the assets of the Fund, form part of the Crown's assets. The Guardians is accountable to Parliament, through the Minister of Finance, for those assets. A summary of the Guardians' reporting requirements is outlined on page 82. As noted on page 13, the Guardians is an autonomous Crown entity that operates at 'double arm's length' from political stakeholders. This ensures that investment decision making is on a purely commercial basis.

The Minister of Finance may give directions regarding the Crown's expectations as to the Fund's performance, including its expectations regarding risk and return. The Minister may not, however, give any direction that is inconsistent with the duty to invest the Fund on a prudent, commercial basis. No directions were received in the 2017/18 financial year. We report on our progress in implementing the single direction received to date (May 2009, about our New Zealand investment activities) on page 45.

Along with the other New Zealand Crown Financial Institutions, the Guardians received an annual Letter of Expectations for 2017/18 from the Minister of Finance on 12 December 2016. This letter and the Guardians' response are available at **www.nzsuperfund.nz/publications/disclosures**.

As well as reporting under the requirements of its legislation, the Guardians also reports under the 'no surprises' protocol with the Minister of Finance. This protocol requires the Guardians to inform the Minister in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest.

STAKEHOLDER ENGAGEMENT

We continue to refine our communications strategy to improve stakeholder and public awareness and understanding of the Guardians and the Fund.

Specific activities to support stakeholder engagement and transparency undertaken during 2017/18 included:

- Information sharing and education sessions with The Treasury;
- Engagement with iwi and Māori groups in connection with the newly formed Te Pūia Tāpapa Fund (see page 48 for further details);
- Engagement, largely in response to demand for information about our climate change investment strategy, with the global and domestic investment community (see page 56 for further details); and
- Publication of white papers on our expansion capital and strategic tilting strategies (**www.nzsuperfund.nz/publications/papers-reports-reviews**).

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Priorities for 2018/19 include:

- Repeating stakeholder perception research, last undertaken in 2014/15, to inform a refresh of our communications strategy;
- Implementing a stakeholder engagement programme for our new CEO and to support the NZ Direct Investment Hub (see page 48);
- Publishing a white paper on our Portfolio Completion activities;
- Explaining changes to our voting policy and implementing enhanced voting disclosures;
- Scoping a project to refresh the www.nzsuperfund.nz website in 2019/20.

OUR STAKEHOLDERS

In addition to the Crown, Parliament and the Minister of Finance, the Guardians' stakeholder groups include:

- employees;
- public of New Zealand;
- suppliers;
- asset and investment managers (for a full list of Managers and Custodians see page 105);
- co-investors;
- other Crown Financial Institutions;
- investee companies;
- investor groups e.g., United Nations Principles of Responsible Investment (UNPRI), International Forum of Sovereign Wealth Funds (IFSWF), International Centre for Pension Management (ICPM), Pacific Pension & Investment Institute (PPI);
- iwi;
- media;
- non-government organisations (NGOs);
- peer funds;
- regulatory bodies in New Zealand and globally; and
- relevant New Zealand public sector agencies (e.g. The Treasury, Reserve Bank of New Zealand, State Services Commission, Financial Markets Authority, Ministry of Foreign Affairs and Trade, Serious Fraud Office, Inland Revenue, Office of the Auditor-General).

All key topics raised by stakeholders are presented in the materiality matrix on page 25 and our responses to these topics are included in this report.

TRANSPARENCY

We strive to be as transparent as possible about our management of the Fund and the way the Fund performs. Our stakeholders can access a wealth of current and detailed information easily on our website. This includes:

- information on our purpose and mandate;
- our governance framework and policies;
- how we invest and our approach to responsible investment;
- risk management;
- monthly performance and portfolio reports;
- detailed historical performance figures for the Fund since inception; and
- copies of media statements, speeches, publications and research papers.

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Communications with stakeholders, and the external website, are managed in line with the Guardians' Communications Policy. This policy sets out controls and frameworks to ensure that all our communications are clear and accurate and assist in preserving and enhancing the reputation of the Guardians and of the Fund. A copy of this policy is available at www.nzsuperfund.nz/publications/policies.

INDUSTRY NETWORKS AND INVESTMENT GROUPS

The Guardians is an active participant in a wide range of industry networks and investor groups and has close working relationships with a number of government agencies, in particular the New Zealand Treasury.

We also put significant effort into managing our relationships with peer funds, investment managers and potential co-investors.

The Guardians continues to be involved in a wide range of global investment and responsible investment initiatives. Groups on which we are represented at Board/governance level include the following:

- International Forum of Sovereign Wealth Funds;
- International Centre for Pension Management;
- One Planet Sovereign Wealth Fund Working Group;
- Pacific Pension Institute;
- New Zealand Corporate Governance Forum;
- New Zealand Corporate Taxpayer Group; and
- Responsible Investment Association Australasia (RIAA).

We also participate in the International Pensions Conference, Association of Superannuation Investors, Standards Board for Alternative Investments, International Corporate Governance Network, Institute of Finance Professionals, Pacific Islands Investment Forum, United Nations Principles for Responsible Investment and the Carbon Disclosure Project.

SPONSORSHIPS

We undertake a limited number of sponsorships in New Zealand to support activities or events that are consistent with our role and responsibilities in managing the Fund.

In 2017/18, we sponsored:

- Plain English Awards – Best Annual Report
- Business Journalism Trust
- He Reo Whairawa – an initiative to develop a Māori finance and investment vocabulary
- RIAA's Responsible Investment Benchmark Report;
- RIAA's New Zealand Responsible Investment Briefing;
- University of Auckland NZ Superannuation Fund Prize;
- Accounting and Finance Stage III Prize; and
- AUT Best Paper Award, Finance Symposium.

Plans to support female students studying digital technology at the Manukau Institute of Technology did not proceed as the Institute was unable to identify suitable candidates within our timeframes. We are now exploring opportunities with other providers.

Total sponsorship spend in 2017/18 was NZD66,199 (2016/17 was NZD41,000).

Risk is an important part of doing business for an investment fund. We take investment risk in order to achieve our mission. We also manage other complex non-investment risks. Understanding and managing these risks helps us ensure that the risks taken are appropriate for the returns anticipated.

The Board is responsible for reviewing and approving the Guardians' risk management framework. It does this on a regular schedule that is set out in the Board calendar. The Board also reviews the top risks identified by the Guardians' Risk Committee every six months, and it reviews the Guardians' Risk Appetite Statement and Risk Assessment Framework on at least a five-yearly basis.

The Guardians has extensive risk management policies, procedures and internal controls for staff, external investment managers and other expert service providers. Our approach to managing investment risks is set out in our Statement of Investment Policies, Standards and Procedures and Investment Risk Allocation Policy, both of which are available on www.nzsuperfund.nz/publications/policies.

The Board has a risk appetite statement that outlines the amount of risk the management may take in order to achieve the business goals of the Guardians and the Fund. These are the risks the Board can tolerate. The Board expects management to take steps to manage risks within the Board's risk appetite. The full statement can be found at Schedule 2 of the Risk Management Policy.

The Guardians' performance against this statement is measured and reported to the Board regularly, with any major breaches being notified on an exception basis.

The Audit Committee reviews reports from management, and from internal and external auditors, on the effectiveness of systems for internal control and financial reporting. The Board delegates day-to-day management of risk to the Chief Executive Officer. Inherent in this delegation is a desire to ensure that day-to-day responsibility for risk management is at the business unit level, where managing risk is seen as part of the overall business process, and a robust framework of risk identification, evaluation, control and monitoring exists.

The Chief Executive Officer and the General Manager Finance and Risk are required to sign off the financial statements and confirm to the Board that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and that control systems are operating efficiently and effectively in all material respects.

RISK REPORTING FRAMEWORK

The Board receives an enterprise-risk dashboard report every six months. This report is derived from the top and emerging risks identified by the Guardians' business units and is facilitated by the Enterprise Risk Team and the Risk Committee (a management committee).

Each business unit maintains a Risk Register that identifies the risks that could impact on its specific activities and includes related controls and action plans.

The table below summarises our risk identification and assessment process:

Activity	Purpose	Outputs	Participants
1. Environmental assessment	Identify emerging internal and external sources of risk that could impact the business Forms an input into Business Unit Risk Register refresh	Summary of main changes affecting the business	Business Unit staff Business Unit Heads Risk Committee Enterprise Risk Team
2. Business Unit Risk Register annual review	Assessment of existing and potential emerging risks	Updated business risk registers	Business Units Heads Business Unit staff Risk Committee
3. Consolidated outputs of Business Unit Risk Register Reviews	Confirm or identify any new or any changes to existing top risks Assess emerging risks and identify those that should be escalated in reporting	Draft summary of top risks and emerging risks	Enterprise Risk Team Risk Committee
4. Review of top risks by Leadership Team	Evaluate identified top risks and emerging risks Evaluate effectiveness of risk management plans and consider whether further actions are required	Refined draft summary of top risks and emerging risks	Leadership Team Enterprise Risk Team Risk Committee representatives (if required)
5. Review of top risks by Board	Evaluate top risks and identify emerging risks Evaluate effectiveness of risk management plans in place and consider whether further actions are required	Finalised summary of top risks and emerging risks	Board Leadership Team Enterprise Risk Team

TOP RISKS

The Enterprise Risk Team identifies the organisation's top risks through consultation with business units. The risks identified in the latest report to the Board, for June 2018, are set out below. The trend arrow indicates whether the risk is assumed to have increased, decreased or stayed the same in the past six months.

Trend	Risk	Current Actions/Focus Areas
↔	Cyber-security event or breach such as malware, phishing attack or denial of service attacks	Best-practice system protections, threat monitoring and detection IT security policy, user access controls, cyber-security training Cloud protection systems analysis
↓	Process failures leading to poor execution	A data and information strategy is being developed, including data governance Increased automation of instructions to our custodian, Northern Trust, including straight through processing
↔	Change in key stakeholder support, including Minister of Finance, Treasury and the Board	Regular stakeholder communications and engagement, including stakeholder survey in 2018 Progress Crown information sharing approach with Treasury New Board member inductions
↔	Incidents of fraudulent activity (including rogue traders, bribery and corruption)	Pre-employment screening, separation of duties, controls over mandatory leave and the movement of funds Investment and operational due diligence Annual fraud risk assessment, fraud awareness education, whistle-blower hotline Implement fraud response plan and ongoing stress testing Automation of controls for payments
↔	Failure of systemically important supplier or counterparty (including custodian, clearing house, major counterparty)	Monitoring, daily alerts, annual reviews of key suppliers and counterparties Detailed diligence on potential new suppliers Implemented a new Risk Management Platform (RAMP) for improved reporting on counterparties' exposure, limits and creditworthiness indicators. OTC (Over-the-Counter) Reform Group monitoring the changing regulatory environment
↑	Staff capability shortfall	Best-practice Human Resource approaches (diversity and inclusiveness, succession planning, individual development, training, secondment and rotation programme, focus on culture) New roles in the Talent team within the Human Resources department Leave and Benefits Review
↔	Failure of value-adding strategies or opportunities	Robust policies and processes Ongoing induction of staff in investment processes Internal investment research clearing house established
↔	Insufficient liquidity	The new Risk Management Platform (RAMP) includes improved tools for liquidity management, including liquidity replenishment, minimum liquidity requirements and stress testing ability
↑	IT infrastructure or business systems no longer fit for purpose	Cloud-based IT infrastructure migration project Data management project to improve access to, and integrity of, data
↔	Key investment beliefs are inappropriate	The Reference Portfolio and Total Active Risk Budget are reviewed at least every five years, including our investment beliefs
↔	Significant breach of legislation or regulation	Induction and ongoing training, regular policy and trading attestations by staff Radar of legislative and regulatory developments maintained by Legal team, reported to Risk Committee six monthly and Audit Committee annually Regular reviews of our legislative compliance framework

DERIVATIVE RISK MANAGEMENT

We use derivatives as part of our investment strategy. We have robust control frameworks in place to ensure their judicious and efficient use. Controls include a focus on the risks relating to the use of counterparties, liquidity and operational matters, including compliance with investment mandates.

RISK COMMITTEE

The Risk Committee, a management committee, is the Guardians' key enterprise risk oversight body. The Risk Committee has three main roles:

- as a risk leadership body;
- to provide leadership on the effectiveness of frameworks and processes at the Guardians; and
- to add value.

The Risk Committee focuses on:

- taking an enterprise-wide, holistic and governance view of the organisation;
- assessing potential risk profile changes and selecting key areas to be reviewed;
- undertaking specific reviews on behalf of management to confirm risks are appropriately managed;
- assessing the effectiveness of risk and control frameworks;
- obtaining confirmation from the business that specific processes are robust, used consistently and any exceptions are handled appropriately; and
- monitoring and simplifying processes to facilitate scalability, while ensuring effective risk management.

IN 2017/18, THE RISK COMMITTEE'S ACTIVITIES INCLUDED:

- a review of top risks for the Guardians and the Fund;
- a review of risks for each individual business unit (risk register);
- performing stress tests on various enterprise activities to test business resilience;
- reviewing our master custodian, Northern Trust;
- reviewing the business case for moving computing infrastructure to the Cloud;
- reviewing the Manager Conviction process;
- a biennial review of the Investment Risk Allocation Policy;
- reviewing mandatory leave control;
- education sessions on information security and international trends in the management of reputation risk;
- reviewing plans for data security, cyber threat monitoring and business continuity; and
- a review of the prudential report into the Commonwealth Bank of Australia.

THE RISK COMMITTEE'S KEY OBJECTIVES FOR 2018/19 ARE TO:

- continue its focus on adding value to the business by being innovative, connected and commercial;
- continue to pivot from the traditional role of risk oversight towards leadership on frameworks, processes and tools and to encourage forward thinking across the organisation;
- undertake a survey to gain an understanding of the organisation's current risk culture and where it could potentially improve;
- oversee a refresh of the Risk Appetite Statement and the Risk Assessment Framework;
- in relation to the business, reduce downside risk for the same outcome and increase outcomes for the same risk; and
- build peer relationships to better understand trends in risk management in institutional investors.

MONITORING

Staff compliance with the relevant policies and procedures is monitored actively, as is compliance by external managers with the investment mandates we give them.

The following table sets out performance against key Fund risk measures relating to rebalancing (designed to keep the Fund's overall volatility in line with the Reference Portfolio), strategic tilting active risk, active manager risk limits and target levels of liquidity.

Performance Against Key Fund Risk Measures

	Target	2017/18	2016/17	2015/16	2014/15	2013/14
INVESTMENT RISK MEASURES						
REBALANCING						
Breaches of Fund rebalancing absolute risk limit	0	0	0	0	0	0
Breaches of Fund rebalancing relative risk limit	0	0	0	0	0	0
Breaches of manager limits	0	0	0	0	0	0
TILTING						
Breaches of strategic tilting active risk limit	0	0	0	0	0	0
Breaches of replenishment liquidity level	0	0	0	0	0	0
BUSINESS RISK MEASURES						
Active breaches of compliance with investment mandates*	0	2	1	1	0	3
Loss of data/IT services of more than 30 minutes	0	1**	0	0	1	0
Regulatory non-compliance	0	0	0	0	0	0
Processes and profit & loss impacts of more than NZD10m	0	0	0	Not reported	Not reported	Not reported
Loss of key personnel***	0	0	0	Not reported	Not reported	Not reported
Operational incidents or errors rated as potentially high risk****	N/A	2	1	3	4	3

* Our custodian reports any breaches of compliance with the Fund's segregated listed investment mandates to us for investigation and discussion with the manager involved (e.g., failing to sell a stock that had dropped out of an index within an agreed time period). All breaches, passive and active, are factored into our monitoring and reviews of our external and internal investment managers. In the case of serious incidents, a claims process may be available to the Fund.

** In February 2018 our device management software erroneously detected an infection (the presence of malware) on one of our machines. We responded by implementing our cyber response plan.

*** 'Loss of key personnel' is defined as: loss of personnel that would result in an investment strategy or activity having to stop.

**** The Guardians has a structured process for reporting, investigating and rectifying operational incidents and errors (e.g. a data entry error or a failure to correctly follow a process/instruction). Incidents or errors with potentially medium or high impacts are reported to the Audit Committee as soon as practicable. As our objective is to capture as much information as possible with a view to improving our processes and controls, we do not set a target for reducing the number of errors reported.

We previously reported on breaches of strategic tilting absolute risk limit. We set absolute risk limits for the total portfolio, which captures within it strategic tilting, so to avoid double reporting, we have removed this limit from the strategic tilting specific risk assumption.

REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME

Our mandate requires us to manage the Fund in line with global best practice. Achieving our mandate requires us to provide remuneration packages that will attract, motivate and retain a world-class team.

The employment market for professionals in the investment sector is highly competitive. We aim to build and maintain a team of talented people who can deliver value in terms of Fund performance. The Guardians is made up of people with significant expertise and experience in investment management and research, portfolio design, risk management and investment operations, along with highly skilled specialists in finance, law, IT, communications and HR.

Employees' remuneration consists of salary, KiwiSaver and participation in a discretionary benefits scheme.

Unlike other public sector organisations in New Zealand, staff salaries at the Guardians are not funded through Parliamentary appropriation. Instead, they are paid for by the Fund.

KEY FACTORS

In structuring remuneration at the Guardians appropriately, we are conscious of the need to:

- reinforce the long-term objectives of the Fund;
- reinforce our investment strategy, which is based on a whole-of-Fund approach, rather than individual asset classes or investment portfolios;
- ensure remuneration encourages appropriate, but not excessive, risk taking; and
- be realistic about the periods for which staff are likely to remain with the Guardians and can reasonably expect to be rewarded for performance.

We aim to be clear about what people are paid for and why and to be consistent, systematic and transparent in applying our remuneration policies. Our intent is to remunerate and reward people for their knowledge, skills, alignment to behavioural expectations and contribution in the roles they are performing.

Equal Pay

Our Human Resources Policy makes a specific commitment to achieving the principle of equal pay for equal work.

Based on a 2016 report the Guardians commissioned from EY, we are confident that we are paying equally for work of equal value. In addition, we also measure our overall pay gap between men and women. The overall pay gap at the Guardians reflects the predominance of males in senior roles, and the predominance of females in junior roles. See page 33 for further details.

BASE SALARIES

Employees receive a base salary, which is fixed, and which reflects their role, contribution and level of experience. Base salaries are based on:

- independently determined job sizes;
- employees’ competence in roles; and
- current, independent remuneration market data, based on upper quartile, New Zealand financial services sector rates.

Salaries are reviewed annually with any increases subject to meeting minimum performance expectations.

KIWISAVER

In 2017/18, the Guardians matched employee contributions to KiwiSaver up to 3%. From July 2018, employee contributions will be matched up to 8%.

DISCRETIONARY BENEFITS SCHEME

A range of other benefits is also offered to permanent staff on a discretionary, non-contractual basis. These benefits include income protection, life, trauma and health insurance. The total cost to the Guardians of providing these benefits was NZD250,970 in 2017/18 (NZD229,000 in 2016/17).

DISCRETIONARY BONUS SCHEME

As is normal within the financial services sector, Guardians staff are eligible for performance pay on top of base salaries. This discretionary bonus scheme is designed to incentivise employees and create a culture of good performance. All bonuses are at the discretion of the Board.

There is no contractual requirement requiring the payment of any bonus in any given year to employees.

There are two components to the bonus scheme:

1. an individual performance component for which all permanent employees are eligible; and
2. a two-part Fund performance component, which applies to members of the Leadership Team, Investments Group and Portfolio Completion Group.

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Bonuses are calculated as a percentage of average base remuneration and vary up to a maximum percentage. The maximum available is:

	Total	Individual Component	Fund Performance Component
Leadership Team, Investments Group and Portfolio Completion Group	60%	20%	40%, comprised of: • Excess Return – 13.33% • Value Added – 26.67%
Other employees	20%	20%	N/A

REMUNERATION SUMMARY

Benefit	Purpose and link to strategy	Operation
Base salary	Building and maintaining a 'great team' To reflect the responsibilities of the individual role and the individual's level of experience and competence in the role Set at level based on external benchmarking of job size.	Each individual has a pay range associated with their position. Job sizes are re-evaluated at least 5 yearly Base salaries are determined by positions being evaluated by remuneration specialists using market evaluation systems The general approach is to benchmark against upper quartile, New Zealand financial services sector rates Individual performance is reviewed bi-annually, and salary is reviewed annually. Eligibility for a salary review is subject to meeting minimum performance expectations. Employees with a performance rating outcome equivalent to below target are not eligible for a salary review
Individual objectives and performance bonus	Promotes commitment to a positive, constructive workplace culture Linked to employee behaviour consistent with the Guardians' desired workplace culture	Bonus payments are at the Board's discretion Employees with a performance rating outcome equivalent to below target are not eligible for a bonus
Fund component	Based on Fund financial performance outperforming Treasury Bill return and Reference Portfolio Incentivises whole of Fund approach and aligns with statutory mandate of maximising returns without undue risk Based on Fund performance over rolling four year periods to encourage sustainable performance	Bonus payments are at the Board's discretion Based on audited Fund performance results Employees with a performance rating outcome equivalent to below target are not eligible for a bonus Available to the Leadership Team, Investments and Portfolio Completion employees
Other benefits	Building and maintaining a 'great team' Good employer	Discretionary life, income protection, trauma and health insurance

Further information about the bonus scheme is set out on page 92.

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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

INDIVIDUAL PERFORMANCE COMPONENT (ALL STAFF)

All permanent staff are eligible for a discretionary bonus payment in respect of achievement relating to their individual performance (a maximum of 20% of base remuneration). All discretionary bonus payments are contingent upon staff having both achieved their individual objectives and having met minimum threshold performance requirements. This is captured in an assessment of performance against a set of expectations agreed in writing between the employee and their manager.

Individual performance is measured with reference to:

- the individual's performance against behavioural criteria consistent with the Guardians' desired workplace culture (this is determined by the individual's manager, based on feedback from 360 degree performance reviews and in consultation with the Leadership Team).

The individual component of the bonus is payable annually.

FUND PERFORMANCE COMPONENT (LEADERSHIP TEAM, INVESTMENTS GROUP, PORTFOLIO COMPLETION GROUP)

Staff who are members of the Leadership Team, Investments Group and Portfolio Completion Group are eligible for a further bonus (a maximum of 40% of base remuneration), based on two Fund performance measures:

1. Excess Return (1/3 of the 40%); and
2. Value Added (2/3 of the 40%).

These measures are based on whole-of-Fund performance, consistent with our approach to investing the Fund. Under this approach, we work together to ensure our investment decisions improve the Fund's portfolio as a whole, rather than optimising performance within individual asset classes or sub-portfolios.

Payments against these measures are made over four years on a rolling average basis. This is intended to incentivise appropriate risk taking and reflect the Fund's focus on long-term performance.

Payments made in any one year therefore reflect a four year moving history. A new four year 'Vintage' is initiated each financial year.

The Excess Return measure is calculated based on the Fund's actual return, less the 90-day Treasury Bill return, a proxy of the opportunity cost to the government of investing in the Fund instead of paying down debt. The maximum bonus payable under this portion is capped at 13.33% of base remuneration if the Fund exceeds the Treasury Bill return by 4% (i.e. outperformance of the Treasury Bill return is capped at 4%).

The Value Add measure is calculated based on the Fund's actual return, less the Reference Portfolio return. Payments based on this measure are capped at 26.67% of base remuneration if the Fund exceeds the Reference Portfolio return by 0.75% (i.e. outperformance of the Reference Portfolio is capped at 0.75%).

Interim payments for the Fund performance component are calculated based on actual average remuneration (excluding bonus payments) across the relevant period. The maximum percentage paid out is a quarter of the Vintage in Year 1 and increases by a quarter of the Vintage each year thereafter, in line with the percentage of services rendered by the employee.

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Therefore, once a staff member has been employed for four years, they will have four separate Vintages running, paying out a maximum of 25% each, as summarised in the table below. Future Vintage payments do not vest – once an employee leaves the Fund, no trailing bonuses are payable.

Max out scenario	Vesting Level (% of services performed)	Less Previously Paid	Payable Current Year
1st Vintage	100%	75%	25%
2nd Vintage	75%	50%	25%
3rd Vintage	50%	25%	25%
4th Vintage	25%	0%	25%
Total			**100%**

INCENTIVE ACHIEVEMENT IN 2017/18

For eligible staff who have been employed for the last four full years:

- Payments made in respect of Treasury Bill return were 13.33% of average base remuneration for the equivalent period, compared with the maximum possible 13.33%.
- Payments made in respect of the Reference Portfolio return were 26.67% of average base remuneration for the equivalent period, compared with the maximum possible 26.67%.
- The Fund exceeded the Treasury Bill return by 10.03% (10.71% in 2017/18).
- The Fund exceeded the Reference Portfolio return by 2.84% (2.02% in 2017/18) .

The maximum possible refers to the maximum payable per Vintage. At any given time we have four Vintages running, and each of these will have cumulative achievement levels between 0% and 100% throughout their four year period. The associated interim payments also vary year to year.

Strong performance will improve the status of previously underperforming vintages, and may result in catch-up of interim payments. This year we have all four Vintages at 100% achievement to date for the current year, and no catch up payments.

Further information about remuneration can be found in our Human Resources Policy, available at: **www.nzsuperfund.nz/publications/policies**. See also the Guardians' financial statements at page 192.

CHIEF EXECUTIVE OFFICER REMUNERATION

One of the Board's most important decisions is deciding on the appointment and remuneration of the CEO.

Process

The Employee Policy and Remuneration Committee (EPRC) (see page 67), based on independent advice from external remuneration specialists, reviews the CEO's remuneration annually and makes recommendations to the Board. The Board then consults with the State Services Commission and, where relevant, the Minister of Finance, before making a final decision. This statutory process ensures the final decision rests with the Board; this process reflects the design of the Fund and the importance placed on its commercial independence.

Factors Taken into Account

In the Board's view, the role of the CEO of the Guardians is unique in New Zealand, requires original strategic thinking and leadership and has grown in complexity and scope over time.

As is normal good practice, the Board aims to ensure alignment between the CEO's remuneration and the strategy and performance of the Guardians and Fund.

For this reason, the CEO (along with other members of the Leadership, Investments and Portfolio Completion teams) is eligible for bonus payments up to a maximum of 60% of base remuneration, under the Guardians' discretionary bonus scheme.

The Board also considers relativity between the CEO's remuneration and the staff of the Guardians, and the context in which we operate as a member of the Crown.

The discretionary bonus scheme is designed to create strong alignment between the CEO's remuneration and the performance of the Guardians and the Fund. Consistent with the Guardians' long-term goals, bonus payments for Fund performance in any one year reflect a four-year rolling average. There are no trailing payments available once an employee ceases service with the Guardians.

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REMUNERATION AND DISCRETIONARY INCENTIVE SCHEME (CONTINUED)

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CHIEF EXECUTIVE OFFICER REMUNERATION

Financial Year	2017/18*		2016/17		2015/16		2014/15		2013/14	
	$	% achieved	$	% achieved	$	% achieved	$	% achieved	$	% achieved
Contractual Base Remuneration	$700,400		$700,400	-	$682,000	-	$571,000	-	$566,000	-
Actual Base Remuneration Payment (A number of factors can mean there is a difference between the contractual and actual base. See footnote ** for more detail)	$522,263		$740,476	-	$690,322	-	$596,078	-	$586,796	-
At Risk - Individual Component (max 20% of actual base remuneration)	N/A	N/A	$116,995	15.8%	$117,355	17.0%	$101,333	17.0%	$117,359	20.0%
At Risk – Fund Financial Performance ‘Excess Return’ on a 4 year moving average	N/A	N/A (max 13.3%)	$116,647	13.3% (max 13.3%)	$61,829	10.0% (max 13.3%)	$37,932	6.7% (max 6.7%)***	$35,621	6.7% (max 6.7%)***
Cumulative Fund Performance can impact interim payments resulting in payments in a subsequent year. See page 92 for more detail.		-		3.3%		(3.3%)		-		-
At Risk – Fund Financial Performance ‘Value Add’ on a 4 year moving average	N/A	N/A (max 26.7%)	$200,330	26.7% (max 26.7%)	$155,616	24.6% (max 26.7%)	$95,581	13.3% (max 13.3%)***	$51,686	10.0% (max 13.3%)***
Cumulative Fund Performance can impact interim payment resulting in payments in a subsequent year. See page 92 for more detail.		N/A		2.1%		(2.1%)		3.3%		(3.3%)
KiwiSaver	$15,668	-	$35,233	-	$30,754	-	$24,928	-	$23,744	-
Benefits (Life, Income Protection, Trauma, and Health Insurance)**	$5,398	-	$7,431	-	$4,879	-	$4,276	-	$4,020	-
Total Remuneration	**$543,329**	-	**$1,217,112**	-	**$1,060,753**	-	**$860,128**	-	**$819,226**	-

* Figures for FY2017/18 are to March 2018, when the Guardians’ CEO ceased to be an employee.

**Actual base salary payments can be lower or higher than contractual base salary, depending on a number of factors including the amount and value of leave taken, or from ceasing employment part way through the financial year.

***From FY 2015/16, the maximum At Risk for the Fund’s financial performance of ‘Excess Return’ is 13.3%. For FY 2013/14 and FY 2014/15, this maximum was 6.7%. From FY 2015/16, the maximum At Risk for the Fund’s financial performance of ‘Value Add’ is 26.7%. For FY 2013/14 and FY 2014/15, this maximum was 13.3%.

****Benefits include FBT where applicable, but exclude GST.

SECTION 4/7

Operational Report
Ngā Tīpakonga ā-Whakahaere

4

OPERATIONAL

Investing for the benefit of New Zealanders.

HIGHLIGHTS FROM OPERATIONS AND IT

RISK SYSTEM (RAMP PROJECT)

In 2014, we commenced work on a project to consider the best way of supporting the Fund's current and future requirements for portfolio and risk management. Having identified and assessed a range of options, we decided to investigate the selection of an investment risk management platform to allow us to better monitor our investment risks, particularly around liquidity and counterparty risk. Our chosen risk system, Quantifi, has replaced existing risk models across a range of investment risk areas. Implementation began in June 2017 and saw phase one (counterparty and liquidity risk) completed in May 2018.

The platform has:

- Reduced the significant operational risk of having key processes using multiple application functions.
- Increased the frequency of risk reporting. Previously, the effort required to run our models meant they were run on a weekly or monthly basis. The new system reports daily.
- Improved user access to the outputs of risk monitoring with drill-down capability.

Phase two (scenario modelling) is expected to be completed in late 2018. Implementation of phase 2 will significantly improve liquidity stress testing capability.

PORTFOLIO COMPLETION FOREIGN EXCHANGE TRADING PRACTICES

Our Portfolio Completion (Treasury) team manages the Fund's internal and external passive exposures to equities, bonds, credit and currencies. The team began a project in 2015 that involved changing foreign exchange (FX) trading practices, including execution, matching, settlement and trade cost analysis, in order to improve the efficiency and efficacy of our FX trades.

The project used technology as an enabler to shift our execution of FX trades from what was an entirely manual undertaking to a largely automated, algorithmic execution process. We now execute 97% of our FX transactions electronically vs 100% over the phone before the initiative began. The move has resulted in a number of benefits: enhancing trading capability, improving scalability, increasing transparency and reducing operational risk.

The initiative was recognised at the 2018 INFINZ Awards, winning the Excellence in Treasury award. INFINZ said: "The NZ Super Fund has fundamentally restructured their approach to foreign exchange trading. Through embracing technology and the injection of new thinking to historic models and processes they have disrupted traditional channels, enhanced price discovery, accessed market liquidity directly and have automated foreign exchange transactions."

Brad Dunstan, Head of Portfolio Completion (middle) and Ray Guo, Portfolio Manager (right), with Geoff Zame (Craigs Investment Partners) collect the Excellence in Treasury Award at the 2018 INFINZ Awards.

CLOUD MIGRATION

In September 2017, consistent with the New Zealand Government's cloud first policy, the Guardians began the process of moving its IT infrastructure to the Microsoft Azure cloud. During 2017, a design and planning project was completed, assessing the risks and people change impact of moving to the cloud, defining the high level cloud operating model and developing a technical design and migration plan.

As at 30 June 2018, technical implementation had commenced, with four of the eight technical changes needed in the lead-up to full migration successfully delivered. These included migration of email to Azure, the upgrade of network equipment, the implementation of a more secure logon process for users and the set-up of high speed connections to Azure.

Security is a key consideration for the project. The project has been set up with a separate security work stream to specify Guardians' security requirements, security design for the Guardians' Azure platform and to ensure the design aligns with our overall risk appetite.

Full migration is scheduled for completion in October 2018.

DESKTOP REFRESH

The Guardians initiated a 'desktop refresh' project to maintain a modern desktop and ensure the desktop systems were ready for the planned cloud migration. This involved upgrading all mobile and desktop devices to a Windows 10 Standard Operating Environment, upgrading MS Office to 2016 Professional and upgrading our document management systems to a cloud compliant version, along with a number of other upgrades required to ensure cloud compatibility.

CYBER SECURITY

The danger of potential exposure to cyber threats has continued to grow. We recognise this risk, and improving cyber security defence, knowledge and preparation is an ongoing priority for the Guardians. In 2015, we underwent a cyber security risk assessment carried out by an independent external provider. A cyber security project was set up in response to the review. The project seeks to lift our maturity across all areas of cyber security and comprises eight streams of activity, including training and education of staff, user access management and the implementation of an information security policy. Seven of the eight streams of activity have been completed. The final workstream will be delivered with the migration to the cloud.

DATA MANAGEMENT

This project involved a multi-year focus on data management, comprised of three separate work streams: upgrading our central database management platform, building a single-purpose data warehouse and improving the quality of our data governance.

The upgrade to our central data management platform, known as SuperMart, was completed, but the activity has not been achieved in full because of the dependencies with other technology projects, in particular the implementation of the new risk system (see page 96). The risk system has also taken more resource than planned, leaving less capacity for other data priorities.

With the work undertaken to date, the foundations of the data warehouse are in place, and the current data set is being built out. Once the data warehouse is operational further work will be undertaken to modernise the data management platform.

Under the data governance stream we are developing a data and information strategy. One of the goals is to determine a roadmap of priority projects that will enable us to allocate resources. The strategy discussions are focused on:

- a phased approach to replacing or enhancing key tools;
- bringing in the data to the data warehouse required by these tools; and
- building out governance over market data.

Our plans for data governance have previously only covered portfolio and risk data. The inclusion of market data into our data governance plan is a larger and more complex activity.

REGULATORY UPDATE

As a global investor, we are subject to a wide range of legal and regulatory requirements. Ensuring that we comply with these requirements is an important task.

In this section, we provide examples of areas of regulatory change relevant to our activities or to the business of our investment managers, counter-parties and service providers.

FOREIGN INVESTMENT REGULATION

Globally, there is a trend towards more rigorous screening of foreign investments to protect critical infrastructure, technologies and national security interests.

New or announced regulations/initiatives include:

- In Australia, the Critical Infrastructure Centre, which advises Australia's foreign investment regulator in screening foreign investments in sensitive infrastructure
- In the US, new laws that, for the first time in more than a decade, expand the remit and powers of the Committee on Foreign Investment in the United States (CFIUS)
- In the EU and UK, proposals to develop new and more stringent foreign investment screening laws.

While aspects of the detail is still to be finalised, we may need to comply with these new screening requirements in future direct investments in major technology or infrastructure assets.

OAK FINANCE UPDATE

In July 2018, the English Supreme Court denied an appeal on the question of jurisdiction in respect of the legal action taken by the Guardians and other investors in Oak Finance, along with the arranger of the Oak Finance transaction, Goldman Sachs, against the Portuguese bank Novo Banco. The Guardians, along with other investors, continues to pursue ongoing legal action against the Bank of Portugal through the Portuguese courts. A copy of the judgment is available at www.supremecourt.uk/cases/uksc-2016-0215.html. Background information on the Oak Finance matter is available at: www.nzsuperfund.nz/publications-disclosures/oak-finance.

STATE SECTOR AND CROWN ENTITIES REFORM BILL

The State Sector and Crown Entities Reform Bill amends the Crown Entities Act 2004 and the State Sector Act 1998. The stated purpose of the Bill is to provide for greater integrity and accountability in the management of the State services. The Guardians lodged a submission on the Bill, and in May 2018 appeared before the Governance and Administration Select Committee to speak to its submission.

Though we support and endorse the principles that underpin the Bill, we believe a "one size fits all" approach to the governance of Crown organisations is inappropriate. This includes the remuneration of Crown entity Chief Executives, which does not take account of the various needs of differing organisations or sectors in terms of technical skill, leadership, accountability and executive management and risks causing those organisations to fail to meet their objectives.

We submitted that the Bill should not apply to the Guardians for the following reasons:

1. The proposed amendment is inconsistent with the governing legislation for the Guardians.
2. It is also inconsistent with best practice principles of investment governance.
3. The proposed change creates greater risk for the Government by potentially politicising a critical governance decision and reducing accountability for the Board of the Guardians.
4. The proposal regarding a five year term for the Chief Executive employment agreement is entirely inconsistent with the long-term purpose of the Fund.

We consider that the Guardians should be treated like a State Owned Enterprise, which, like the Guardians, operate at arms-length from the Crown and have a commercial focus. Our full submission is available at www.nzsuperfund.nz/publications/submissions.

SUBMISSIONS

During the year we made the following submissions:

- Submission to the Tax Working Group on Nationally Significant Infrastructure
- Submission to discussion paper on the review of NZX Main Board Listing Rules
- Submission to the Financial Markets Authority on the Corporate Governance handbook
- Submission to the NZX on the second stage of the Listing Rule review
- Joint Submission to the NZX on the second stage of the Listing Rule review
- Response to the Productivity Commission's Report on the Low-Carbon Economy
- Submission to the Tax Working Group on the Future of Tax: Submissions Background Paper
- Submission to the Governance and Administration Select Committee on the State Sector and Crown Entities Reform Bill
- Joint Submission to the US Treasury – Comments addressing section 897(1) - Qualified Foreign Pension Fund Requirements
- Joint Submission to the US Treasury – Comments addressing section 892 - Regulations in respect to the Income of Foreign Governments
- Submission to the NZ Treasury on Overseas Investment in Forestry
- Joint Submission to the US Treasury: Interest Deductibility Tax Provisions impacting Foreign Investment in the United States

Copies of the Fund's submissions can be viewed at www.nzsuperfund.nz/publications/submissions.

ENVIRONMENTAL PERFORMANCE

The Guardians' environmental performance falls under the remit of the Guardians' Health, Safety, Security and Environment (HSSE) Committee. The Committee aims to improve staff awareness about the environmental impact of our activities and set achievable targets for minimising this impact.

As a responsible investor, we strive to integrate environmental concerns into our wider activities as an investment manager and hold ourselves accountable to the same guidelines. The biggest potential impact we can make is on our investment portfolio through our engagement with the organisations we invest in. See the Responsible Investment Report that begins on page 58 for more information.

The measures detailed below are the greenhouse gas emissions for the corporate operations of the Guardians. They have been calculated in accordance with the guidance provided in ISO 14064-1:2006 and have been verified by Enviro-Mark Solutions. A verification report is available on: **https://ar2018.nzsuperfund.co.nz/downloads**.

The bulk of our emissions derive from international long-haul air travel. As a global investor, the Guardians is limited in the extent to which it can actively reduce air travel activity. A focus for 2018/19 is the implementation of a new natural environment policy, to be incorporated into the Human Resources Policy. The policy will commit the Guardians to understanding and reducing the environmental impact of our activities.

			2017/18		2016/17		2015/16
ENERGY SOURCE	**MEASURE**	**QUANTITY**	**CO^2**	**QUANTITY**	**CO^2**	**QUANTITY**	**CO^2**
Electricity	Kwh	155,772	18.61t	141,121	16.86t	140,932	19.82t
International air travel (long haul)	Km	4,826,196	2092.35t	3,947,104	1,705.10t	3,489,400	1,510.61t
International air travel (short haul)	Km	1,012,522	184.98t	950,715	176.88t	685,707	129.20t
Domestic air travel	Km	291,037	77.83t	223,342	60.99t	226,499	66.39t
Mileage (medium car) 1.6 – 2.0L	Km	6,872	1.44t	7,102	1.48t	5,628	1.29t
Taxi – cost	$	103,832.41	6.91t	87,413	5.81t	66,967	7.21t
Waste to landfill	Kg	2,392	2.71t	2,339	2.63t	2,609	3.10t
TOTAL			**2,384.83t**		**1,969.75t**		**1,737.62t**

In FY2017/18, carbon emission figures for long haul, short haul and domestic air travel were calculated based on the actual travel class flown on each flight (business, economy, premium economy). The carbon emitted differs according to travel class in accordance with the space occupied by the passenger; business class seats are larger than the standard berth, meaning less people can get on a plane. This results in more fuel being burnt per person to get the aircraft to its destination.

As previous emissions figures published were not broken down into travel class (but rather, calculated as an average of all travel classes available on the flight) the CO2 totals for air travel in FY2016/17 and FY2015/16 have been re-calculated to show a like for like comparison against the most recent year, in order to show the correct changes to our carbon emissions.

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SECTION 5/7

Statement of Performance
Te Pūrongo Whakahaere Pūtea

5

PERFORMANCE

Funding New Zealand's retirement.

This Statement of Performance measures the Guardians' progress against objectives and measurements set out in the Guardians' 2013 – 2018, 2014 – 2019 and 2016 – 2021 Statements of Intent and the 2018 – 2019 Statement of Performance Expectations.

As explained in our Statement of Intent, the single output of the Guardians is managing the Fund. That output comprises five work streams covering:

- investment;
- risk management;
- cost control;
- governance; and
- organisational capability.

For each work stream, we have set performance measures which, collectively, are performance measures for our output.

Note: Crown funding comes from capital contributions to the Fund made by the Government, as well as an appropriation to meet Board costs and audit fees (expenditure during 2017/18 of NZD634,000 compared with a budget of NZD728,000 in 2017/18). All other costs (e.g. manager fees, staff salaries, research costs) are met by the Fund, and it is these costs that are the subject of our cost control work programme.

OUTCOME MEASURES

The Fund's ultimate outcome is to help reduce the tax burden of future New Zealand taxpayers arising from the cost of New Zealand Superannuation.

This long-term outcome will begin to be achieved only when the Government starts withdrawals from the Fund. Our legislation prescribes the level of annual capital contributions to the Fund required from the Government and only permits capital withdrawals once all the required contributions have been made and, in any event, only after 30 June 2020. Treasury is currently forecasting that withdrawals will begin in 2034/35.

MEASURE	EXPECTED OUTCOME – 1 YEAR	ACTUAL OUTCOME – 1 YEAR	EXPECTED OUTCOME – 10 YEARS	ACTUAL OUTCOME – 10 YEARS
Reference Portfolio returns relative to Treasury Bills (per annum)	+2.7%*	+8.7%	+2.7% p.a.*	+5.7% p.a.
Actual Portfolio returns relative to Reference Portfolio (after costs)	+1.0%	+2.0%	+1.0% p.a.	+1.9% p.a.
In a 1-in-100 year event, potential Reference Portfolio loss is equal to or worse than:**	-25.2%	+10.4%	- 5.0% p.a.	+8.5% p.a.

* In 2014/15, the Guardians conducted a review of the Fund's Reference Portfolio, resulting in the Reference Portfolio benchmark being increased from +2.5% to +2.7%. The new benchmark came into effect in July 2015. Further information on the Reference Portfolio and Treasury Bill measures are available on our website at: www.nzsuperfund.nz/how-we-invest/reference-portfolio.

** The expected worst-case downside return is a portfolio volatility measure. It shows the amount of value the Fund could lose in a 1-in-100 year event (or, to put it another way, there is a 1% chance of the Fund losing this amount of value or more within a year). If losses of this magnitude were to happen more often than is expected, then either a rarer-than expected event has occurred or we have taken more risk than we assumed we had. For a fuller description of this measure, please refer to page 9 of our 2016–2021 Statement of Intent, which is available on www.nzsuperfund.nz.

OUTPUT MEASURES 2017/18

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
Investment	Reference Portfolio returns above Treasury Bills (per annum) over any 20-year moving average period	2.7% p.a.	Achieved. Refer to table above.	Page 36 and www.nzsuperfund.nz.
Investment	Actual Fund returns above Reference Portfolio (per annum, net of costs)	1.0% p.a.	Achieved. Refer to table above.	Page 36 and www.nzsuperfund.nz.
Cost Control	Costs relative to peers in CEM survey	Achieve a rating of 'median cost, value adding' or better.	Cost (1 year) – Achieved Cost (5 year) –	An executive summary of the survey results is available at www.nzsuperfund.nz/performance/cost.

Work Programme	Measure	Expected Outcome	Actual Result	Further Information
			Achieved Value-Add (1 year) – Achieved Value-Add (5 year) – Achieved.	
Risk Management	In a 1-in-100 year event, potential Reference Portfolio loss	≤-25.2% p.a.	Refer to table on page 102.	See page 9 in our 2016–2021 Statement of Intent.
Risk Management	Transparency ratings	10/10 in the Sovereign Wealth Fund Institute's Transparency Index; top quartile or higher ratings in other surveys.	Achieved 10/10 in the SWFI's Q2 2018 Transparency Index. No other surveys noted.	Refer to **www.nzsuperfund.nz/transparency-reporting** and **www.swfinstitute.org** for more information.
Risk Management	Annual updating of response to Santiago Principles	A self-assessment of the adherence to the Santiago Principles is completed and assured by an independent third party.	Completed. Our responses to the Santiago Principles were also assured by EY.	See **www.nzsuperfund.nz/performance/best-practice** and the website of the International Forum of Sovereign Wealth Funds at **www.ifswf.org**.
Risk Management	UNPRI Assessment over time	A or A+ rating for Strategy and Governance.	Achieved an A+ rating for Strategy and Governance in the 2017/18 UNPRI assessment.	See page 58; **www.unpri.org** and **www.nzsuperfund.co.nz** for more information.
Risk Management	Published records of voting, Responsible Investment in Practice report	Voting reports for both periods and the Responsible Investment in practice are completed and published.	Six-monthly voting reports to 31/12/17 and 30/6/18 published. RI report published.	See **www.nzsuperfund.nz/performance-esg-management/votingreports** and the Responsible Investment Report at page 58.
Governance	Outcome of independent reviews	Ongoing good reviews with the review and our response published. There were no material concerns of the effective and efficient performance of the Guardians' functions.	N/A for 2017/18. The last independent review was completed in 2014/15.	Refer page 43 of the 2014/15 Annual Report.
Organisational capability	Result of organisational culture survey	Achieve the constructive benchmark in at least 2 of the 4 constructive styles in the biennial Human Synergistics OEI/OCI surveys.*	N/A for 2017/18. The last culture survey was completed in April 2017.	N/A
	Result of organisational engagement survey	Achieve an overall staff engagement score in the upper quartile of the global benchmark in the biennial CEB Engagement Survey.	N/A for 2017/18. The last engagement survey was completed in February 2016.	N/A

* Or equivalent ratings in equivalent surveys, bearing in mind that over 10 or 20 year periods our preferred survey methodology may change.

KEY 2017/18 STRATEGIC PLAN ACTIVITIES

In this section, we report on the Guardians' progress against the three activities that were highlighted in our 2017–2018 Statement of Performance Expectations and which were key to our Strategic Plan for the 2017/18 year.

CLIMATE CHANGE STRATEGY

ACHIEVED: 100%

WORK PROGRAMME: Investment, Risk

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation

This project involved the continued implementation of our climate change investment strategy. See page 56 for more detail.

GENERATING PROPRIETARY DEAL FLOW

ACHIEVED: 100%

WORK PROGRAMME: Investment

STRATEGIC PLAN OBJECTIVE: Best Portfolio, External Relations

This project involved the formation of a domestic investment hub to create and facilitate domestic investment opportunities. See page 46 for more detail.

DATA MANAGEMENT

ACHIEVED: 50%

WORK PROGRAMME: Investment, Cost Control

STRATEGIC PLAN OBJECTIVE: Best Portfolio, Efficiency and Innovation

This project involved a multi-year focus on data management, comprised of three separate work streams: upgrading our central data management platform, building a single-purpose data warehouse and improving the quality of our data governance. See page 97 for more detail.

This table sets out a complete list of the Fund's asset and investment managers and custodians during the financial year.

It includes both those managers appointed by us and those who manage funds in which the Fund is invested. It identifies where new managers or custodians have been appointed or terminated over the last 12 months. It also identifies whether managers invest primarily in listed (or highly traded) or unlisted securities.

We disclose the value of the assets each manager manages on behalf of the Fund, as at 30 June 2018. We also disclose the value of each investment as a percentage of the total Fund. Our internal investment mandates are managed by the Guardians' in-house team of investment professionals.

Managers appointed since 1 July 2017	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Apollo Global Management LLC	2017	Financial Credit Investment III – US life settlements	Unlisted	165	0.4%
Palgrove	2017	Rural land in Australia	Unlisted	96	0.2%

Mandates closed since 1 July 2017	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
D.E. Shaw & Co	2012	D.E. Shaw Heliant International Fund – global macro	Listed		
Savanna Real Estate	2010	Savanna Real Estate (PIV) Fund II - private equity real estate in the major markets surrounding New York City, Washington, D.C. and Boston	Unlisted		

Incumbent managers as at 30 June 2018	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
Adams Street Partners	2007	Adams Street Partnership Fund – 2007 Non-U.S. Fund – buyout, funds of funds	Unlisted	8	0.0%
Apollo Global Management LLC	2012	Financial Credit Investment – US life settlements	Unlisted	70	0.2%
	2014	Financial Credit Investment II – US life settlements	Unlisted	218	0.6%
AQR Capital Management, LLC	2009	CNH Convertible Arbitrage Fund – a diverse convertible arbitrage fund	Listed	31	0.1%
	2016	Segregated mandate – factor investing (low volatility and value)	Listed	918	2.3%
Ascribe Capital (formerly American Securities)	2010	American Securities Opportunity Fund II – distressed credit	Unlisted	23	0.1%
Bain Capital (formerly Sankaty Advisors)	2013	Bain Capital Credit Managed Account (NZSF) LP - distressed credit	Unlisted	115	0.3%
BlackRock Investment Management UK	2010	Segregated mandate – passive global fixed income	Listed	3,152	8.0%
	2013	Segregated mandate – passive global equities	Listed	3,493	8.9%

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MANAGERS AND CUSTODIANS (CONTINUED)

Incumbent managers as at 30 June 2018	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
	2016	Global Merger Partners LLC – merger arbitrage	Listed	527	1.3%
Bridgewater Associates	2006	Bridgewater Pure Alpha Fund II, Limited – global macro	Listed	592	1.5%
Canyon Capital Advisors	2010	Canyon Distressed Opportunities Fund (Delaware) – distressed credit	Unlisted	4	0.0%
	2016	Canyon NZ DOF Investing L.P. – distressed credit	Unlisted	239	0.6%
CITP	2011	China Infrastructure Partners V Fund – Chinese infrastructure and related investments	Unlisted	122	0.3%
Coller Investment Management	2007	Coller International Partners V Fund – global private equity secondaries	Unlisted	0*	0.0%
Devon Funds Management	2011	Segregated mandate - New Zealand active equities	Listed	335	0.9%
Direct Capital	2005	Direct Capital Partners III – New Zealand expansion capital	Unlisted	0	0.0%
	2009	Direct Capital Partners IV – New Zealand expansion capital	Unlisted	13	0.0%
	2014	George H Limited co-investment	Unlisted	5	0.0%
	2016	Direct Capital Partners Fund V – New Zealand expansion capital	Unlisted	32	0.1%
Elementum Advisers	2010	Segregated mandate - Natural catastrophe reinsurance	Unlisted	76	0.2%
FarmRight	2010	Rural land in New Zealand	Unlisted	372	0.9%
Global Forest Partners	2007	Global Timber Investors 8 - timber assets in Australia, New Zealand and South America	Unlisted	111	0.3%
	2009 & 2012	AIF Properties - Australian Timber	Unlisted	118	0.3%
	2010	Global Timber Investors 9 - timber assets in New Zealand, Australia, Asia, Africa and South America	Unlisted	34	0.1%
Hancock Natural Resource Group	2005	Timber assets in the United States	Unlisted	35	0.1%
HarbourVest Partners	2006	HarbourVest International Private Equity Partnership V Fund - buyout, funds of funds	Unlisted	15	0.0%
H.R.L. Morrison & Co	2006	Global infrastructure mandate, which includes our investment in Retire Australia and Longroad	Listed and Unlisted	767	1.9%
	2009	Public Infrastructure Partners Fund - social infrastructure such as educational and healthcare facilities, and student accommodation	Unlisted	128	0.3%
Kohlberg Kravis Roberts (KKR)	2007	KKR Asia Fund - Asian private equity	Unlisted	3	0.0%
	2008	KKR 2006 Fund - global private equity	Unlisted	19	0.0%
	2014	KKR Energy Income and Growth Fund (EIGF) and private equity flexible mandate in North American natural gas exploration and production, midstream, downstream and/or energy infrastructure and services	Unlisted	154	0.4%
Leadenhall Capital Partners	2013	Natural catastrophe reinsurance	Unlisted	280	0.8%

Incumbent managers as at 30 June 2018	Year appointed	Fund name and focus areas	Type	Value of investment NZD'm	% of Total NZSF (pre-tax)
LSV Asset Management	2005	Segregated mandate - emerging markets active equities	Listed	456	1.2%
Mint Asset Management	2015	Segregated mandate - New Zealand active equities	Listed	363	0.9%
Movac	2016	Movac Fund 4 – New Zealand expansion capital	Unlisted	14	0.0%
Northern Trust Global Investments Ltd	2013	Segregated mandate - passive global equities	Listed	6,023	15.3%
	2015	Segregated mandate - passive global fixed income	Listed	953	2.4%
	2015	Segregated mandate - passive emerging markets equities	Listed	925	2.3%
	2016	Segregated mandate – factor investing (low volatility and value)	Listed	770	2.0%
Pencarrow Private Equity	2011	Pencarrow IV Investment Fund - New Zealand expansion capital	Unlisted	27	0.1%
Pioneer Capital Partners	2013	Pioneer Capital Partners Fund II - New Zealand expansion capital	Unlisted	39	0.1%
	2016	Pioneer Capital Partners Fund III – New Zealand expansion capital	Unlisted	24	0.1%
Ramius Advisors, LLC	2016	Ramius Merger Fund LLC – merger arbitrage mandate	Listed	315	0.8%
Sveafastigheter	2011	Sveafastigheter Fund III - real estate assets primarily in Sweden and Finland	Unlisted	1	0.0%
State Street Global Advisors	2009	Segregated mandate - passive global equities	Listed	7,976	20.3%
Waterman Capital	2010	Waterman Fund II - New Zealand expansion capital	Unlisted	13	0.0%
Willis Bond & Co	2010	Willis Bond Institutional Partners - private real estate in New Zealand	Unlisted	4	0.0%

* The investment in CIP V is held at cost, which is less than the net asset value reported by Coller. The cost of the investment is NZD0 because the value of the capital returned by CIP V is greater than the amount that was invested.

MANAGERS AND CUSTODIANS (CONTINUED)

Custodian	Role
CUSTODIANS DURING THE FINANCIAL YEAR	
Northern Trust	Global Master Custodian for the Fund's assets
CUSTODIANS APPOINTED FOR A SPECIFIC PURPOSE DURING THE FINANCIAL YEAR	
Wells Fargo and Bank of New York Mellon	Holding collateral associated with our investment in catastrophe-linked securities (including catastrophe bonds)
Euroclear Bank NA/SV	Holding collateral required under sale and repurchase (repo) transactions
The New Zealand Guardian Trust Company of New Zealand, the Public Trust and Foundation Corporate Trust	Trustees for holding money relevant to tax pooling arrangements
State Street Bank and Trust Company	Appointed custodian for the Fund's securities lending programme

Investment Mandates managed by the Guardians' in-house team of investment professionals include:

- Active Collateral
- Active NZ Equities
- Cash
- Currency Management
- Direct Arbitrage strategies
- Dividend Derivatives
- Direct Investment
- Emerging Market Opportunities
- Event Driven Opportunity
- Infrastructure Transition Assets
- Life Settlements
- Passive NZ Equities
- Beta Implementation and Completion
- Securities Lending
- Strategic Tilting
- US Transition Assets
- Volatility

SECTION 6/7

Financial Statements
Ngā Pūrongo Tahua

6

FINANCIAL

Invested in New Zealand and the world.

Explaining our financial statements

STEWART BROOKS
GENERAL MANAGER FINANCE AND RISK

This Annual Report includes financial statements for both the Fund and for the Guardians, the Crown entity that manages the Fund. All Guardians' costs are paid for out of the Fund, except for a small appropriation, funded by Parliament, for Board fees and expenses.

The financial statements for the Fund are among the largest and most complex for a New Zealand reporting entity. The Fund accounts have been prepared under International Financial Reporting Standards (IFRS), while the Guardians' accounts are prepared under the Public Benefit Entity (PBE) accounting standards.

In this section, we explain the key elements of the Fund's financial statements and discuss the main financial features of the 2017/18 year.

A five-year financial summary can be found at page 111. The financial statements for the Guardians are at page 179 and the financial statements for the Fund at page 115.

Other specific points of interest within the financial statements include:

- Remuneration information at page 194 (Note 3(b)). This information should be read alongside the explanation of our remuneration framework on page 90.
- As mentioned above, the Guardians' costs are recovered either from the Fund or funded by parliament, resulting in a 'zero' net profit/loss for the year.

Fund Five-Year Financial Summary

	2014 NZD'000	2015 NZD'000	2016 NZD'000	2017 NZD'000	2018 NZD'000	
Balance Sheet						
Cash and cash equivalents	3,352,901	1,355,384	2,135,442	2,167,742	1,356,550	
Investments	23,487,130	27,998,775	27,973,626	34,403,663	37,943,023	Increased investments reflects the Fund's investment performance (refer to pages 36-37)
Other assets	392,527	791,447	310,302	1,184,490	610,120	Lower levels of rebalancing activity have resulted in lower pending sales and purchases
Other liabilities	(795,446)	(603,685)	(314,880)	(2,382,830)	(540,809)	
Net Assets excluding NZ income tax	**26,437,112**	**29,541,921**	**30,104,490**	**35,373,065**	**39,368,884**	
Current NZ income tax	(409,162)	278,223	(247,016)	(504,696)	128,151	
Deferred NZ income tax	(203,242)	(278,887)	(305,613)	(364,723)	(475,301)	
Net Assets including NZ income tax	**25,824,708**	**29,541,257**	**29,551,861**	**34,503,646**	**39,021,734**	
Contributed capital	14,882,079	14,882,079	14,882,079	14,882,079	15,382,079	Crown contributions to the Fund - Suspended in 2009 and restarted in 2017
Other reserves	10,942,629	14,659,178	14,669,782	19,621,567	23,639,655	Predominantly cumulative net profit after New Zealand tax.
Total equity	**25,824,708**	**29,541,257**	**29,551,861**	**34,503,646**	**39,021,734**	
Income statement						
Investment income	731,929	723,842	708,141	756,432	828,623	Interest and dividend income, both of which vary in line with the amount invested and market returns
Investment gains and losses	3,748,874	3,219,531	(50,103)	5,566,624	3,659,785	Changes in the value of our investments – fluctuates in line with market movements.
Net Operating Income	**4,480,803**	**3,943,373**	**658,038**	**6,323,056**	**4,488,408**	
Expenses	(134,352)	(115,045)	(98,959)	(121,333)	(106,204)	Our biggest expense is external manager and performance fees. These costs vary from year to year in line with investment returns
Profit before NZ income tax	**4,346,451**	**3,828,328**	**559,079**	**6,201,723**	**4,382,204**	
Tax (expense) / credit	(1,094,556)	(122,652)	(537,798)	(1,255,031)	(350,787)	The Fund makes returns to the Crown in the form of tax payments. See pages 113-114 for further discussion
Profit after NZ income tax	**3,251,895**	**3,705,676**	**21,281**	**4,946,692**	**4,031,417**	

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Understanding the Fund's Financial Statements

BALANCE SHEET

The Fund's balance sheet (or statement of financial position) is presented as the very first section in the Fund's financial statements and shows how much the Fund is worth at a particular date. The balance sheet is a key measure for the Fund – whilst the year-on-year performance is important, central to our mission is how much we grow the size of the Fund over the longer term.

The key components of the balance sheet are:

1. Cash and cash equivalents – this includes cash used for collateral against derivative exposures and operating cash used for the day-to-day activities of the Fund;
2. Investments – this includes our holdings of equities, bonds and other financial instruments held by the Fund;
3. Other assets and liabilities – predominantly amounts due/owed for the settlement of recent transactions; and
4. Tax – New Zealand tax amounts owed by the Fund.

As at 30 June 2018 the Fund's balance sheet totalled NZD39.0b, made up of NZD15.4b contributed by the Crown with a further NZD23.6b added (after tax) by the Guardians from investing those contributions. In addition, the Fund has also paid NZD6.4b to the Crown via tax payments since investing began.

Fair value of assets and liabilities

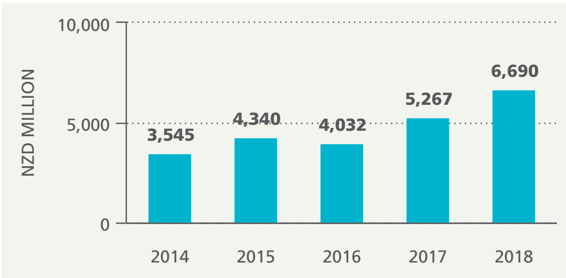
The majority of the assets and liabilities of the Fund are measured at 'fair value'. The fair value of an asset is essentially the value that someone would be happy to pay and we would be happy to accept.

Assets for which observable market data is available (e.g. listed equities, quoted on a stock exchange) are relatively simple to value. For assets where no observable market data is available (e.g. private companies), valuation can be significantly more complex and often subjective, requiring judgement by management and the Board, and reviewed by our external auditors.

Inputs into the valuation of the latter may include independent valuations, recent transactions, recovery value and current market trends.

The Fund's investment in assets of this type has increased over the last few years as below:

VALUE OF INVESTMENTS WITH NO OBSERVABLE MARKET DATA



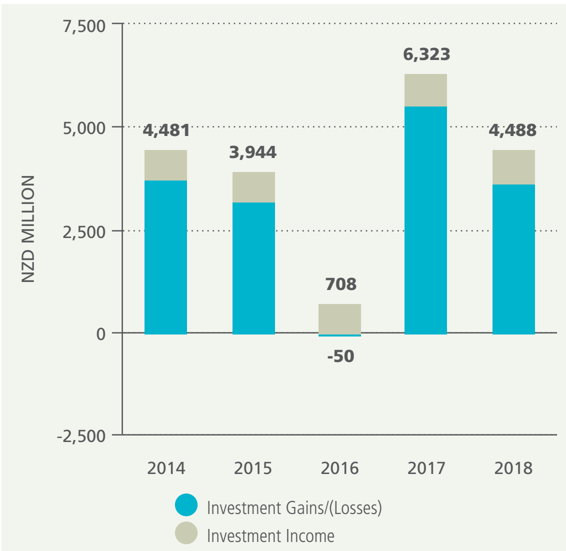
Further information on the techniques for valuing assets and the fair value 'hierarchy' have been outlined on page 130 (Note 2(a)).

INCOME STATEMENT

Net operating income is the annual income generated by the Fund before expenses have been deducted. There are two key components to net operating income:

1. Investment income – primarily the income from interest and dividends; and
2. Investment gains and losses – changes in the value of the Fund's investments, along with the impact of changes in the value of the New Zealand dollar on investments held in other currencies.

NET OPERATING INCOME



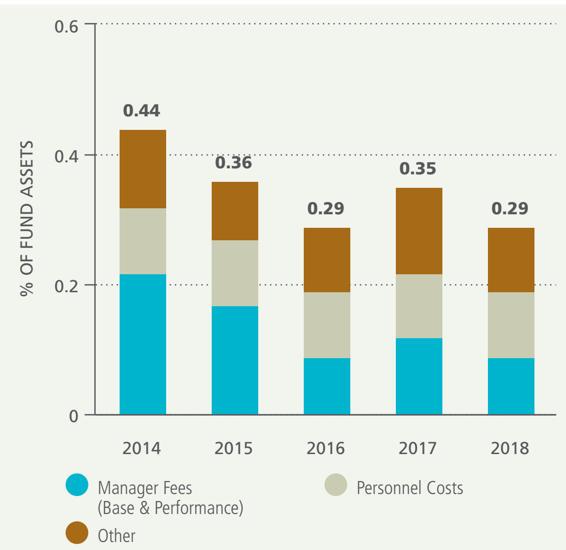
In 2018, the Fund's net operating income was NZD4,488m. Investment income (interest and dividends) increased slightly although remained broadly in line with prior years. The level of investment income received from year to year will vary depending on the mix of equities and fixed income in the portfolio and our mix of physical and derivative exposures. Mark-to-market gains on the value of the Fund's investments reduced from the previous year due to smaller market movements in the 2017/18 year. See the Investment Report on page 36 for more information.

Expenses

The net expected return of an investment (return after taking account of all expenses) is central to all our investment decisions. We therefore seek to:

- choose cost-effective access points for all investment opportunities;
- ensure that any fees paid to external managers are in line with market standards, manager value-add and the complexity of the investment;
- include the cost of due diligence in our assessment of whether an investment opportunity is worth pursuing, relative to the potential risk-adjusted expected return; and
- benchmark our costs against those of our peers through the annual CEM Cost-Effectiveness survey (as noted on page 102).

COST OF MANAGING THE FUND AS A PERCENTAGE OF NET ASSETS



In 2018, the cost of managing the Fund's investments was NZD106.2m (excluding farm and timber operating costs). As a percentage of net assets, total costs were 0.29%. The key components were:

- External Manager Fees of NZD34.8m. These fees can vary considerably year-on-year due to performance fees, which are only earned by a small number of external managers if they outperform specified benchmarks. This year base manager fees remained flat (0.07%) while performance fees decreased to 0.02%;
- Guardians personnel costs of NZD35.0m, which remained steady as a proportion of net assets; and
- Other costs of NZD36.4m including (in order of significance) trading fees paid on investment activity, custodian fees, IT costs and other professional fees paid to external parties.

In terms of reporting costs in our financial statements, the legal structure through which we invest and the way in which we incur costs can have a significant impact. Where the Fund incurs costs directly for example external manager fees billed directly, these are separately reported as part of the Fund's expenses. Indirect costs that are incurred by investment vehicles in which the Fund holds an interest, for example manager performance fees incurred within managed fund structures, are however netted off against returns within 'Investment gains and losses'.

Indirect investment management costs, specifically manager and performance fees, for 2018 were NZD25.9m and NZD 34.0m respectively.

This additional cost disclosure is based on unaudited information and derived from a variety of sources such as: reporting provided by investment managers, additional enquiries of managers, and our own estimates.

It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

The impact of costs on the Fund's performance remains a key consideration when assessing new and existing mandates and the allocation of funds to those mandates.

Income Tax

The Fund pays income tax in New Zealand to the New Zealand Government and is also subject to foreign tax depending on the source of its offshore income. Since inception, the Fund has paid NZD6.4b in tax to the New Zealand Government. We include New Zealand tax paid in measurements of the Fund's performance because it is a return to the Crown.

The Fund is one of the largest taxpayers in New Zealand, and its income tax expenses can be highly volatile. This is largely driven by the New Zealand tax rules for physical equity investments. Generally only dividends in relation to physical New Zealand equity investments are subject to tax. Gains on these investments are not subject to any further tax, and any losses are not tax deductible. New Zealand tax on foreign equities (excluding most listed Australian equity investments) is calculated notionally under New Zealand's 'Fair Dividend Rate' regime. A 'deemed dividend' of 5% per annum of the market value of the foreign equity investment is taxable while actual dividends received are not subject to tax.

Tax is paid on actual dividends received from New Zealand and most listed Australian equity investments.

Income or losses arising from the Fund's other investments, e.g., equity derivatives, foreign exchange hedging, bonds and cash deposits, are generally subject to 28% New Zealand corporate tax.

In simple terms, this means that in any given year, if our return on global equities exceeds 5%, then our tax rate will be lower than 28%, and if our returns are less than 5%, then our tax rate will be higher than 28%. The 2016 and 2018 financial years illustrate both of these outcomes.

The graph below illustrates the tax volatility the Fund has experienced over the past five years.

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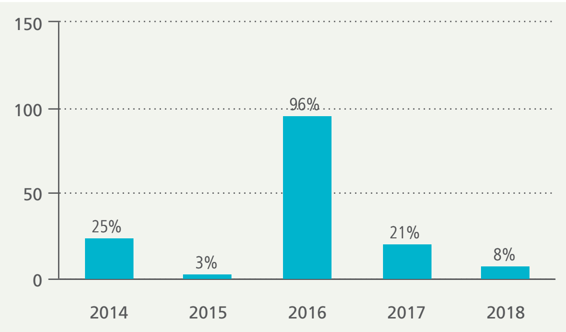
FINANCIAL REPORT (CONTINUED)

FUND TAX EXPENSE AS A PERCENTAGE OF NET INCOME



In 2017/18, the Fund had an effective tax rate of 8% compared with 21% in 2016/17.

TAX GOVERNANCE

The Fund's co-operative compliance agreement with the New Zealand Inland Revenue Department was extended during the period until 30 June 2019.

The Fund has made two submissions to the Tax Working Group, the first regarding the tax regimes applicable to the Fund and the second regarding nationally significant infrastructure. Both are available on our website www.nzsuperfund.nz/publications/submissions.

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2018

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements of the New Zealand Superannuation Fund and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the New Zealand Superannuation Fund.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements for the year ended 30 June 2018 fairly reflect the financial position, operations and cash flows of the New Zealand Superannuation Fund.

CATHERINE SAVAGE

CHAIR
27 September 2018

MATTHEW WHINERAY

CHIEF EXECUTIVE OFFICER
27 September 2018

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2018	2017	2018
		NZD'000	NZD'000	NZD'000
ASSETS				
Cash and cash equivalents	2(a), 4(a), 4(b)	1,238,880	2,744,837	2,020,238
Cash pledged as collateral	2(a), 4(a), 4(c)	1,062,296	288,540	546,358
Trade and other receivables	2(a), 4(a), 4(d)	591,526	1,169,311	1,008,169
Investments				
Investments - derivative financial instrument assets	2(a), 4(a), 4(e)	405,834	1,327,336	-
Investments - other financial assets	2(a), 4(a), 4(e)	36,484,802	31,821,965	32,614,919
Other financial assets pledged as collateral	2(a), 4(a), 4(e)	-	55,456	52,580
Investments in unconsolidated subsidiaries	2(a), 4(a), 4(e)	2,506,891	1,531,424	1,399,579
Total investments		39,397,527	34,736,181	34,067,078
Income tax receivable	2(a)	128,151	-	-
Property, plant and equipment	2(a), 5(a)	1,895	2,018	1,638
Intangible assets	2(a)	16,699	13,161	13,379
Total assets		**42,436,974**	**38,954,048**	**37,656,860**
LIABILITIES				
Cash collateral received	2(a), 4(a), 4(c)	944,626	865,635	1,263,841
Trade and other payables	2(a), 4(a), 4(g)	540,809	2,367,188	520,316
Investments - derivative financial instrument liabilities	2(a), 4(a), 4(e)	1,454,504	332,518	-
Income tax payable	2(a)	-	504,696	141,590
Provision for performance-based fees	2(a), 5(b)	-	15,642	13,216
Deferred tax liability	2(a), 7(e)	475,301	364,723	352,961
Total liabilities		**3,415,240**	**4,450,402**	**2,291,924**
Net assets		**39,021,734**	**34,503,646**	**35,364,936**
PUBLIC EQUITY				
Retained surplus		23,628,911	19,597,494	20,452,205
Available-for-sale reserve	6(b)	-	16,285	22,223
Asset revaluation reserve	6(b)	10,744	7,788	8,429
Contributed capital	6(a)	15,382,079	14,882,079	14,882,079
Total public equity		**39,021,734**	**34,503,646**	**35,364,936**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2018	2017	2018
		NZD'000	NZD'000	NZD'000
Net operating income	7(a)	4,488,408	6,323,056	3,123,947
Operating expenditure	7(c)	106,204	121,333	135,816
Profit for the year before income tax expense		**4,382,204**	**6,201,723**	**2,988,131**
Income tax expense	7(e)	350,787	1,255,031	719,370
Profit for the year after income tax expense		**4,031,417**	**4,946,692**	**2,268,761**
Other comprehensive income - reclassifiable to profit or loss in subsequent periods				
Net fair value gains/(losses) on available-for-sale financial assets		(16,285)	3,660	6,256
Other comprehensive income - not reclassifiable to profit or loss in subsequent periods				
Gains/(losses) on revaluation of assets		2,956	(661)	-
Tax expense on items of other comprehensive income	7(e)	-	2,094	-
Other comprehensive income for the year, net of tax		**(13,329)**	**5,093**	**6,256**
Total comprehensive income for the year		**4,018,088**	**4,951,785**	**2,275,017**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2018		FUND ACTUAL				
	NOTE	ASSET REVALUATION RESERVE NZD'000	AVAILABLE-FOR-SALE RESERVE NZD'000	CONTRIBUTED CAPITAL NZD'000	RETAINED SURPLUS NZD'000	TOTAL NZD'000
Balance at 1 July 2016		**22,403**	**16,305**	**14,882,079**	**14,631,074**	**29,551,861**
Profit for the year					4,946,692	4,946,692
Other comprehensive income		(661)	3,660			2,999
Tax expense on items of other comprehensive income		2,094	-			2,094
Transfer between reserves	9(a)	(16,048)	(3,680)		19,728	-
Total comprehensive income for the year		(14,615)	(20)	-	4,966,420	4,951,785
Fund capital contributions from the Crown	6(a)			-		-
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			13,043,000		13,043,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(13,043,000)		(13,043,000)
Balance at 30 June 2017		**7,788**	**16,285**	**14,882,079**	**19,597,494**	**34,503,646**
Profit for the year					4,031,417	4,031,417
Other comprehensive income		2,956	(16,285)			(13,329)
Tax expense on items of other comprehensive income		-	-			-
Transfer between reserves	9(a)	-	-		-	-
Total comprehensive income for the year		2,956	(16,285)	-	4,031,417	4,018,088
Fund capital contributions from the Crown	6(a)			500,000		500,000
Capital contributions from the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			13,699,000		13,699,000
Capital withdrawals by the Crown in respect of funding the net cost of New Zealand superannuation entitlements	6(a)			(13,699,000)		(13,699,000)
Balance at 30 June 2018		**10,744**	**-**	**15,382,079**	**23,628,911**	**39,021,734**

The attached notes form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2018	NOTE	FUND ACTUAL		BUDGET (UNAUDITED)
		2018	2017	2018
		NZD'000	NZD'000	NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of investments		14,101,294	18,267,474	30,786,998
Cash collateral received		9,660,284	9,986,412	-
Dividends received		544,955	445,579	524,993
Interest received		274,779	285,966	240,524
Income tax received		-	-	-
Other income		-	8,500	-
Total cash inflow from operating activities		**24,581,312**	**28,993,931**	**31,552,515**
Cash was applied to:				
Purchases of investments		(15,399,254)	(17,632,534)	(30,112,857)
Cash collateral paid		(10,355,049)	(9,864,620)	-
Managers' fees		(39,798)	(45,338)	(42,976)
Payments to suppliers		(65,884)	(61,962)	(110,003)
Income tax paid		(873,056)	(936,147)	(975,544)
Goods and Services Tax		(4,125)	(2,794)	-
Total cash outflow from operating activities		**(26,737,166)**	**(28,543,395)**	**(31,241,380)**
Net cash provided by/(used in) operating activities	7(f)	**(2,155,854)**	**450,536**	**311,135**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		16	-	-
Proceeds from sale of intangible assets		-	144	-
Total cash inflow from investing activities		**16**	**144**	**-**
Cash was applied to:				
Purchases of property, plant and equipment		(875)	(1,069)	(283)
Purchases of intangible assets		(660)	(60)	-
Total cash outflow from investing activities		**(1,535)**	**(1,129)**	**(283)**
Net cash provided by/(used in) investing activities		**(1,519)**	**(985)**	**(283)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from:				
Fund capital contributions from the Crown		500,000	-	-
Net cash provided by/(used in) financing activities		**500,000**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(1,657,373)**	**449,551**	**310,852**
Cash and cash equivalents at the beginning of the financial year		2,744,837	2,237,847	1,709,386
Effects of exchange rate changes on the balance of cash held in foreign currencies		151,416	57,439	-
Cash and cash equivalents at the end of the financial year	2(a), 4(a), 4(b)	**1,238,880**	**2,744,837**	**2,020,238**

The attached notes form part of, and should be read in conjunction with, these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2018

SECTION 1: GENERAL INFORMATION AND BASIS FOR PRESENTATION

(a) General information

These are the financial statements of the New Zealand Superannuation Fund (Fund), a fund established under Section 37 of the New Zealand Superannuation and Retirement Income Act 2001 (Act) on 11 October 2001.

The Fund is a long-term, growth-oriented, sovereign wealth fund that was established to help reduce the tax burden on future taxpayers of the rising cost of New Zealand superannuation. The Fund is managed and administered by the Guardians of New Zealand Superannuation (Guardians). The Guardians was established as a Crown entity by Section 48 of the Act and became operative from 30 August 2002. The Guardians is expected to invest the Fund in a commercial, prudent manner consistent with:

- best-practice portfolio management;
- maximising return without undue risk to the Fund as a whole; and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The Fund's global master custodian is the Northern Trust Corporation.

The Fund is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 213.

The financial statements of the Fund for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 27 September 2018.

(b) Basis of preparation

The Fund is a profit-oriented entity. The financial statements of the Fund have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other authoritative pronouncements of the External Reporting Board, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on a fair value basis, except for certain items as detailed in the notes to the financial statements.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

The Fund meets the definition of an investment entity and has applied the exemption from preparing consolidated financial statements available under NZ IFRS 10 Consolidated Financial Statements. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss in the Statement of Financial Position. These separate financial statements are the only financial statements presented by the Fund.

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2018. The budget figures are unaudited.

(c) Significant judgements and estimates

The preparation of the Fund's financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of income, expenditure, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used in respect of the Fund are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Fund and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Assessment as an investment entity (Note 1(d));
- Assessment of control, joint control or significant influence (Notes 1(e) - (g));
- Assessment of investments in structured entities (Note 1(h)); and
- Determination of fair value (Note 2(b)).

(d) Investment entity

The Fund meets the definition of an investment entity as the following conditions exist:

- The Fund obtains and manages funds for the purpose of providing its investor with investment management services;
- The Fund has committed to its investor that its business purpose is to invest funds solely for returns from capital appreciation and investment income;
- The Fund measures and evaluates the performance of substantially all of its investments on a fair value basis;
- The Fund has more than one investment; and
- The Fund has documented exit strategies for its investments.

Although the Fund does not meet all of the typical characteristics of an investment entity (namely, the Fund does not have multiple investors, its investor is a related party and it does not have ownership interests in the form of equity), the Board and management believe the Fund is an investment entity because it has been specifically established as an investment vehicle, it has a diversified investment portfolio with best practice investment policies and procedures in place, it invests funds for the purpose of maximising returns and it has elected to fair value the majority of its investments where feasible for the purposes of its financial statements.

Key judgement - assessment as an investment entity

The Board and management reassess the Fund's investment entity status on an annual basis, if any of the criteria or characteristics change.

(e) Subsidiaries

Subsidiaries are those entities (including structured entities and other holding vehicles) that are controlled by the Fund under the provisions of NZ IFRS 10 Consolidated Financial Statements. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The Board and management reassess whether or not the Fund controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

Under Section 59 of the New Zealand Superannuation and Retirement Income Act 2001 (Act), the Guardians must use their best endeavours to ensure the Fund does not control any other entity.

On 23 October 2015, Section 59 of the Act was amended to specifically exclude Fund Investment Vehicles (FIVs). A FIV is defined as an entity that is formed or controlled by the Guardians for the purpose of holding, facilitating or managing the investments of the Fund. A FIV that is controlled by the Guardians is a subsidiary of the Fund for accounting purposes.

All investment opportunities are diligently evaluated to ensure compliance with all relevant laws.

As above, the Board and management have applied the exemption available under NZ IFRS 10 from preparing consolidated financial statements for the Fund. As a result, its investments in subsidiaries are not consolidated, but are measured at fair value through profit or loss and are classified as ‘unconsolidated subsidiaries’ in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 1: GENERAL INFORMATION AND BASIS FOR PRESENTATION (CONTINUED)

The Fund has interests in the following unconsolidated subsidiaries:

NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2018 %	2017 %
Bain Capital Credit Managed Account (NZSF) Limited Partnership	(i)	31 March	Cayman Islands	99.9	99.9
BCC Managed Account (NZSF) Holdings Limited Partnership	(i)	31 March	Cayman Islands	99.9	0.0
Canyon NZ-DOF Investing Limited Partnership	(ii)	30 June	Delaware, US	100.0	100.0
Global Merger Partners LLC	(ii)	31 December	Delaware, US	97.8	98.1
Global Merger Partners Master Limited	(ii)	31 December	Cayman Islands	88.1	98.1
KKR NZSF Energy Investor Limited Partnership	(i)	31 December	Cayman Islands	100.0	100.0
NZSF Australian Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	0.0
NZSF Australian Rural Holdings Trust	(iii)	30 June	Australia	100.0	0.0
NZSF Canterbury Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Frontier Investments, Inc.	(ii)	30 June	Delaware, US	100.0	0.0
NZSF Hobsonville Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Horticulture Investments Limited	(ii)	30 June	New Zealand	100.0	0.0
NZSF Land Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Holdings Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Rural Land Limited	(ii)	30 June	New Zealand	100.0	0.0
NZSF Side Car (Movac) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Side Car (Pioneer) Limited Partnership	(ii)	31 March	New Zealand	100.0	100.0
NZSF Southland Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF Tui Investments Limited	(ii)	30 June	New Zealand	100.0	100.0
NZSF US Renewables, Inc.	(ii)	31 December	Delaware, US	100.0	100.0
NZSF Variable Co-Investment (Direct Capital) Limited Partnership	(ii)	31 December	New Zealand	100.0	100.0
NZSF Waikato Farms Limited	(ii)	30 June	New Zealand	100.0	100.0
Palgrove Holdings Pty Limited	(ii)	30 June	Australia	80.6	0.0
Palgrove Land Holdings Trust	(iii)	30 June	Australia	90.1	0.0
Palgrove Pastoral Co. Pty Limited	(ii)	30 June	Australia	80.6	0.0

In addition, the Fund has 100% ownership interest in 1 Segregated Account of Bermudan-domiciled Segregated Account Company Horseshoe Re Limited (2017: 1 Segregated Account) and 100% ownership interest in 15 Segregated Accounts of Bermudan-domiciled Segregated Account Company Horseshoe Re II Limited (2017: 10 Segregated Accounts) (refer Note 1(e)(iv) for further disclosures on these Segregated Accounts). All Segregated Accounts have a balance date of 31 December.

(i) Cayman Islands limited partnerships are treated as unconsolidated subsidiaries of the Fund for accounting purposes. They are not entities under Section 59 of the Act and accordingly the interests held in these partnerships do not constitute a breach of that section.

During the year the Fund established BCC Managed Account (NZSF) Holdings Limited Partnership as a holding entity to acquire, hold and sell investments in accordance with the investment mandate and guidelines of Bain Capital Managed Account (NZSF) Limited Partnership.

(ii) These entities are Fund Investment Vehicles (FIVs) established for the purpose of holding, facilitating and managing investments of the Fund.

During the year the Fund established the following FIVs:

NZSF Australian Rural Holdings Limited was incorporated in New Zealand on 7 July 2017 for the purpose of holding, facilitating and managing the Fund's investment in certain farming and other rural assets in Australia, including units in the NZSF Australian Rural Holdings Trust and shares in Palgrove Holdings Pty Limited. Palgrove Holdings Pty Limited and its subsidiary Palgrove Pastoral Co. Pty Limited are FIVs registered in Australia for the purpose of acquiring, holding, facilitating and managing the Fund's investment in certain livestock and farming operations in Queensland and New South Wales.

NZSF Frontier Investments, Inc was incorporated on 27 April 2018 for the purpose of holding, facilitating and managing the Fund's investment in Rubicon Global Holdings, LLC, a US-based waste and recycling technology company.

NZSF Horticulture Investments Limited was incorporated on 3 May 2018 for the purpose of holding, facilitating and managing the Fund's investment in Gourmet International Holdings Limited, a New Zealand-based producer and seller of fruit and vegetables.

NZSF Rural Land Limited was incorporated on 20 March 2018 for the purpose of holding, facilitating and managing the Fund's investment in certain rural assets in New Zealand, including vineyards.

(iii) NZSF Australian Rural Holdings Trust is an Australian Managed Investment Trust established on 28 July 2017 for the purpose of acquiring and holding units in the Palgrove Land Holdings Trust, a unit trust established for the purpose of acquiring and holding the land assets in Queensland and New South Wales that are leased to Palgrove Pastoral Co. Pty Limited in carrying out its beef stud business.

(iv) Horseshoe Re Limited and Horseshoe Re II Limited, acting for, and for the benefit of, the Segregated Accounts, enter into agreements relating to the Fund's investments in insurance-linked products. These companies are domiciled in Bermuda as Bermuda is a large, well regulated centre for reinsurance business. As a matter of Bermudan law, a Segregated Account is not a 'legal person' and has no existence separate from the Segregated Account company. In addition, the Fund does not control the Segregated Account company. Therefore, even though the Segregated Accounts are treated as unconsolidated subsidiaries for accounting purposes, they are not entities under Section 59 of the Act and accordingly the interests held do not constitute a breach of that section.

As at 30 June 2018, there are no significant restrictions on the ability of unconsolidated subsidiaries to transfer funds, including dividends, to the Fund.

Further disclosures on unconsolidated subsidiaries are contained in Note 9(a).

Key judgement - assessment of control

The Board and management have assessed the Fund's investments in subsidiaries in light of the control model established under NZ IFRS 10 Consolidated Financial Statements to ensure the correct classification and disclosure of investments in subsidiaries. The Fund holds investments in a number of entities that are not considered subsidiaries even though its ownership interest exceeds 50%. The Board and management have concluded that the Fund has no unilateral power to direct the relevant activities of these entities and therefore it does not have control of these entities.

(f) Associates

Associates are those entities over which the Fund has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity, but is not control or joint control over those policies.

The Fund has interests in the following associates that are measured at fair value through profit or loss and classified in the Statement of Financial Position as noted below:

			OWNERSHIP INTEREST	
NAME	BALANCE DATE	COUNTRY OF INCORPORATION	2018 %	2017 %
Fidelity Life Assurance Company Limited	30 June	New Zealand	41.1	0.0
Kaingaroa Timberlands Partnership	30 June	New Zealand	42.0	42.0
Kiwi Group Holdings Limited	30 June	New Zealand	25.0	25.0

SECTION 1: GENERAL INFORMATION AND BASIS FOR PRESENTATION (CONTINUED)

On 5 January 2018, the Fund acquired a 41.1% interest in Fidelity Life Assurance Company Limited. Fidelity Life Assurance Company Limited is a New Zealand-owned specialist life insurance provider for individuals, businesses and employers. The Fund's interest in Fidelity Life Assurance Company Limited is classified under private equity in the Statement of Financial Position.

Kaingaroa Timberlands Partnership is a major North Island forestry business. It is valued in United States dollars and translated into New Zealand dollars for financial reporting purposes. Additionally, the Fund holds interest-bearing loans and an interest free loan with associated companies of Kaingaroa Timberlands Partnership. The Fund's interest in Kaingaroa is classified under private equity in the Statement of Financial Position and the loans are classified under fixed income securities.

NZSF Tui Investments Limited, an unconsolidated subsidiary of the Fund, holds a 25% interest in Kiwi Group Holdings Limited. Kiwi Group Holdings Limited is the sole shareholder of Kiwibank, a registered New Zealand bank, whose principal activity is the provision of retail and banking products and services to individuals and small to medium-sized businesses. The Fund's interest in NZSF Tui Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

As at 30 June 2018, there are no significant restrictions on the ability of any associate to transfer funds, including dividends, to the Fund.

Key judgement - assessment of significant influence

The Board and management have assessed the Fund's investments in associates in light of the definition of significant influence included in NZ IAS 28 Investments in Associates and Joint Ventures. The Fund holds investments in a number of entities that are not considered associates even though its ownership interest exceeds 20%. The Board and management have concluded that the Fund has no power to participate in the financial and operating policy decisions of these entities and therefore it does not have significant influence over these entities.

(g) Joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Fund has interests in the following joint ventures that are measured at fair value through profit or loss and classified as private equity in the Statement of Financial Position:

NAME	BALANCE DATE	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2018 %	OWNERSHIP INTEREST 2017 %
Datacom Group Limited	31 March	New Zealand	39.3	38.8
Gourmet International Holdings Limited	30 June	New Zealand	27.1	-
Hobsonville Development GP Limited	31 March	New Zealand	49.0	49.0
Hobsonville Development Limited Partnership	31 March	New Zealand	49.0	49.0
Longroad Energy Holdings, LLC	31 December	Delaware, US	45.0	45.0
New Ground Living (Hobsonville Point) Limited	31 March	New Zealand	45.0	45.0
Palgrove Management Pty Limited	30 June	Australia	50.0	-
RA (Holdings) 2014 Pty Limited	31 March	Australia	50.0	50.0

Datacom Group Limited is an information technology services company with operations in New Zealand, Australia and the Asia Pacific. The Fund's interest in Datacom Group Limited is classified under private equity in the Statement of Financial Position.

NZSF Horticulture Investments Limited, an unconsolidated subsidiary of the Fund, has a 27.1% interest in Gourmet International Holdings Limited, a company which produces and markets fruit and vegetables, with operations in New Zealand, Australia and North and South America. The Fund's interest in NZSF Horticulture Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Hobsonville Investments Limited, an unconsolidated subsidiary of the Fund, holds a 49% interest in Hobsonville Development Limited Partnership, a partnership established for the purpose of developing, then selling property at Hobsonville Point in Auckland, and 49% in its management company, Hobsonville Development GP Limited. The Fund's interest in NZSF Hobsonville Investments Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF Land Holdings Limited, an unconsolidated subsidiary of the Fund, holds a 45% interest in New Ground Living (Hobsonville Point) Limited, a company established for the purpose of developing, then renting property at Hobsonville Point in Auckland. The Fund's interest in NZSF Land Holdings Limited is classified under unconsolidated subsidiaries in the Statement of Financial Position.

NZSF US Renewables Inc., an unconsolidated subsidiary of the Fund, holds a 45% interest in Longroad Energy Holdings, LLC. Longroad Energy Holdings, LLC is a Delaware limited liability company formed for the purpose of developing utility-scale renewable energy facilities throughout North America.

NZSF Australian Rural Holdings Limited, an unconsolidated subsidiary of the Fund, has a 50% interest in Palgrove Management Pty Limited, a company established during the year for the purpose of acting as the employing entity and providing management services to Palgrove Pastoral Co. Pty Limited and Palgrove Land Holdings Trust.

RA (Holdings) 2014 Pty Limited is the holding company for the Fund's investment in RetireAustralia, a leading Australian retirement village operator. The Fund's interest in RA (Holdings) 2014 Pty Limited is classified under private equity in the Statement of Financial Position.

As at 30 June 2018, there are no restrictions on the ability of any joint venture to transfer funds, including dividends, to the Fund.

Key judgement - assessment of joint control

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Fund's joint arrangements are classified as joint ventures because certain key operating and financial activities require the approval of the Fund as well as at least one other investor and the contractual arrangements provide the parties with rights to the net assets of the joint arrangements.

SECTION 1: GENERAL INFORMATION AND BASIS FOR PRESENTATION (CONTINUED)

(h) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

The Fund is principally involved with structured entities through investments in private equity investment funds, unconsolidated subsidiaries, collective investment funds, insurance-linked investments, shareholder loans, agency mortgage-backed securities and asset-backed securities that are issued by structured entities. The Fund invests in structured entities to assist with the implementation of its overall investment strategy. The Fund does not sponsor any structured entities.

Structured entities have the following business activities:

PRIVATE EQUITY INVESTMENT FUNDS AND UNCONSOLIDATED SUBSIDIARIES

Private equity investment funds and unconsolidated subsidiaries provide a mechanism to share exposure with other investors and may take various legal forms (e.g. limited liability companies, limited partnerships, trusts). The Fund makes commitments to, and investments in, these legal structures and in return is issued with rights to a proportional stake in their net assets. They have a broad range of investment objectives and are managed by unrelated asset managers who apply various investment strategies to accomplish their respective investment objectives.

COLLECTIVE INVESTMENT FUNDS

Collective investment funds finance their operations by way of subscription, in which case, the Fund subscribes and is issued with redeemable shares that entitle it to a proportional stake in the net assets of the investment.

INSURANCE-LINKED INVESTMENTS

The Fund invests in catastrophe bonds which are issued by structured entities. Each bond is linked to an insurance event such as a natural disaster. The bonds transfer particular risks from the insurer to the bond holder.

SHAREHOLDER LOANS

The Fund may make investments in private equity investment funds, or other private equity investments via shareholder loans. The borrower in the arrangement may be a structured entity. Shareholder loans are classified as fixed income securities in the Statement of Financial Position.

AGENCY MORTGAGE-BACKED SECURITIES

Agency mortgage-backed securities are pass-through securities issued by the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), both US-government sponsored enterprises, and the Government National Mortgage Association (Ginnie Mae), a US-government corporation. These securities are traded in the TBA (To Be Announced) market and are mortgage-backed forward, or 'delayed delivery' securities. The securities have standardised 15-year or 30-year maturity dates, however, whilst the terms of the security are agreed up front, the specific mortgages to be delivered to fulfil the security obligation are only allocated just prior to settlement. Agency mortgage-backed securities are classified as fixed income securities in the Statement of Financial Position.

ASSET-BACKED SECURITIES

The Fund invests in a variety of asset-backed securities, the majority of which have been senior tranches of debt issued by a structured entity. The debt is usually collateralised by an underlying pool of assets. The asset-backed securities take the form of mortgage-backed securities (collateralised by both commercial and residential mortgages), asset-backed securities (collateralised by consumer loans, small business loans and auto loans), collateralised debt obligations (CDO) and collateralised loan obligations (CLO). Asset-backed securities are classified as fixed income securities in the Statement of Financial Position.

Key judgement - assessment of investments in structured entities

The Board and management have assessed which of the Fund's investments are investments in structured entities. In doing so, the Board and management have considered voting rights and other similar rights afforded to investors as well as any contractual arrangements in place with these investments.

The Board and management have concluded that certain of the Fund's investments meet the definition of a structured entity because:

- the voting rights in the investments are not the dominant factor in deciding who controls the investment; and
- the investments have narrow and well-defined objectives to provide investment opportunities to investors.

Further disclosures on structured entities are contained in Notes 3(e) and 7(b).

(i) Other significant accounting policies

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Statement of Comprehensive Income.

GOODS AND SERVICES TAX (GST)

Income, expenditure, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expenditure.

STATEMENT OF CASH FLOWS

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

Operating activities include all activities other than investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets.

Financing activities are those activities relating to capital contributions and to payments of superannuation entitlements. As the current funding by the Crown of superannuation entitlements flows directly from the Treasury to the Ministry of Social Development, it is not considered cash flow of the Fund and accordingly, is not recorded in the Statement of Cash Flows.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(j) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation. These reclassifications have no impact on the overall financial performance or financial position of the Fund for the comparable year.

SECTION 1: GENERAL INFORMATION AND BASIS FOR PRESENTATION (CONTINUED)

(k) Standards issued but not yet effective

The following standards and interpretations that have been issued or amended but are not yet effective, have not been adopted for the year ended 30 June 2018.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
NZ IFRS 9 (2014)	Financial Instruments	The final version of NZ IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the International Accounting Standards Board's project. The standard will replace NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. An entity may elect to apply earlier versions of NZ IFRS 9 if, and only if, the entity's relevant date of initial application is before 1 February 2015. Otherwise, early application is only permitted if the complete version of NZ IFRS 9 is adopted in its entirety for reporting periods beginning after 4 September 2014. The transition to NZ IFRS 9 differs by requirements and is partly retrospective and partly prospective. Despite the requirement to apply NZ IFRS 9 in its entirety, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements in the standard. An entity that elects to do so is required to disclose that fact and provide the related disclosures set out in paragraphs 10-11 of NZ IFRS 7 Financial Instruments: Disclosures.	1 January 2018	The new standard will affect the classification of some financial assets but it will not have a material impact on the measurement of financial assets in the Fund's financial statements as the majority of financial assets will continue to be measured at fair value through profit or loss, including assets currently classified as available-for-sale that are measured at fair value. The new impairment model under NZ IFRS 9 requires the recognition of impairment provisions based on expected credit losses rather than incurred credit losses as is the case under NZ IAS 39. It will only apply to financial assets classified as amortised cost and therefore, it will not have a material impact on the Fund's financial statements. The new standard also introduces expanded disclosure requirements and changes in presentation. These changes are expected to change the nature and extent of the Fund's disclosures about its financial instruments particularly in the first year of adoption.	1 July 2018
NZ IFRS 15	Revenue from Contracts with Customers	NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes: (a) NZ IAS 11 Construction Contracts (b) NZ IAS 18 Revenue (c) NZ IFRIC 13 Customer Loyalty Programmes (d) NZ IFRIC 15 Agreements for the Construction of Real Estate (e) NZ IFRIC 18 Transfers of Assets from Customers (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises	1 January 2018	The new standard will not have a material impact on the Fund's financial statements.	1 July 2018

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR FUND*
		revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.			
NZ IFRS 16	Leases	NZ IFRS 16 is the new standard on the recognition, measurement, presentation and disclosure of leases. This standard will replace: (a) NZ IAS 17 Leases (b) NZ IFRIC 4 Determining whether an Arrangement contains a Lease (c) NZ SIC - 15 Operating Leases - Incentives (d) NZ SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. NZ IFRS 16 requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under NZ IAS 17. Lessees recognise a liability to pay rentals with a corresponding asset and recognise interest expense and depreciation separately. Reassessment of certain key considerations (e.g. lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events. Lessor accounting is substantially the same as today's lessor accounting, using NZ IAS 17's dual classification approach. Application of NZ IFRS 16 is required for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies NZ IFRS 15.	1 January 2019	The new standard will not have a material impact on the Fund's financial statements.	1 July 2019

* Designates the beginning of the applicable annual reporting period.

SECTION 2: FAIR VALUE

(a) Fair value measurement

Accounting Policy

The majority of the assets and liabilities of the Fund are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Management uses valuation techniques for the Fund that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within a fair value hierarchy as follows:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities. An active market is one where prices are readily available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of Level 1 assets and liabilities requires little or no judgement.

Level 2 - Valuation techniques that use observable market data. Such techniques include the use of market standard discounting methodologies, option pricing models and other valuation techniques widely used and accepted by market participants.

Level 3 - Valuation techniques that use inputs not based on observable market data. Unobservable inputs are those not readily available in an active market due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historic transactions. These valuations are calculated using a high degree of management judgement.

The level within which an asset or liability is categorised in the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement as a whole.

The fair value of the Fund's assets and liabilities are categorised as follows:

2018	NOTE	FUND ACTUAL QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	1,238,880	1,238,880
Cash pledged as collateral	4(a), 4(c)				-	1,062,296	1,062,296
Trade and other receivables	4(a), 4(d)				-	591,526	591,526
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		194,332		194,332		194,332
Cross currency swaps	4(e)		3,244		3,244		3,244
Asset swaps	4(e)				-		-
Longevity contingent swaps	4(e)			75,022	75,022		75,022
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		14,796		14,796		14,796
Credit default swaps	4(e)		51,973		51,973		51,973
Interest rate swaps	4(e)		66,467		66,467		66,467
Other over-the-counter swaps	4(e)				-		-
Warrants	4(e)				-		-
Total derivative financial instrument assets		**-**	**330,812**	**75,022**	**405,834**	**-**	**405,834**
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	1,877,525			1,877,525		1,877,525
Listed global equities	4(a), 4(e)	18,649,499		7,132	18,656,631		18,656,631
Fixed income securities	4(a), 4(e)		5,746,763	387,772	6,134,535	1,226,164	7,360,699
Collective investment funds	4(a), 4(e)	104,351	938,619	3,752	1,046,722		1,046,722
Reverse repurchase agreements	4(a), 4(e)				-	855,183	855,183
Securities lending and similar agreements	4(a), 4(e)	2,025,351	350,918		2,376,269		2,376,269
Insurance-linked investments	4(a), 4(e)		71,979		71,979		71,979
Private equity	4(a), 4(e)			4,239,794	4,239,794		4,239,794
Total other financial assets		**22,656,726**	**7,108,279**	**4,638,450**	**34,403,455**	**2,081,347**	**36,484,802**
Other financial assets pledged as collateral	4(a), 4(e)				-		-
Investments in unconsolidated subsidiaries	4(a), 4(e)		530,141	1,976,750	2,506,891		2,506,891
Total investments		**22,656,726**	**7,969,232**	**6,690,222**	**37,316,180**	**2,081,347**	**39,397,527**
Income tax receivable					-	128,151	128,151
Property, plant and equipment	5(a)				-	1,895	1,895
Intangible assets		15,995			15,995	704	16,699
Total assets		**22,672,721**	**7,969,232**	**6,690,222**	**37,332,175**	**5,104,799**	**42,436,974**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 2: FAIR VALUE (CONTINUED)

		FUND ACTUAL					
2018	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
LIABILITIES							
Cash collateral received	4(a), 4(c)				-	944,626	944,626
Trade and other payables	4(a), 4(g)				-	540,809	540,809
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		1,206,526		1,206,526		1,206,526
Cross currency swaps	4(e)		40,647		40,647		40,647
Asset swaps	4(e)				-		-
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		132,597		132,597		132,597
Total return swaps - bonds	4(e)		322		322		322
Credit default swaps	4(e)		32,829		32,829		32,829
Interest rate swaps	4(e)		35,988		35,988		35,988
Options	4(e)				-		-
Other over-the-counter swaps	4(e)		5,595		5,595		5,595
Total derivative financial instrument liabilities		**-**	**1,454,504**	**-**	**1,454,504**	**-**	**1,454,504**
Income tax payable					-		-
Provision for performance-based fees	5(b)				-		-
Deferred tax liability	7(e)				-	475,301	475,301
Total liabilities		**-**	**1,454,504**	**-**	**1,454,504**	**1,960,736**	**3,415,240**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

		FUND ACTUAL					
2017	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
ASSETS							
Cash and cash equivalents	4(a), 4(b)				-	2,744,837	2,744,837
Cash pledged as collateral	4(a), 4(c)				-	288,540	288,540
Trade and other receivables	4(a), 4(d)				-	1,169,311	1,169,311
Investments							
Derivative financial instrument assets:							
Forward foreign exchange contracts	4(e)		1,001,800		1,001,800		1,001,800
Cross currency swaps	4(e)		14,009		14,009		14,009
Asset swaps	4(e)		3,648		3,648		3,648
Longevity contingent swaps	4(e)			67,087	67,087		67,087
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		111,738		111,738		111,738
Credit default swaps	4(e)		44,502		44,502		44,502
Interest rate swaps	4(e)		68,436		68,436		68,436
Other over-the-counter swaps	4(e)			20	20		20
Warrants	4(e)			16,096	16,096		16,096
Total derivative financial instrument assets		**-**	**1,244,133**	**83,203**	**1,327,336**	**-**	**1,327,336**
Other financial assets:							
Listed New Zealand equities	4(a), 4(e)	1,665,403			1,665,403		1,665,403
Listed global equities	4(a), 4(e)	16,579,391		7,732	16,587,123		16,587,123
Fixed income securities	4(a), 4(e)		6,701,251	158,318	6,859,569	1,673,769	8,533,338
Collective investment funds	4(a), 4(e)	230,566	848,447	11,897	1,090,910		1,090,910
Reverse repurchase agreements	4(a), 4(e)				-		-
Securities lending and similar agreements	4(a), 4(e)	90,973			90,973		90,973
Insurance-linked investments	4(a), 4(e)		74,664		74,664		74,664
Private equity	4(a), 4(e)			3,779,554	3,779,554		3,779,554
Total other financial assets		**18,566,333**	**7,624,362**	**3,957,501**	**30,148,196**	**1,673,769**	**31,821,965**
Other financial assets pledged as collateral	4(a), 4(e)		55,456		55,456		55,456
Investments in unconsolidated subsidiaries	4(a), 4(e)		304,344	1,227,080	1,531,424		1,531,424
Total investments		**18,566,333**	**9,228,295**	**5,267,784**	**33,062,412**	**1,673,769**	**34,736,181**
Income tax receivable					-		-
Property, plant and equipment	5(a)				-	2,018	2,018
Intangible assets		13,038			13,038	123	13,161
Total assets		**18,579,371**	**9,228,295**	**5,267,784**	**33,075,450**	**5,878,598**	**38,954,048**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

SECTION 2: FAIR VALUE (CONTINUED)

		FUND ACTUAL					
2017	NOTE	QUOTED MARKET PRICE (LEVEL 1)	VALUATION TECHNIQUE: MARKET-OBSERVABLE INPUTS (LEVEL 2)	VALUATION TECHNIQUE: NON-MARKET OBSERVABLE INPUTS (LEVEL 3)	TOTAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE*	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
LIABILITIES							
Cash collateral received	4(a), 4(c)				-	865,635	865,635
Trade and other payables	4(a), 4(g)				-	2,367,188	2,367,188
Derivative financial instrument liabilities:							
Forward foreign exchange contracts	4(e)		227,881		227,881		227,881
Cross currency swaps	4(e)		1,712		1,712		1,712
Asset swaps	4(e)		12,442		12,442		12,442
Futures contracts	4(e)				-		-
Total return swaps - equity	4(e)		2,354		2,354		2,354
Total return swaps - bonds	4(e)		2,308		2,308		2,308
Credit default swaps	4(e)		54,979		54,979		54,979
Interest rate swaps	4(e)		30,840		30,840		30,840
Options	4(e)		2		2		2
Total derivative financial instrument liabilities		**-**	**332,518**	**-**	**332,518**	**-**	**332,518**
Income tax payable					-	504,696	504,696
Provision for performance-based fees	5(b)				-	15,642	15,642
Deferred tax liability	7(e)				-	364,723	364,723
Total liabilities		**-**	**332,518**	**-**	**332,518**	**4,117,884**	**4,450,402**

* Assets and liabilities not measured at fair value are carried at amortised cost but their carrying values are a reasonable approximation of fair value.

Assets and liabilities not measured at fair value but for which fair value is disclosed are categorised as follows:

Level 1 - Cash and cash equivalents, cash pledged as collateral and cash collateral received.

Level 2 - Trade and other receivables, fixed income securities, trade and other payables,income tax receivable, income tax payable and deferred tax liability.

Level 3 - Property, plant and equipment, intangible assets and provision for performance-based fees.

(b) Determination of fair value

The specific valuation techniques and the observability of the inputs used in valuation models for significant product categories are outlined below:

DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments are principally determined using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, interest rates, futures prices, default rates, credit spreads, volatility curves and discount rates.

In some instances, the fair values of derivative financial instruments are determined using valuation techniques with non-market observable inputs. These instruments are classified within Level 3 of the fair value hierarchy and include longevity contingent swaps, warrants and other over-the-counter swaps. The fair value of longevity contingent swaps is provided by the counterparty at balance date. The price is a non-binding bid price based on the fair value of the underlying basket of contracts. The fair value of other over-the-counter swaps is determined using an internally-generated discounted cash flow model, with the key input being interest rates.

LISTED EQUITIES

The fair value of listed equities, including those on loan under securities lending and similar agreements, is determined based on the last quoted bid price on the relevant exchange at balance date and have been classified within Level 1 of the fair value hierarchy. In some instances, where the market on which the security is traded is not highly liquid (e.g. the security may be listed on an emerging market stock exchange or trading of the security may be temporarily suspended), the price can also be determined using non-binding broker quotes. These securities have been classified within Level 3 of the fair value hierarchy.

FIXED INCOME SECURITIES

The fair value of highly liquid fixed income securities, including those on loan under securities lending and similar agreements, is determined based on the last quoted bid price provided by a reputable pricing vendor (being a financial data provider such as Bloomberg or Thomson Reuters) or broker at balance date and have been classified within Level 2 of the fair value hierarchy. Where the market for fixed income securities is illiquid, fair value is determined by a reputable pricing vendor who uses models to value the securities. The models incorporate various inputs including loan level data, repayment and default assumptions and benchmark prices for similar securities. These securities have been classified within Level 2 of the fair value hierarchy. For illiquid securities, because of the inherent uncertainty of valuation, it is possible that the fair values estimated may differ from those that would have been determined had a ready market for those securities existed and those differences may be significant. These securities have been classified within Level 3 of the fair value hierarchy.

The fair value of unlisted debt instruments, including fixed and floating rate instruments, that form part of an investment into a private equity investment, are valued by a suitably qualified independent valuer who ascribes an enterprise value to the entire private equity investment then apportions that value across the instruments held, including the debt instruments. These securities have been classified within Level 3 of the fair value hierarchy.

COLLECTIVE INVESTMENT FUNDS

The fair value of collective investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets or securities of the collective investment fund. Their classification within the fair value hierarchy is determined by the lowest level classification of the underlying instruments.

INSURANCE-LINKED INVESTMENTS

Insurance-linked investments which are catastrophe bonds are valued using prices provided by reputable pricing vendors or brokers at balance date and have been classified within Level 2 of the fair value hierarchy.

PRIVATE EQUITY

The fair value of private equity investment funds is provided by the investment managers or administrators at balance date. The price is based on the fair value of the underlying net assets of the private equity investment fund which is determined using a variety of methods, including independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows and have been classified within Level 3 of the fair value hierarchy. Private equity investments (not invested via a managed fund structure) are valued by reference to either an independent valuation or the price of recent investments and have been classified within Level 3 of the fair value hierarchy.

UNCONSOLIDATED SUBSIDIARIES

The fair value of unconsolidated subsidiaries is based on the fair value of the underlying net assets of the specific investment which can be determined using a variety of methods, including being based on the last quoted bid price provided by a reputable pricing vendor or broker, independent valuations, valuation models based on the price of recent transactions, earnings multiples or discounted cash flows. Unconsolidated subsidiaries have been classified accordingly within Levels 2 and 3 of the fair value hierarchy.

INTANGIBLE ASSETS

Allocations of New Zealand Units (NZU's) and/or other carbon credits that the Fund owns are recognised at net realisable value where they have been received, or where the Board and management are reasonably certain they will be received, and a price can be reliably ascertained either through the existence of an observable active market or through pricing obtained from reputable brokers.

SECTION 2: FAIR VALUE (CONTINUED)

Key judgement - determination of fair value

Where the fair value of assets and liabilities cannot be measured based on quoted prices in active markets, fair value is determined using valuation techniques with market observable inputs from third parties such as brokers or pricing vendors. For assets that have no quoted price (which principally consist of investments in private equity investment funds, collective investment funds, fixed income securities and certain derivative financial instruments) the determination of fair value requires significant judgement. Fair value for these assets is determined as follows:

PRIVATE EQUITY INVESTMENT FUNDS AND COLLECTIVE INVESTMENT FUNDS WHERE FAIR VALUE IS PROVIDED BY INVESTMENT MANAGERS OR ADMINISTRATORS

The fair value of private equity investment funds and collective investment funds is provided by the investment managers or administrators at balance date. Depending on the nature of the underlying instruments, investment managers and administrators may use observable market prices, their own models or they may engage independent valuers who use models to obtain the fair value of investments. The Board and management may also directly appoint independent valuers to obtain the fair value of certain investments where this information is unable to be provided by an investment manager or administrator or where an investment is directly managed by the Fund.

FIXED INCOME SECURITIES WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR

Where the market for fixed income securities is illiquid, fair value is determined by a pricing vendor who uses models to value the securities. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors and by periodically calibrating prices against observable market data.

DERIVATIVE FINANCIAL INSTRUMENTS WHERE FAIR VALUE IS DETERMINED BY A PRICING VENDOR, BROKER OR COUNTERPARTY

Pricing vendors, brokers or counterparties may use valuation models to price certain derivative financial instruments for which the inputs may include current and forward exchange rates, estimates of cash flows, interest rates, futures prices, default rates, credit spreads, volatility curves, indicative prices for similar assets and discount rates. The Board and management mitigate the risk of pricing errors by only selecting reputable pricing vendors, brokers or counterparties and by periodically calibrating prices against observable market data.

(c) Fair value sensitivity

The following table shows the Fund's sensitivity of fair value measurement to likely changes in non-market observable inputs (where appropriate, equivalent to one standard deviation) for financial assets categorised within Level 3 of the fair value hierarchy:

	FUND ACTUAL			
	NON-MARKET OBSERVABLE INPUT	MOVEMENT (%)	IMPACT ON FAIR VALUE MEASUREMENT	
			INCREASE	DECREASE
			NZD'000	NZD'000
2018				
Longevity contingent swaps	Discount rate	2	6,187	(5,556)
Listed New Zealand equities	Share price	18	-	-
Listed global equities	Share price	26	1,825	(1,825)
Fixed income securities	Yield	17	48,809	(48,809)
Collective investment funds	Unit price	13	480	(480)
Private equity	(i)	(i)	562,834	(562,834)
Unconsolidated subsidiaries	Share price	15	283,285	(283,285)
2017				
Longevity contingent swaps	Discount rate	2	7,291	(3,378)
Listed New Zealand equities	Share price	18	-	-
Listed global equities	Share price	20	1,852	(1,852)
Fixed income securities	Yield	12	13,051	(13,051)
Collective investment funds	Unit price	13	1,524	(1,524)
Private equity	(i)	(i)	509,708	(509,708)
Unconsolidated subsidiaries	Share price	20	166,886	(166,886)

(i) The fair value of private equity investments is provided by the investment managers or administrators or by independent valuers at balance date. The Fund does not have access to the underlying valuation models to disclose sensitivities to assumptions. The Board and management has assessed that the reasonably likely movement in fair value in a one-year period is 20% for private equity investment funds and other private equity investments, 16% for private timber funds, 12% for private infrastructure investments and 6% for life settlements investments based on internal risk modelling.

(d) Transfers between levels in the fair value hierarchy

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Board and management determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

The following table presents the transfers between fair value hierarchy levels for the year:

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
	NZD'000	NZD'000	NZD'000
2018			
Transfers between Levels 1 and 3:			
Listed New Zealand equities	(28,916)	-	28,916
Listed global equities	(3,943)	-	3,943

SECTION 2: FAIR VALUE (CONTINUED)

Listed New Zealand equities transferred out of Level 1 relate to a position whose trading was suspended as at 30 June 2018 but was actively traded in the prior year.

Listed global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2018 but were actively traded in the prior year.

	FUND ACTUAL		
	LEVEL 1	LEVEL 2	LEVEL 3
	NZD'000	NZD'000	NZD'000
2017			
Transfers between Levels 1 and 3:			
Listed New Zealand equities	3,124	-	(3,124)
Listed global equities	(3,496)	-	3,496

Listed New Zealand equities transferred into Level 1 relate to a position whose trading was suspended as at 30 June 2016 but was actively traded in the subsequent year.

Listed global equities transferred out of Level 1 relate to positions whose trading was suspended as at 30 June 2017 but were actively traded in the prior year.

Key judgement - transfers between levels of the fair value hierarchy

The classification of investments within the fair value hierarchy is reviewed annually. Transfers between the different levels of the hierarchy generally occur when there is a change in the trading status of a financial instrument (such as listing on a recognised exchange, suspension of trading or de-listing).

(e) Reconciliation of fair value measurement under Level 3 hierarchy

The following table provides a reconciliation of movements in the fair value of financial assets categorised within Level 3 of the fair value hierarchy:

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Opening balance	5,267,784	4,183,247
Unrealised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	613,351	502,337
Realised gains and losses recognised in net fair value gains on financial instruments held at fair value through profit or loss	91,546	45,408
Total gains and losses recognised in net fair value gains/(losses) on available-for-sale financial assets	5,872	1,993
Purchases	973,360	1,052,007
Sales	(13,086)	(267)
Settlements	(281,464)	(517,313)
Transfers to other categories	32,859	372
Closing balance	**6,690,222**	**5,267,784**

SECTION 3: RISK MANAGEMENT

(a) Risk management

Understanding and managing risk is considered a fundamental activity that is central to the management of the Fund. While risk is a necessary part of the Fund's activities, it must be understood to ensure the risk profile adopted is commensurate with the return objective and time horizon of the Fund. Effective risk management is critical to maintaining public and stakeholder confidence in the Guardians as manager of the Fund.

The Fund's investment activities expose it to various types of risk including investment, strategic, legal, operational and reputational risk. The Board and management of the Guardians are responsible for the management of these risks. Separate Risk and Investment Committees have been established by management as risk oversight bodies to provide support for the management of these risks.

The Guardians has risk management policies, procedures and other internal controls for application by staff, external investment managers and other service providers to manage the Fund's exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

The Board has developed a risk-appetite statement outlining its expectations of the level of risk that is appropriate for the Fund to take on. This statement can be found at Schedule 2 of the Risk Management Policy which is available on www.nzsuperfund.co.nz. Performance against this statement is measured and reported to the Board on a regular basis, with any major breaches being notified on an exception basis.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, interest rates, foreign exchange rates and credit default swap spreads.

The market risks that the Fund is primarily exposed to are:

- Equity price risk, both globally and in New Zealand;
- Foreign currency risk, primarily due to changes in the New Zealand dollar versus the United States dollar; and
- Interest rate risk, primarily due to changes in New Zealand and United States interest rates.

The Fund is also exposed to commodity price risk in relation to its forestry and farming investments.

EQUITY PRICE RISK

Equity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in equity prices. The Fund is exposed to changes in the price of equities listed on both New Zealand and international stock exchanges, as well as derivative financial instruments or unlisted equities where fair value is determined with reference to an equity market index or comparable transactions in a listed equity market.

Equity price risk is managed by imposing investment constraints at a total Fund level and within individual investment mandates. Limits imposed on external investment managers are detailed within individual investment management agreements. Compliance with investment constraints is reported to the Board and management on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 3: RISK MANAGEMENT (CONTINUED)

The following table shows the Fund's sensitivity to a change in equity prices with all other variables held constant. The percentages used represent the Board's and management's assessment of a reasonably possible change in different classes of equity prices, equivalent to one standard deviation, based on internal risk modelling.

	FUND ACTUAL				
	ONE STANDARD DEVIATION (%)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2018					
New Zealand equities	18	304,806	(304,806)	-	-
Global large cap equities	16	3,441,363	(3,441,363)	-	-
Global small cap equities	20	472,032	(472,032)	-	-
Infrastructure equities	12	130,260	(130,260)	-	-
Emerging markets equities	26	1,080,788	(1,080,788)	-	-
Private equity	20	671,782	(675,544)	3,762	-
2017					
New Zealand equities	18	264,678	(264,678)	-	-
Global large cap equities	16	2,920,899	(2,920,899)	-	-
Global small cap equities	20	386,610	(386,610)	-	-
Infrastructure equities	12	125,182	(125,182)	-	-
Emerging markets equities	26	919,479	(919,479)	-	-
Private equity	20	566,134	(566,134)	13,429	(13,429)

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund is exposed to foreign currency risk through its investments in offshore assets.

Foreign currency risk is managed by establishing a target hedge ratio for all foreign currency exposures at a total Fund level and by specifying bounds within which external investment managers may take on foreign currency exposures within individual investment management agreements. The financial instruments that external investment managers may use, and the creditworthiness of the counterparties, are detailed within those investment management agreements.

Foreign currency exposures are hedged with forward foreign exchange contracts and cross currency swaps with counterparties that have an appropriate minimum credit rating as determined by an international credit rating agency, and appropriate contractual arrangements must be in place between the Fund and the counterparty.

The table below shows effective foreign currency exposure after forward foreign exchange contracts and cross currency swaps have been taken into account.

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Australian Dollars	5,672	595,255
Brazilian Real	133,441	195,848
British Pounds	16,440	684,826
Canadian Dollars	674	1,332,441
Chilean Pesos	-	44,575
Colombian Pesos	-	17,293
Czech Koruny	-	10,566
Danish Kroner	(7,300)	112
Egyptian Pounds	-	5,128
European Union Euros	(117,082)	(1,617,088)
Hong Kong Dollars	859	223,841
Hungarian Forints	-	15,896
Indian Rupees	137,064	70,447
Indonesian Rupiahs	40,161	36,662
Israeli New Shekels	-	233,011
Japanese Yen	(93,759)	(54,652)
Malaysian Ringgits	24,918	79,340
Mexican Pesos	65,666	137,498
Norwegian Krone	(3,561)	3,916
Pakistan Rupee	-	5,172
Philippines Pesos	31,129	44,718
Polish Zloty	42,149	60,414
Qatari Rial	-	26,387
Russian Rubles	92,037	106,576
Singaporean Dollars	(7,692)	379
South African Rand	154,169	195,614
South Korean Won	(25,724)	158,681
Swedish Kronor	(12,156)	(16,657)
Swiss Francs	(4,857)	(748,147)
Taiwanese New Dollars	(723)	129,120
Thai Baht	(9,946)	41,647
Turkish New Lira	25,359	44,794
United Arab Emirates Dirham	-	26,357
United States of America Dollars	390,640	1,651,871
	877,578	**3,741,842**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 3: RISK MANAGEMENT (CONTINUED)

The following table shows the Fund's sensitivity to a change in the New Zealand dollar against the major foreign currencies with all other variables remaining constant. The analysis has been performed only on the effective foreign currency exposure after allowing for the impact of forward foreign exchange contracts and cross currency swaps. The percentages used represent the Board's and management's assessment of a reasonably possible change in foreign currency rates, equivalent to one standard deviation.

	FUND ACTUAL				
	ONE STANDARD DEVIATION (%)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE	DECREASE	INCREASE	DECREASE
		NZD'000	NZD'000	NZD'000	NZD'000
2018					
NZD/USD	10	26,753	(28,126)	1,373	-
NZD/EUR	10	(8,430)	8,430	-	-
NZD/GBP	10	1,184	(1,184)	-	-
NZD/JPY	10	(6,751)	6,751	-	-
NZD/Others	10	49,441	(49,441)	-	-
2017					
NZD/USD	10	116,011	(116,011)	2,924	(2,924)
NZD/EUR	10	(116,430)	116,430	-	-
NZD/GBP	10	49,307	(49,307)	-	-
NZD/JPY	10	(3,935)	3,935	-	-
NZD/Others	10	222,354	(222,354)	-	-

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Fund’s investments in fixed interest securities and cash and cash equivalents will fluctuate due to changes in market interest rates. The Fund is primarily exposed to changes in New Zealand and United States short-term interest rates.

Interest rate risk is managed by diversification between asset classes and by imposing investment constraints on external investment managers. Interest rate swaps are used to manage exposure to movements in interest rates.

The following table shows the Fund's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates, equivalent to one standard deviation.

	FUND ACTUAL				
	ONE STANDARD DEVIATION (%)	PROFIT AFTER INCOME TAX EXPENSE		OTHER COMPREHENSIVE INCOME NET OF TAX	
		INCREASE NZD'000	DECREASE NZD'000	INCREASE NZD'000	DECREASE NZD'000
2018					
Fixed income securities and other interest-sensitive financial instruments	50	9,500	(9,500)	-	-
2017					
Fixed income securities and other interest-sensitive financial instruments	50	(19,763)	19,763	-	-

COMMODITY PRICE RISK

The Fund is exposed to financial risk in respect of its forestry activities due to the global volatility of log prices, exchange rates and transportation costs. These exposures are managed through adjustments to harvest levels and marketing efforts in order to minimise the risk of financial loss.

The Fund is also exposed to financial risk in respect of its farming activities due to the global volatility of milk prices and the price of key inputs e.g. feed and fertiliser. Dairy prices relative to key inputs are continually monitored so that operations can adapt as required. There are procedures, systems and infrastructure in place to minimise and manage the risks to which the land and livestock assets are exposed that could lead to financial loss. Such measures include ongoing animal health management, detailed planning and cost control systems supported by regular visits by agricultural consultants, along with significant investment in farm infrastructure and technology to deal with risks associated with effluent disposal. All rural land investments, livestock and physical assets are inspected at least twice monthly to assess the condition of these assets, and to manage any identified risks.

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss. The Fund is exposed to credit risk arising from its cash and cash equivalents, receivables and investments. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Statement of Financial Position.

Capital allocated to internally managed investments is governed by the Investment Risk Allocation Policy and relevant Internal Investment Mandates. The Board and management mitigate the Fund's exposure to credit risk through internally managed investments by applying specific prudential limits to any unhedged exposure to any single investment manager or asset. Additionally, investment strategy-specific constraints are imposed, limiting the Fund's net unhedged exposure to individual counterparties; collective unhedged exposure to counterparties with credit ratings of 'BBB' or less; and individual clearing houses.

The use of, and capital allocated to, external investment managers is governed by the Investment Risk Allocation Policy and Externally Managed Investments Policy. Each external investment manager relationship is governed by an investment management agreement which outlines the key terms and conditions of the appointment. Specific prudential limits for external investment managers are built into these agreements which restrict the credit risk the Fund is exposed to. External investment managers are monitored individually on an on-going basis as well as being considered in the Fund’s overall financial risk management activities.

SECTION 3: RISK MANAGEMENT (CONTINUED)

CONCENTRATIONS OF CREDIT RISK

Concentration of credit risk exists if a single counterparty, or group of counterparties, is engaged in similar activities, operate within similar industries, geographies, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

The following tables analyse the Fund's concentration of credit risk by geographical and industrial distribution. The analyses are based on the Fund's net financial assets at balance date, at the aggregate level of each individual investment, and covers both internally and externally managed investments.

	FUND ACTUAL	
	2018	2017
	%	%
By geography		
New Zealand	15	13
Australia	7	7
North America	44	43
Europe	18	21
Asia	13	12
Other	3	4
	100	**100**
By industry		
Basic materials	8	8
Communications	8	6
Consumer - cyclical	6	6
Consumer - non-cyclical	14	13
Energy	2	2
Financial	28	30
Funds	2	5
Government	7	6
Industrial	7	7
Technology	7	6
Utilities	2	2
Other	9	9
	100	**100**

COUNTERPARTY CREDIT RISK

It is the Fund's policy to enter into financial instruments with reputable counterparties. The Board and management closely monitor the creditworthiness of the Fund's counterparties by reviewing their credit ratings, credit default swap spreads, equity pricing, news flows and other indicators on a regular basis.

At balance date, the Fund has counterparty exposure in respect of its forward foreign exchange contracts, cross currency swaps, asset swaps, longevity contingent swaps, total return swaps, credit default swaps, interest rate swaps and other over-the-counter swaps. The table below sets out the net exposures, excluding collateral, by individual counterparty (and, where applicable, specific branch) where instruments have a net positive fair value:

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
ANZ Bank New Zealand Limited	5,916	55,910
ASB Bank	206	5,934
Bank of New Zealand	1,607	55,210
Barclays Bank PLC, New York Branch	21,667	11,362
BNP Paribas, London Branch	-	2,678
BNP Paribas, Paris Branch	-	1,669
BNP Paribas, New York Branch	-	3,566
Citibank N.A., London Branch	1,905	1,036
Citibank N.A., New York Branch	14,002	114,832
Commonwealth Bank of Australia, Sydney Branch	-	116,498
Credit Suisse Securities (Europe) Limited	92,033	79,759
Deutsche Bank AG, London Branch	3,287	1,406
Deutsche Bank AG, New York Branch	13,932	104,942
Goldman Sachs International	61,838	130,619
The Hong Kong and Shanghai Banking Corporation Limited	-	8,458
JP Morgan Chase, New York Branch	35,620	-
JP Morgan Chase, London Branch	-	238,518
Morgan Stanley & Co. International PLC	98,067	200,443
National Australia Bank	27	3
Nomura International PLC	2,604	34,116
Societe Generale	-	7,836
The Northern Trust Company	1	3
Toronto Dominion Bank	979	-
UBS AG, London Branch	-	49
UBS AG, Singapore Branch	49,546	118,016
Westpac Banking Corporation, Wellington Branch	2,597	18,406
	405,834	**1,311,269**

The Board and management restrict the Fund's exposure to loss from derivative financial instruments by requiring collateral and entering into master-netting arrangements with major counterparties with whom a significant volume of transactions are undertaken. These arrangements provide for a single net settlement of all financial instruments covered by the agreement in the event of default on any one contract. Master-netting arrangements do not result in the offset of assets and liabilities in the Statement of Financial Position unless certain conditions for offsetting under NZ IAS 32 Financial Instruments: Presentation apply. Refer to Note 4(f) for further detail on the offsetting of financial assets and financial liabilities.

SECTION 3: RISK MANAGEMENT (CONTINUED)

CREDIT QUALITY OF FIXED INCOME SECURITIES

A breakdown of the Fund's fixed income securities, both internally and externally managed, by credit rating is set out below. Ratings are obtained from Standard & Poor's, Moody's and Fitch depending on the availability of data.

	FUND ACTUAL	
	% OF FIXED INCOME SECURITIES	
	2018	2017
AAA/Aaa	14	13
AA/aa	28	29
A/A	26	32
BBB/Baa	7	8
Other credit rating	1	2
Not rated	24	16
	100	**100**

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Fund's liquidity framework is designed to ensure that the Fund has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

Liquidity risk is managed by:

- forecasting liquidity requirements;
- maintaining a buffer of cash and highly liquid securities to meet short-term liquidity requirements;
- regular review of the liquidity available by senior management;
- periodic 'stress-tests' of the liquidity framework using theoretical scenarios.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

	FUND ACTUAL							
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	FIXED MATURITY DATES						
		VARIABLE INTEREST RATE	LESS THAN 1 YEAR	1 - 2 YEARS	2 - 5 YEARS	5 - 10 YEARS	10+ YEARS	NON-INTEREST BEARING
	%	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
2018								
Financial assets								
Cash and cash equivalents*	1.48	1,056,441	-	-	-	-	-	182,439
Cash pledged as collateral**	0.00	1,062,296	-	-	-	-	-	-
Fixed income securities	3.86	-	887,263	957,784	1,855,567	1,631,764	2,004,711	23,610
Other financial assets pledged as collateral	0.00	-	-	-	-	-	-	-
Securities on loan under securities lending and similar agreements	2.14	-	723	87,583	121,752	88,817	52,043	-
		2,118,737	**887,986**	**1,045,367**	**1,977,319**	**1,720,581**	**2,056,754**	**206,049**
2017								
Financial assets								
Cash and cash equivalents*	1.12	2,538,439	-	-	-	-	-	206,398
Cash pledged as collateral**	0.00	288,540	-	-	-	-	-	-
Fixed income securities	2.95	-	1,765,803	770,913	1,785,457	1,752,662	2,458,503	-
Other financial assets pledged as collateral	1.00	-	55,456	-	-	-	-	-
Securities on loan under securities lending and similar agreements	0.00	-	-	-	-	-	-	-
		2,826,979	**1,821,259**	**770,913**	**1,785,457**	**1,752,662**	**2,458,503**	**206,398**

* Non-interest bearing cash and cash equivalents is primarily comprised of non-NZD denominated currencies held in custody, the majority of which earn no interest.

** Cash pledged as collateral is held under Credit Support Annexes to ISDA Master Agreements and with futures exchanges. The rate of interest earned on this cash, whilst variable, is minimal as a result of the current low interest rate environment, and consequently a weighted average effective interest rate of 0.00% has been applied.

The maturity profile of derivative financial instruments is disclosed in note 4(e).

SECTION 3: RISK MANAGEMENT (CONTINUED)

(e) Risks associated with structured entities

The following table summarises the carrying values recognised in the Statement of Financial Position of the Fund's investments in structured entities, as well as the maximum exposure to loss. The maximum exposure to loss is contingent in nature and may arise as a result of the provision of funding commitments (which are common with private equity investment funds). The maximum exposure to loss does not take into account the effects of any hedging or collateralisation designed to reduce that exposure to loss.

The value of the assets of the structured entities themselves have been provided as an indicator of their size, relative to the size of the Fund's interest in these entities. These values represent the most current available information.

	FUND ACTUAL			
	MAXIMUM EXPOSURE TO LOSS			
STRUCTURED ENTITY TYPE	CARRYING VALUE OF INVESTMENTS	UNDRAWN COMMITMENTS	TOTAL INVESTMENTS AND UNDRAWN COMMITMENTS	NET ASSETS OF THE STRUCTURED ENTITY*
	NZD'000	NZD'000	NZD'000	NZD'000
2018				
Fixed income securities:				
Asset-backed securities	866,829	23,933	890,762	153,272,772
Collateralised debt obligations and collateralised loan obligations	-	-	-	-
Mortgage-backed securities	794,307	49,424	843,731	52,712,788
Agency mortgage-backed securities	429,916	-	429,916	N/A**
Shareholder loans	230,615	-	230,615	5,903,430
Collective investment funds	1,046,722	147,700	1,194,422	155,279,514
Insurance-linked investments - catastrophe bonds	71,979	-	71,979	13,825,212
Private equity investments	884,310	582,149	1,466,459	25,364,866
Unconsolidated subsidiaries	2,506,891	451,022	2,957,913	2,632,347
	6,831,569	**1,254,228**	**8,085,797**	**408,990,929**
2017				
Fixed income securities:				
Asset-backed securities	876,625	215,563	1,092,188	159,059,549
Collateralised debt obligations and collateralised loan obligations	1,726	-	1,726	150,000
Mortgage-backed securities	1,046,111	52,320	1,098,431	67,102,567
Agency mortgage-backed securities	440,330	-	440,330	N/A**
Shareholder loans	117,780	-	117,780	4,307,174
Collective investment funds	1,090,910	-	1,090,910	127,960,714
Insurance-linked investments - catastrophe bonds	74,664	-	74,664	11,745,573
Private equity investments	2,522,806	431,406	2,954,212	26,529,264
Unconsolidated subsidiaries	1,531,424	772,739	2,304,163	1,607,678
	7,702,376	**1,472,028**	**9,174,404**	**398,462,519**

* Including the value of the Fund's investment

** Information is not available as the securities have not yet been issued

SECTION 4: FINANCIAL ASSETS AND LIABILITIES

(a) Financial instruments

2018	NOTE	FUND ACTUAL FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING	FAIR VALUE THROUGH PROFIT OR LOSS - DESIGNATED UPON INITIAL RECOGNITION	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
		NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets							
Cash and cash equivalents	4(b)			1,238,880			1,238,880
Cash pledged as collateral	4(c)			1,062,296			1,062,296
Trade and other receivables	4(d)			591,526			591,526
Investments							
Derivative financial instrument assets	4(e)	405,834					405,834
Other financial assets:							
Listed New Zealand equities	4(e)		1,877,525				1,877,525
Listed global equities	4(e)		18,656,631				18,656,631
Fixed income securities	4(e)		6,134,535	1,226,164			7,360,699
Collective investment funds	4(e)		1,046,722				1,046,722
Reverse repurchase agreements	4(e)			855,183			855,183
Securities lending and similar agreements	4(e)		2,376,269				2,376,269
Insurance-linked investments	4(e)		71,979				71,979
Private equity	4(e)		4,220,719		19,075		4,239,794
Total other financial assets		-	34,384,380	2,081,347	19,075	-	36,484,802
Other financial assets pledged as collateral	4(e)						-
Investments in unconsolidated subsidiaries	4(e)		2,506,891				2,506,891
Total financial assets		**405,834**	**36,891,271**	**4,974,049**	**19,075**	**-**	**42,290,229**
Financial liabilities							
Cash collateral received	4(c)					944,626	944,626
Trade and other payables	4(g)					540,809	540,809
Investments - derivative financial instrument liabilities	4(e)	1,454,504					1,454,504
Total financial liabilities		**1,454,504**	**-**	**-**	**-**	**1,485,435**	**2,939,939**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

		FUND ACTUAL					
2017		FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING	FAIR VALUE THROUGH PROFIT OR LOSS - DESIGNATED UPON INITIAL RECOGNITION	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
	NOTE	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets							
Cash and cash equivalents	4(b)			2,744,837			2,744,837
Cash pledged as collateral	4(c)			288,540			288,540
Trade and other receivables	4(d)			1,169,311			1,169,311
Investments							
Derivative financial instrument assets	4(e)	1,327,336					1,327,336
Other financial assets:							
Listed New Zealand equities	4(e)		1,665,403				1,665,403
Listed global equities	4(e)		16,587,123				16,587,123
Fixed income securities	4(e)		6,859,569	1,673,769			8,533,338
Collective investment funds	4(e)		1,090,910				1,090,910
Reverse repurchase agreements	4(e)						-
Securities lending and similar agreements	4(e)		90,973				90,973
Insurance-linked investments	4(e)		74,664				74,664
Private equity	4(e)		3,738,940		40,614		3,779,554
Total other financial assets		-	30,107,582	1,673,769	40,614	-	31,821,965
Other financial assets pledged as collateral	4(e)		55,456				55,456
Investments in unconsolidated subsidiaries	4(e)		1,531,424				1,531,424
Total financial assets		**1,327,336**	**31,694,462**	**5,876,457**	**40,614**	**-**	**38,938,869**
Financial liabilities							
Cash collateral received	4(c)					865,635	865,635
Trade and other payables	4(g)					2,367,188	2,367,188
Investments - derivative financial instrument liabilities	4(e)	332,518					332,518
Total financial liabilities		**332,518**	**-**	**-**	**-**	**3,232,823**	**3,565,341**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Fund is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, derivative financial instruments, investments, receivables and payables. All financial instruments are recognised in the Statement of Financial Position and all income and expenditure in relation to financial instruments are recognised in the Statement of Comprehensive Income.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Fund becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus, in the case of financial assets and financial liabilities not recorded at fair value through profit or loss, transaction costs e.g. trading commission, that are attributable to the acquisition of the financial asset or financial liability.

Purchases or sales of financial instruments that require delivery within a time frame established by regulation or convention in the market place are recognised on the trade date, i.e. the date on which the Fund commits to purchase or sell the financial instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, the Fund's financial assets and financial liabilities are classified into the following categories:

Financial assets and financial liabilities at fair value through profit or loss

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - HELD FOR TRADING

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. All derivative financial instruments held by the Fund are classified as held for trading. The Fund does not designate any derivative financial instruments as hedges in a hedging relationship.

FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - DESIGNATED UPON INITIAL RECOGNITION

Financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition include equity and debt instruments. They are designated at fair value upon initial recognition on the basis that they are part of a group of financial instruments that are managed and have their performance evaluated on a fair value basis, in accordance with the financial risk management and investment objectives of the Fund.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are recognised in the Statement of Financial Position at fair value with changes in fair value being recognised in the Statement of Comprehensive Income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and cash equivalents, cash pledged as collateral, trade and other receivables and some unlisted debt instruments. Unlisted debt instruments that are classified as loans and receivables include fixed and floating rate notes and redeemable preference shares.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment.

Available-for-sale financial assets

Available-for-sale financial assets include private equity investments that do not have a quoted market price in an active market or whose fair value cannot be reliably measured. The Board and management have determined that the fair value for certain private equity investments cannot be reliably measured where the entity's financial statements have not been prepared under either IFRS or a recognised and reliable accounting basis such as US GAAP.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, where fair value can be reliably measured, with unrealised gains or losses recognised in other comprehensive income and the available-for-sale reserve. Available-for-sale financial assets whose fair value cannot be reliably measured are measured at cost less impairment. Transaction costs are included in the cost of the investment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes cash collateral received and trade and other payables.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or when the Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the Fund's obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash balances on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less, which have an insignificant risk of change in fair value.

At 30 June 2018, cash of $380,045,000 (2017: $1,307,418,000) had been allocated and was held in Northern Trust's (the Fund's global master custodian) custody awaiting investment by investment managers.

(c) Collateral

In line with standard industry practice, collateral transactions are settled in line with the relevant Credit Support Agreements (CSAs) which may vary from counterparty to counterparty. Settlements of collateral transactions inherently lag behind real-time mark-to-market movements in the related derivative financial instruments; may only be settled once thresholds, as governed by the CSAs, in these mark-to-market movements are achieved; and may be required from one, both or neither of the counterparties involved with the transaction.

CASH PLEDGED AS COLLATERAL

The cash balance pledged as collateral to meet obligations under CSAs for derivative positions is $801,301,000 (2017: $142,636,000). The counterparties are permitted to sell or re-pledge the collateral balances. The pledged assets will be returned to the Fund when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the liability.

Cash balances totalling $260,995,000 (2017: $145,904,000) are held in separate bank accounts lodged with the relevant futures exchange. Fixed income securities with a fair value of $nil (2017: $55,456,000) have been lodged with a clearing broker. These cash and fixed income securities have been pledged as collateral for potential margin calls on futures with a fair value of $nil (2017: $nil) held by the Fund.

CASH COLLATERAL RECEIVED

The cash balance received as collateral to meet obligations under CSAs for derivative positions is $102,262,000 (2017: $865,635,000). The Fund is permitted to sell or re-pledge the collateral cash balances. The pledged assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

The cash balance received as collateral to meet obligations under securities lending and similar agreements is $842,364,000 (2017: $nil). The Fund is permitted to sell or re-pledge the collateral cash balances. At 30 June 2018, cash of $855,183,000 had been used to purchase securities under a reverse repurchase agreement. These will be returned to the counterparties of the securities lending and similar agreements once the underlying transactions are terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle any liability.

NON-CASH COLLATERAL RECEIVED

The fair value of fixed income securities received as collateral to meet obligations under securities lending and similar agreements is $782,585,000 (2017: $7,558,000). The fair value of equity securities received as collateral to meet obligations under security lending and similar agreements is $898,953,000 (2017: $83,895,000). The Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

The fair value of fixed income securities received as collateral to meet obligations under a reverse repurchase agreement is $300,695,000 (2017: $nil). The fair value of equity securities received as collateral to meet obligations under a reverse repurchase agreement is $611,703,000 (2017: $nil). The Fund is not permitted to sell or re-pledge the collateral. The assets will be returned to the counterparties when the underlying transaction is terminated, but in the event of default the Fund is entitled to apply the collateral in order to settle the liability.

(d) Trade and other receivables

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Trade receivables	5,703	30,856
Allowance for impairment	-	-
Accrued interest	54,145	51,932
Dividends receivable	36,163	29,273
Unsettled sales	495,086	1,056,742
GST receivable	429	508
	591,526	**1,169,311**

Trade receivables are non-interest bearing and have standard 30-day credit terms. An allowance for impairment of trade receivables is recognised when there is objective evidence that the Fund may not be able to collect all amounts due according to the original terms of the receivables.

The timing and amount of expected cash flows for accrued interest, dividends receivable and unsettled sales are certain as they are based on contractual terms and corporate actions.

As a result of their short-term nature, the carrying value of trade and other receivables held at amortised cost approximates fair value.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(e) Investments

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Derivative financial instrument assets:		
Forward foreign exchange contracts	194,332	1,001,800
Cross currency swaps	3,244	14,009
Asset swaps	-	3,648
Longevity contingent swaps	75,022	67,087
Futures contracts	-	-
Total return swaps - equity	14,796	111,738
Credit default swaps	51,973	44,502
Interest rate swaps	66,467	68,436
Other over-the-counter swaps	-	20
Warrants	-	16,096
Total derivative financial instrument assets	**405,834**	**1,327,336**
Other financial assets	**36,484,802**	**31,821,965**
Other financial assets pledged as collateral*	**-**	**55,456**
Investments in unconsolidated subsidiaries	**2,506,891**	**1,531,424**
Derivative financial instrument liabilities:		
Forward foreign exchange contracts	1,206,526	227,881
Cross currency swaps	40,647	1,712
Asset swaps	-	12,442
Futures contracts	-	-
Total return swaps - equity	132,597	2,354
Total return swaps - bonds	322	2,308
Credit default swaps	32,829	54,979
Interest rate swaps	35,988	30,840
Options	-	2
Other over-the-counter swaps	5,595	-
Total derivative financial instrument liabilities	**1,454,504**	**332,518**

* For restrictions on other financial assets pledged as collateral, refer to Note 4(c).

DERIVATIVE FINANCIAL INSTRUMENTS

Accounting Policy

The Fund enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk, credit risk and interest rate risk and to achieve exposure to assets and asset classes. The use of derivative financial instruments is governed by the Statement of Investment Policies, Standards and Procedures, including the Derivatives Policy, which provide written principles on the use of derivative financial instruments by the Fund. Compliance with policies and exposure limits is monitored on a continuous basis.

At 30 June 2018, the Fund has positions in the following types of derivative financial instruments:

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risks associated with forward and futures contracts are credit risk and liquidity risk. The Fund has credit exposure to the counterparties of non-collateralised forward contracts. The credit risk related to futures contracts is considered minimal because the exchange reduces credit risk by daily margining. Forward contracts are settled gross and, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts. Where swap contracts are settled net, the payment flows are usually netted against each other, with the difference being paid by one party to the other. All swaps other than cross currency swaps are settled net. In a cross currency swap, the Fund pays a specified amount in one currency and receives a specified amount in another currency. Swap contracts expose the Fund to counterparty credit risk, market risk and liquidity risk.

Warrants

Warrants are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Funds holds warrants at fair value in respect of two of its private equity investments.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Fund purchases and sells put and call options through regulated exchanges and over-the-counter markets. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options are generally settled on a net basis.

The contract maturities, notional and fair values for all derivative financial instruments are set out below. Fair values presented correspond in total to the net assets and liabilities for each class of derivative.

FORWARD FOREIGN EXCHANGE CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE	NOTIONAL VALUE - BUY(SELL) FOREIGN CURRENCY	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 3 months	(23,826,863)	(430,829)	(26,468,185)	350,059
3 to 12 months	(17,942,623)	(571,069)	(10,736,369)	423,860
Greater than 12 months	(136,855)	(10,296)	-	-
	(41,906,341)	**(1,012,194)**	**(37,204,554)**	**773,919**

Where possible, the Fund seeks to settle all forward foreign exchange contracts on a net basis, otherwise, all forward foreign exchange contracts are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

CROSS CURRENCY SWAPS

	FUND ACTUAL		
2018	BUY/SELL	NOTIONAL VALUE	FAIR VALUE
		NZD'000	NZD'000
Less than 1 year	NZD/EUR	344,893	(35,396)
1 to 2 years	NZD/AUD	218,256	(3,868)
2 to 5 years	NZD/EUR	396,627	1,232
	NZD/USD	795,362	(467)
5 to 10 years	NZD/USD	718,300	1,096
		2,473,438	**(37,403)**
2017			
1 to 2 years	NZD/EUR	311,541	(1,728)
2 to 5 years	NZD/EUR	46,731	4,362
	NZD/USD	347,412	1,182
	USD/JPY	777,926	7,679
5 to 10 years	NZD/USD	194,209	802
		1,677,819	**12,297**

Where possible, the Fund seeks to settle all cross currency swaps on a net basis, otherwise, all cross currency swaps are settled gross. Refer to Note 4(f) for further disclosures on the offsetting of financial assets and financial liabilities. Notional value is derived from the 'buy' leg of these contracts.

ASSET SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	-	-	77,885	(12,422)
1 to 2 years	-	-	-	-
2 to 5 years	-	-	-	-
5 to 10 years	-	-	-	-
Later than 10 years	-	-	208,058	3,628
	-	**-**	**285,943**	**(8,794)**

All asset swaps are settled net.

LONGEVITY CONTINGENT SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Later than 10 years	301,307	75,022	301,830	67,087
	301,307	**75,022**	**301,830**	**67,087**

All longevity contingent swaps are settled net.

FUTURES CONTRACTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Equity futures	5,245,729	-	1,760,152	-
Fixed interest futures	5,155,497	-	2,048,634	-
	10,401,226	**-**	**3,808,786**	**-**

The margin on futures contracts is settled daily.

TOTAL RETURN SWAPS - EQUITY

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	7,360,135	(117,801)	8,249,868	109,384
	7,360,135	**(117,801)**	**8,249,868**	**109,384**

All equity total return swaps are settled net.

TOTAL RETURN SWAPS - BONDS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	59,098	(322)	99,751	(2,308)
	59,098	**(322)**	**99,751**	**(2,308)**

All bond total return swaps are settled net.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

CREDIT DEFAULT SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2018	2018	2017	2017
		NZD'000	NZD'000	NZD'000	NZD'000
Buy protection	Less than 1 year	4,647,810	(24,253)	6,255,122	(24,688)
	1 to 2 years	1,090,494	(63,259)	50,533	(550)
	2 to 5 years	3,349,104	(139,167)	5,315,339	(215,710)
	5 to 10 years	443,099	(11,841)	-	-
		9,530,507	**(238,520)**	**11,620,994**	**(240,948)**
Sell protection	Less than 1 year	7,731,275	25,853	10,057,499	39,949
	1 to 2 years	984,787	64,844	3,116,635	3,680
	2 to 5 years	3,901,470	137,518	5,263,592	186,842
	5 to 10 years	3,751,989	29,449	-	-
		16,369,521	**257,664**	**18,437,726**	**230,471**

All credit default swaps are settled net.

INTEREST RATE SWAPS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Less than 1 year	253,480	(3,593)	54,558	(586)
1 to 2 years	105,738	(3,506)	241,424	(6,097)
2 to 5 years	557,456	(13,165)	547,166	(11,901)
5 to 10 years	286,549	17,931	652,203	16,069
Later than 10 years	1,757,921	32,812	798,334	40,111
	2,961,144	**30,479**	**2,293,685**	**37,596**

All interest rate swaps are settled net.

OTHER OVER-THE-COUNTER SWAPS

		FUND ACTUAL			
		NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
		2018	2018	2017	2017
		NZD'000	NZD'000	NZD'000	NZD'000
Credit default arbitrage swaps	1 to 2 years	-	-	95,602	20
Credit default arbitrage swaps	2 to 5 years	59,080	(5,595)	-	-
		59,080	**(5,595)**	**95,602**	**20**

All other over-the-counter swaps are settled net.

WARRANTS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
1 to 2 years	19,201	-	-	-
2 to 5 years	4,653	-	4,302	-
5 to 10 years	47,476	-	43,900	16,096
	71,330	**-**	**48,202**	**16,096**

OPTIONS

	FUND ACTUAL			
	NOTIONAL VALUE	FAIR VALUE	NOTIONAL VALUE	FAIR VALUE
	2018	2018	2017	2017
	NZD'000	NZD'000	NZD'000	NZD'000
Equity options	-	-	684,239	(2)
	-	**-**	**684,239**	**(2)**

MATURITY PROFILE OF DERIVATIVE FINANCIAL INSTRUMENT LIABILITIES

	FUND ACTUAL				
2018	LESS THAN 1 YEAR	1 - 2 YEARS	2 - 5 YEARS	5 - 10 YEARS	10+ YEARS
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Net-settled derivative financial instruments	(138,247)	(4,565)	(49,519)	(4,801)	(10,200)
Gross-settled derivative financial instruments - cash inflow	35,071,167	350,943	55,382	-	-
Gross-settled derivative financial instruments - cash outflow	(36,303,016)	(365,107)	(56,541)	-	-
	(1,370,096)	**(18,729)**	**(50,678)**	**(4,801)**	**(10,200)**
2017					
Net-settled derivative financial instruments	(21,564)	(7,413)	(65,178)	(8,750)	(20)
Gross-settled derivative financial instruments - cash inflow	11,792,790	308,443	-	-	-
Gross-settled derivative financial instruments - cash outflow	(12,020,672)	(310,154)	-	-	-
	(249,446)	**(9,124)**	**(65,178)**	**(8,750)**	**(20)**

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

SECURITIES LENDING AND SIMILAR AGREEMENTS

Accounting Policy

Securities lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the Statement of Financial Position if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral advanced by the borrower in the form of cash is recognised as an asset in the Statement of Financial Position, along with a corresponding obligation to repay the cash collateral to the borrower, once the securities have been returned.

Securities purchased under reverse repurchase agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded separately in the Statement of Financial Position as an investment, reflecting the transaction's economic substance as a loan by the Fund. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate.

(f) Offsetting financial assets and financial liabilities

At balance date the Fund was subject to multiple master netting arrangements with its derivative financial instrument and securities lending and similar agreements' counterparties.

The Fund offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis. Each master netting arrangement allows for net settlement of certain open contracts where the Fund and respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. However, each party to the master netting arrangement will have the option to settle all open contracts on a net basis in the event of default of the other party. Under the terms of the master netting arrangements, collateral can only be seized by a party in the event of default of the other party.

The following tables present the Fund's financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:

	FUND ACTUAL					
	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET IN THE STATEMENT OF FINANCIAL POSITION		
2018	GROSS AMOUNTS	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	FINANCIAL INSTRUMENTS	CASH COLLATERAL	NET AMOUNT
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
Financial assets						
Derivative financial instrument assets	872,871	467,037	405,834	-	102,262	303,572
Reverse repurchase agreements*	855,183	-	855,183	912,398	-	(57,215)
Securities lending and similar agreements*	2,376,269	-	2,376,269	1,681,538	842,364	(147,633)
Financial liabilities						
Derivative financial instrument liabilities	(1,921,541)	(467,037)	(1,454,504)	-	(801,301)	(653,203)
2017						
Financial assets						
Derivative financial instrument assets	1,616,869	305,629	1,311,240	-	865,635	445,605
Reverse repurchase agreements*	-	-	-	-	-	-
Securities lending and similar agreements*	90,973	-	90,973	91,453	-	(480)
Financial liabilities						
Derivative financial instrument liabilities	(638,147)	(305,629)	(332,518)	-	(142,636)	(189,882)

* Financial instruments held as collateral against reverse repurchase and securities lending and similar agreements are held in escrow by a third party agent. Recourse of those securities is only available in the event of default of the borrower and, because of this, the non-cash collateral is not recognised in the Statement of Financial Position.

SECTION 4: FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Trade and other payables

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Trade payables	-	-
Accrued expenses	23,570	20,797
Unsettled purchases	506,739	2,335,849
Amounts owed for reimbursement of the Guardians' expenses	10,500	10,542
Trade and other payables	**540,809**	**2,367,188**
Represented by:		
Current	540,167	2,366,632
Non-current	642	556
	540,809	**2,367,188**

Trade and other payables represent amounts due to third parties in the normal course of business and to the Guardians for the reimbursement of expenses. The average credit period on trade payables is 30 days. No interest is charged on overdue balances. The Fund has risk management policies in place to ensure that all payables are paid within the credit time frame.

The timing and amount of expected cash flows for unsettled purchases are certain as they are based on contractual terms and corporate actions.

Other than the non-current portion of trade and other payables, all payables are expected to settle within one year. The non-current payable will settle progressively over a four-year period.

Short-term payables are initially recognised at fair value, then subsequently at amortised cost. As a result of their short-term nature, the carrying amount of trade and other payables held at amortised cost approximates fair value.

(h) Financial assets and financial liabilities expected to be recovered or settled after more than 12 months

Certain financial assets and financial liabilities combine amounts expected to be recovered or settled no more than 12 months after balance date and amounts expected to be recovered or settled more than 12 months after balance date. The following table sets out the amounts expected to be recovered or settled after more than 12 months:

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
ASSETS		
Investments - derivative financial instrument assets	182,882	198,963
Investments - other financial assets	8,194,350	7,124,141
Total financial assets	**8,377,232**	**7,323,104**
LIABILITIES		
Trade and other payables	642	556
Investments - derivative financial instrument liabilities	84,408	83,073
Total financial liabilities	**85,050**	**83,629**
Net financial assets	**8,292,182**	**7,239,475**

SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES

(a) Property, plant and equipment

	FUND ACTUAL			
	LAND AND LAND IMPROVEMENTS	BUILDINGS	OTHER	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000
Gross carrying amount				
Balance at 1 July 2016	130,878	20,313	10,617	161,808
Additions	296	59	1,258	1,613
Disposals	-	-	(86)	(86)
Transfer to unconsolidated subsidiaries*	(131,174)	(20,372)	(7,786)	(159,332)
Balance at 30 June 2017	**-**	**-**	**4,003**	**4,003**
Additions	-	-	332	332
Disposals	-	-	(21)	(21)
Transfer to unconsolidated subsidiaries*	-	-	-	-
Balance at 30 June 2018	**-**	**-**	**4,314**	**4,314**
Accumulated depreciation				
Balance at 1 July 2016	-	18	3,720	3,738
Depreciation expense	-	313	728	1,041
Depreciation recovered	-	-	(9)	(9)
Transfer to unconsolidated subsidiaries*	-	(331)	(2,454)	(2,785)
Balance at 30 June 2017	**-**	**-**	**1,985**	**1,985**
Depreciation expense	-	-	441	441
Depreciation recovered	-	-	(7)	(7)
Transfer to unconsolidated subsidiaries*	-	-	-	-
Balance at 30 June 2018	**-**	**-**	**2,419**	**2,419**
Net book value				
As at 30 June 2017	**-**	**-**	**2,018**	**2,018**
As at 30 June 2018	**-**	**-**	**1,895**	**1,895**

* During the year ended 30 June 2017, the Fund's property, plant and equipment relating to its rural holdings were transferred at book value into newly-formed unconsolidated subsidiaries. Refer to Note 9(a) for further disclosure on these asset transfers.

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SECTION 5: NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Accounting Policy

RECOGNITION AND MEASUREMENT

All items of property, plant and equipment are initially recognised at cost. Cost includes the value of consideration exchanged and those expenses directly attributable to bringing the item to working condition for its intended use.

Subsequent to initial recognition, all items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

DERECOGNITION

An item of property, plant and equipment is derecognised when it is sold or otherwise disposed of or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on disposal (being the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Comprehensive Income in the year in which the item is disposed of.

IMPAIRMENT

All items of property, plant and equipment are assessed for indicators of impairment at each balance date. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated, being the greater of fair value less costs to sell and value in use. Where the carrying amount of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The write-down is recognised in the Statement of Comprehensive Income. Where an impairment loss subsequently reverses, the carrying amount of the item is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognised for the item in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

Refer to Note 7(c) for the accounting policy on depreciation.

Included in other property, plant and equipment are leasehold improvements relating to office premises leased by the Guardians at 21 Queen Street, Auckland. The Guardians is the legal party to the lease, however all lease expenses incurred are reimbursed by the Fund. The Guardians is able to appropriate funds from the Crown to cover certain expenses, however these do not extend to property, plant and equipment. As a result, the Fund directly meets the cost of all leasehold improvements and accordingly, these assets are reflected in the financial statements of the Fund.

(b) Provision for performance-based fees

	FUND ACTUAL	
	2018 NZD'000	2017 NZD'000
Opening balance	15,642	16,214
New provision during the year	5,941	10,922
Unused provision released during the year	-	-
Current portion transferred to accrued expenses	(21,583)	(11,494)
Closing balance	**-**	**15,642**

Accounting Policy

A provision is recognised in the Statement of Financial Position when the Fund has a present obligation arising as a result of a past event, it is probable that cash will be paid to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into consideration the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

A provision is recognised by the Fund for performance-based fees payable to external investment managers where it is uncertain how much cash will be required to settle a liability and therefore an estimate is required. Performance-based fees are payable to certain external investment managers based on the performance of the assets under their management over and above an agreed benchmark. For some of these external investment managers, the pay-out of the current year's fee is capped, with the remainder of the fee being held by the Fund for possible pay-out in future periods. For those managers, poor performance in the following years may lead to a reduction in the entitlement that is being held. Thus, the amount and timing of the eventual pay-out is uncertain.

All provisions for performance-based fees are non-current.

SECTION 6: MANAGEMENT OF FUND CAPITAL AND RESERVES

(a) Fund capital

PURPOSE

Fund capital, which comprises investments and all other assets of the Fund less any liabilities, is the property of the Crown. The Fund's purpose is to build a portfolio of assets to help reduce the impact of providing retirement income, in the form of New Zealand superannuation, to an ageing population.

CAPITAL CONTRIBUTIONS

The Crown is required to make capital contributions to the Fund in accordance with Sections 42 to 44 of the New Zealand Superannuation and Retirement Income Act 2001 (Act). These capital contributions are made by the Crown for investment purposes based on a percentage of Gross Domestic Product (GDP). Under Section 44 of the Act, the Crown is entitled to contribute lesser amounts than calculated using the formula under Section 43 of the Act. The Government announced in the 2009 Budget a reduction in capital contributions to the Fund. As a consequence, no capital contributions were received between 1 July 2009 and the year ended 30 June 2017. In December 2017, the Government announced capital contributions to the Fund would resume, with the first payment being made on 15 December 2017. Capital contributions to the Fund are forecast to increase over the next 5 years with full capital contributions (in accordance with the formula in the Act) projected to resume from 2022/23 under current Treasury modelling. Fund capital contributions are recorded in the Statement of Changes in Public Equity.

CAPITAL WITHDRAWALS

Under Section 47 of the Act, no withdrawal of capital is permitted from the Fund prior to 1 July 2020.

SUPERANNUATION ENTITLEMENTS

Under Section 45 of the Act, the Minister of Finance must ensure that sufficient money is transferred into the Fund in each financial year to meet the net cost of the superannuation entitlements that are payable out of the Fund during that year. This requirement is additional to and separate from the obligation to make annual capital contributions. As no capital withdrawals are permitted from the Fund prior to 1 July 2020, the Minister of Finance is obliged to provide funding to meet superannuation entitlements in the interim. The Treasury, through the New Zealand Debt Management Office, has facilitated funding for these superannuation entitlements from the Minister of Finance to the Ministry of Social Development on behalf of the Fund. The Guardians has no control over these transfers, with The Treasury acting as agent for the Fund. Transfers for superannuation entitlements are recorded in the Statement of Changes in Public Equity.

MANAGEMENT OF FUND CAPITAL

The Fund is a profit-oriented entity, managed by the Guardians. The Guardians' mandate is to invest the Fund on a prudent, commercial basis and, in doing so, ensure that the Fund is managed and administered in a manner consistent with best-practice portfolio management, maximising return without undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. The contributions from the Crown to the Fund are invested in accordance with its Statement of Investment Policies, Standards and Procedures, which is available at www.nzsuperfund.co.nz.

(b) Reserves

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases and decreases in the fair value of land and land improvements, buildings and intangible assets.

AVAILABLE-FOR-SALE RESERVE

This reserve records movements in the fair value of available-for-sale financial assets.

SECTION 7: FINANCIAL PERFORMANCE

(a) Income

	FUND ACTUAL	
	2018 NZD'000	2017 NZD'000
Interest income	276,992	299,213
Dividend income	551,485	450,272
Net fair value gains on financial instruments designated at fair value through profit or loss upon initial recognition	2,643,229	2,804,443
Net fair value gains on financial instruments held at fair value through profit or loss - held for trading	669,822	2,003,756
Net foreign exchange gains	346,734	758,425
Other income	146	6,947
Net operating income	**4,488,408**	**6,323,056**
Interest income - financial instruments at fair value through profit or loss	214,645	203,321
Interest income - financial instruments not at fair value through profit or loss	62,347	95,892
Total interest income	**276,992**	**299,213**

Accounting policy

Income is recognised when it is probable that economic benefits will flow to the Fund and the income can be reliably measured, regardless of when payment is being made. The following specific recognition criteria must also be met before income is recognised:

INTEREST INCOME

For financial instruments measured at fair value, interest income is recognised on an accruals basis, either daily or on a yield-to-maturity basis. For financial instruments not at fair value through profit or loss, interest income is recognised as the interest accrues using the effective interest method, which allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

DIVIDEND INCOME

Dividend income is recognised when the shareholder's rights to receive payment has been established, normally the ex-dividend date. Where the Fund has elected to receive dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(b) Income received and gains and losses recognised from interests in unconsolidated structured entities

The following table summarises income received and fair value gains and losses on financial instruments held at fair value through profit or loss recognised in the Statement of Comprehensive Income from interests in unconsolidated structured entities:

	FUND ACTUAL				
STRUCTURED ENTITY TYPE	INTEREST INCOME	DIVIDEND INCOME	FAIR VALUE GAINS	FAIR VALUE LOSSES	TOTAL
	NZD'000	NZD'000	NZD'000	NZD'000	NZD'000
2018					
Fixed income securities:					
Asset-backed securities	15,716	-	1,810	(1,603)	15,923
Collateralised debt obligations and collateralised loan obligations	-	-	-	-	-
Mortgage-backed securities	12,863	-	1,259	(5,421)	8,701
Agency mortgage-backed securities	7,819	-	1,496	(9,045)	270
Shareholder loans	9,507	-	311	(70)	9,748
Collective investment funds	-	-	139,286	(8,544)	130,742
Insurance-linked investments - catastrophe bonds	4,516	-	812	(2,100)	3,228
Private equity investments	-	17,911	684,342	(135,893)	566,360
Unconsolidated subsidiaries	-	5,319	268,376	(17,063)	256,632
2017					
Fixed income securities:					
Asset-backed securities	12,644	-	1,406	(59)	13,991
Collateralised debt obligations and collateralised loan obligations	83	-	15	-	98
Mortgage-backed securities	13,912	-	25,108	(6,741)	32,279
Agency mortgage-backed securities	5,502	-	1,020	(6,450)	72
Shareholder loans	8,571	-	18	(84)	8,505
Collective investment funds	273	-	83,992	(21,388)	62,877
Insurance-linked investments - catastrophe bonds	4,125	-	1,947	(1,213)	4,859
Private equity investments	-	2,402	387,786	(30,103)	360,085
Unconsolidated subsidiaries	-	277	102,997	(9,191)	94,083

(c) Operating expenditure

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Reimbursement of Guardians' expenses	45,255	40,540
Managers' fees - base	28,821	24,967
Managers' fees - performance	5,942	15,659
Farm operating expenses	-	8,126
Custody fees	6,404	5,050
Depreciation	441	1,041
Amortisation	199	396
Loss on disposal of property, plant and equipment	16	11
Auditor's remuneration	474	453
Professional advisors	10,114	7,360
Trade expenses	6,049	7,696
Other expenses	2,489	10,034
Operating expenditure	**106,204**	**121,333**

Accounting policy

DEPRECIATION

Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment to estimated residual value over their estimated useful lives. The estimated useful lives of the major categories of property, plant and equipment are as follows:

Computer and office equipment	3 years
Office fit-out	12 years

The cost of office fit-out is capitalised and depreciated over the unexpired period of the lease (held by the Guardians) or the estimated remaining useful lives of the improvements, whichever is shorter.

(d) Auditor's remuneration

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Audit of the Fund's financial statements	416	411
Audit of the Fund's unconsolidated subsidiaries financial statements met by the Fund	41	20
Other fees paid to auditor	17	22
Total auditor's remuneration	**474**	**453**

The auditor of the Fund is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General. Audit fees paid to the auditor for the audit of the Fund's unconsolidated subsidiaries related to the audit of NZSF Land Holdings Limited, NZSF Tui Investments Limited, NZSF Australian Rural Holdings Limited and NZSF Horticulture Investments Limited. Not all of the Fund's unconsolidated subsidiaries are audited by the auditor of the Fund. As a consequence not all audit fees relating to unconsolidated subsidiaries are reflected in the above fees.

The other fees paid to the auditor of the Fund were for the assurance review of the calculation of Fund performance and the assurance review of the annual self-assessment of the Guardians' adherence to the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles).

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(e) Income tax

The income tax expense included in the Statement of Financial Performance is analysed as follows:

	FUND ACTUAL	
	2018 NZD'000	2017 NZD'000
Components of income tax expense		
Current tax expense:		
Current period	270,387	1,197,424
Prior period adjustment	(30,178)	(3,597)
Total current tax expense	**240,209**	**1,193,827**
Deferred tax expense:		
Current period	110,076	62,361
Prior period adjustment	502	(1,157)
Total deferred tax expense	**110,578**	**61,204**
Income tax expense	**350,787**	**1,255,031**
Reconciliation of income tax expense and accounting profit for the year		
Profit for the year before income tax expense	4,382,204	6,201,723
Income tax expense calculated at 28%	1,227,017	1,736,482
Fair Dividend Rate*	(708,071)	(308,841)
Dividend imputation credits	(18,126)	(17,858)
Portfolio Investment Entities (PIE) Regime	(112,623)	(161,666)
Controlled Foreign Companies (CFC) Regime	(9,086)	(2,240)
Expenses non-deductible for tax purposes	-	986
Prior period adjustments	(29,676)	(4,754)
Other items	1,352	12,922
Income tax expense	**350,787**	**1,255,031**
Tax expense relating to items charged or credited directly to equity		
Deferred tax on asset revaluation reserve	-	2,094
	-	**2,094**

* The Fund applies the 'Fair Dividend Rate' (FDR) to all equity investments excluding New Zealand equities and certain Australian equities listed on the Australian Stock Exchange (ASX). The investments subject to FDR are taxed on 5% of their market value. Gains, losses and dividends on these investments are not subject to any further tax.

The table below sets out the deferred tax liability recognised in the Statement of Financial Position, together with movements during the year:

	FUND ACTUAL			
	RECOGNISED 2017	CHARGED TO PROFIT OR LOSS	CHARGED DIRECTLY TO EQUITY	RECOGNISED 2018
	NZD'000	NZD'000	NZD'000	NZD'000
Deferred tax liability comprises temporary differences attributable to:				
Timber investments - forest revaluation	(363,024)	(86,957)	-	(449,981)
Other items	(1,699)	(23,621)	-	(25,320)
Total deferred tax liability	**(364,723)**	**(110,578)**	**-**	**(475,301)**

Accounting Policy

In accordance with Section HR 4B of the Income Tax Act 2007, income derived by the Fund is subject to New Zealand tax determined using the rules applying to companies. The income tax expense recognised in profit or loss in the Statement of Comprehensive Income comprises current and deferred tax and is based on accounting profit, adjusted for permanent differences between accounting and tax rules. Income tax relating to items of other comprehensive income is recognised in other comprehensive income.

Current tax is the expected tax payable to or receivable from the taxation authorities based on the taxable income or loss for the year and any adjustment in respect of prior years. It is calculated using tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the tax bases of assets and liabilities at balance date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss other than in a business combination; and
- temporary differences relating to investments in subsidiaries, associates and interests in joint ventures where it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses only to the extent that it is probable that sufficient taxable profit will be available to utilise the deductible temporary differences, the carry forward of unused tax credits and unused tax losses. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset when a legally enforceable right to set-off exists, the deferred tax balances relate to income taxes levied by the same taxation authority and the Fund intends to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2018

SECTION 7: FINANCIAL PERFORMANCE (CONTINUED)

(f) Reconciliation of profit for the year to net cash flows from operating activities

The following is a reconciliation of profit for the year to cash provided by operating activities as per the Statement of Cash Flows.

	FUND ACTUAL	
	2018 NZD'000	2017 NZD'000
Profit for the year after income tax expense	4,031,417	4,946,692
Add/(Deduct) non-cash items:		
Depreciation and amortisation	640	1,437
Loss on revaluation of property, plant and equipment	(7)	-
Net fair value gains on financial instruments at fair value through profit or loss	(3,313,051)	(4,808,199)
Net foreign exchange gains	(346,734)	(758,425)
Increase in deferred tax liability	110,578	59,110
Other non-cash items	(10,285)	(2,220)
Add items classified as investing activities:		
Loss on disposal of property, plant and equipment	16	11
Changes in working capital:		
(Increase)/Decrease in assets:		
Trade and other receivables	577,785	(1,036,210)
Other current assets	-	924
Increase/(Decrease) in liabilities:		
Trade and other payables	(1,826,379)	2,068,522
Provision for Performance based fees	(15,642)	(572)
Increase/(Decrease) in current tax	(632,847)	257,680
Add/(Deduct) changes in net assets and liabilities related to operating cash flows not included in net profit:		
Unsettled sales	(561,656)	1,012,349
Unsettled purchases	1,829,110	(2,067,459)
Add/(Deduct) net operating cash flows not included in net profit*	(1,998,799)	776,896
Net cash provided by/(used in) operating activities	**(2,155,854)**	**450,536**

* Net operating cash flows not included in net profit is primarily comprised of the cash flows arising from the sale and purchase of investments and the net movement in cash collateral.

SECTION 8: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

Accounting Policy

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

The Fund has no operating leases at balance date.

CAPITAL COMMITMENTS

At 30 June 2018, the Fund had outstanding commitments to private equity investment funds (excluding those classified as unconsolidated subsidiaries) totalling $278,709,000 (2017: $127,093,000), of which $203,000 has been called but not yet paid (2017: $3,402,000). Additionally, private equity investment funds that have reached the end of their contracted investment periods can call for 'follow on capital' under restricted conditions to support existing investments. The Fund has an additional commitment of $451,140,000 for follow on capital (2017: $306,703,000). These commitments are denominated in the foreign currency of the respective investment fund and have been translated at the exchange rate prevailing at balance date.

At 30 June 2018, the Fund had outstanding commitments under loan agreements totalling $73,357,000 (2017: $267,884,000). Under the loan agreements, the borrower can call for cash by giving the Fund up to 2 business days notice.

CONTINGENCIES

The Fund, through its subsidiary (NZSF Tui Investments Limited), together with Accident Compensation Corporation (ACC), has issued notice of a potential, unquantified warranty claim to New Zealand Post Limited (NZ Post) with regard to the purchase of Kiwi Group Holdings Limited. NZSF Tui Investments Limited and ACC are in discussions with NZ Post regarding resolving the potential warranty claim. No amounts have been recognised in the Fund's financial statements in relation to this notice.

The Fund has no contingent liabilities at balance date (2017: nil).

(b) Subsequent events

There were no reportable events subsequent to balance date (2017: nil).

SECTION 9: OTHER INFORMATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The definition includes subsidiaries, associates and joint ventures. All related party transactions have been entered into on an arm's length basis.

PARENT ENTITY

The Fund is managed and administered by the Guardians which is a wholly owned entity of the Crown. Both the Guardians and the Crown prepare financial statements that are available to the public.

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. These expenses are included in the financial statements of the Guardians. The amount of reimbursement to the Guardians For the year ended 30 June 2018 was $45,255,000 (2017: $40,540,000). The related party payable to the Guardians as at 30 June 2018 is $10,500,000 (2017: $10,542,000).

UNCONSOLIDATED SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Transactions entered into with subsidiaries, associates and joint ventures during the year are as follows:

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Unconsolidated subsidiaries		
Expenses paid by the Fund on behalf of unconsolidated subsidiaries	41	63
Interest on loans made to unconsoldiated subsidiaries	878	-
Transfer of rural assets to unconsolidated subsidiaries	-	206,106

During the year, the Fund established 9 new subsidiaries (accounted for as unconsolidated subsidiaries), for the purpose of holding, facilitating and managing its investments, as outlined in note 1(e). Holding these investments via subsidiaries, rather than holding them directly, provides the Fund with greater flexibility in terms of future investment decisions.

During the year ended 30 June 2017, all of the Fund's rural assets were transferred into subsidiaries at book value. No gains or losses were recognised as a result of this transfer. The impact of this on the Fund's Statement of Financial Position was a transfer of property, plant and equipment; livestock; forests; investments in cooperative and processing companies and working capital items collectively into 'investments in unconsolidated subsidiaries'. As a result of this transfer, all comprehensive income arising from these rural operations since 1 January 2017 is reflected in 'net fair value gains on financial instruments held at fair value through profit or loss upon initial recognition'.

The Fund has made a financial commitment to Bain Capital Credit Managed Account (NZSF) Limited Partnership totalling $267,294,000 (equivalent to EUR 155m) (2017: $241,444,000), of which $154,516,000 remains outstanding at balance date (2017: $146,152,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 22 September 2019.

The Fund has made a financial commitment to Canyon NZ-DOF Investing Limited Partnership totalling $369,250,000 (equivalent to USD 250m) (2017: $341,436,000) of which $166,163,000 remains outstanding at balance date (2017: $204,862,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days’ notice. This financial commitment expires on 30 November 2019.

The Fund has made a financial commitment to KKR Energy Investor Limited Partnership totalling $159,701,000 (equivalent to USD 108m) (2017: $341,437,000), of which $3,329,000 remains outstanding at balance date (2017: $216,990,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 12 February 2019.

The Fund has made a financial commitment to NZSF Hobsonville Investments Limited totalling $46,787,000 (2017: $46,787,000), of which $12,082,000 remains outstanding at balance date (2017: $39,901,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 5 business days' notice.

The Fund has made a financial commitment to NZSF Land Holdings Limited totalling $11,603,000 (2017: $11,603,000), of which $3,801,000 remains outstanding at balance date (2017: $9,945,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 5 business days' notice.

The Fund has made an interest-free loan to NZSF Rural Holdings Limited of $10,000,000, repayable on demand.

The Fund has made a financial commitment to NZSF US Renewables, Inc. totalling $66,465,000 (equivalent to USD 45m) (2017: $61,459,000) of which $13,958,000 remains outstanding at balance date (2017: $26,974,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 31 January 2020. Additionally, NZSF US Renewables, Inc. has committed to providing financial support to its joint venture, Longroad Energy Holdings, LLC in respect of a letter of credit taken on by that company. In the event that Longroad Energy Holdings, LLC is unable to pay any outstanding amount arising from the letter of credit as it falls due, NZSF US Renewables, Inc. may require additional funding from the Fund to enable it to provide the required support. At balance date, the letter of credit totalled $179,012,000 (equivalent to USD 121m) of which NZSF US Renewables, Inc.'s share was $89,500,000 (equivalent to USD 60m).

The Fund has made a financial commitment NZSF Side Car (Movac) Limited Partnership totalling $25,000,000 (2017: $25,000,000) of which $17,686,000 remains outstanding at balance date (2017: $23,207,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 2 November 2021.

The Fund has made a financial commitment to NZSF Side Car (Pioneer) Limited Partnership totalling $60,000,000 (2017: $60,000,000) of which $48,577,000 remains outstanding at balance date (2017: $55,161,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 2 December 2021.

The Fund has made a financial commitment to NZSF Variable Co-Investment (Direct Capital) Limited Partnership totalling $50,000,000 (2017: $50,000,000) of which $30,910,000 remains outstanding at balance date (2017: $49,547,000). The unconsolidated subsidiary can call on this financial commitment at any time by giving not less than 10 business days' notice. This financial commitment expires on 14 December 2022.

Related party loans to NZSF Australian Rural Holdings Trust and Palgrove Holdings Pty Limited are composed of interest-bearing loans of $42,995,000 and $8,916,000 respectively (2017: $nil and $nil) repayable on 14 August 2027.

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Associates		
Interest income	3,541	3,548

Related party loans to Kaingaroa Timberlands Partnership and associated companies comprise interest-bearing loans of $50,340,000 (2017: $50,340,000) repayable on 24 May 2043 and an interest-free loan of $13,610,000 (2017: $20,418,000) repayable on demand.

	FUND ACTUAL	
	2018	2017
	NZD'000	NZD'000
Joint ventures		
Dividend income	5,921	8,112
Other income	1,950	-
Purchase of property, plant and equipment	3	48
Purchase of intangible assets	113	28

Amounts accrued or payable to joint ventures for purchases of property, plant and equipment and intangible assets at 30 June 2018 were $3,000 (2017: $48,000). Payables have standard 30-day credit terms. No interest is charged on overdue balances.

OTHER GOVERNMENT-RELATED ENTITIES

At balance date, the Fund held fixed income securities issued by the New Zealand Government valued at $671,000 (2017: $1,385,000). Interest income earned from these investments for the year was $79,000 (2017: $58,000).

At balance date, the Fund held 33,725,000 (2017: 36,341,000) shares in Meridian Energy Limited, valued at $105,223,000 (2017: $105,751,000). Dividend income earned during the year from holdings in this entity amounted to $6,093,000 (2017: $6,612,000).

SECTION 9: OTHER INFORMATION (CONTINUED)

At balance date, the Fund held 7,303,000 (2017: 4,253,000) shares in Air New Zealand Limited, valued at $23,188,000 (2017: $13,864,000). Dividend income earned during the year from holdings in this entity amounted to $1,129,000 (2017: $887,000).

At balance date, the Fund held 15,769,000 (2017: 14,712,000) shares in Mercury NZ Limited, valued at $53,140,000 (2017: $48,844,000). Dividend income earned during the year from holdings in this entity amounted to $2,791,000 (2017: $2,327,000).

At balance date, the Fund held, through its subsidiary NZSF Tui Investments Limited, 227,789,000 (2017: 227,789,000) ordinary shares and 61,750,000 (2017: 61,750,000) redeemable preference shares in Kiwi Group Holdings Limited. The total cost of these investments was $324,250,000 (2017: $324,250,000).

(b) Comparison to budget (unaudited)

During the year ended 30 June 2018 the specific asset mix of the Fund varied from the budgeted figures and market returns were higher than the long-term return expectations on which the budget is based. Given the weight of growth assets in the Fund, management expects significant year to year variations in the Fund's returns. It is not possible to accurately predict these variations and incorporate them into the budget

Independent Auditor's Report

TO THE READERS OF THE NEW ZEALAND SUPERANNUATION FUND'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of the New Zealand Superannuation Fund (the Fund). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Fund on his behalf.

OPINION

We have audited the financial statements of the Fund on pages 116 to 176, that comprise the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income, Statement of Changes in Public Equity 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 Fund on pages 116 to 176:

- Present fairly, in all material respects:
  - Its financial position as at 30 June 2018; and
  - Its financial performance and cash flows for the year then ended; and
- Comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 27 September 2018. 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 Guardians 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 of the financial statements 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 audit opinion.

RESPONSIBILITIES OF THE GUARDIANS FOR THE FINANCIAL STATEMENTS

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

The Guardians are responsible for such internal control as they determine is necessary to enable them to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Guardians are responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Guardians are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Guardians intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Guardians' responsibilities arise from the New Zealand Superannuation and Retirement Income Act 2001.

RESPONSIBILITIES OF THE AUDITOR OF THE FINANCIAL STATEMENTS

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

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

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

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Guardians.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Guardians and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund'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 Fund 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 Guardians 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 Guardians are responsible for the other information. The other information comprises the information included on pages 1 to 114, 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 Fund in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

We have performed limited assurance engagements in respect of Fund performance and the Fund's self-assessment against the Santiago Principles. Other than these engagements and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

For the year ended 30 June 2018

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for the preparation of the annual financial statements and the Statement of Performance of the Guardians of New Zealand Superannuation and Group and the judgements used in them.

The Board and management of the Guardians of New Zealand Superannuation accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting of the Guardians of New Zealand Superannuation and Group.

In the opinion of the Board and management of the Guardians of New Zealand Superannuation, the annual financial statements and the Statement of Performance for the year ended 30 June 2018 fairly reflect the financial position, operations and cash flows of the Guardians of New Zealand Superannuation and Group.

CATHERINE SAVAGE
CHAIR
27 September 2018

LINDSAY WRIGHT
BOARD MEMBER
27 September 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2018		ACTUAL	ACTUAL	BUDGET (UNAUDITED)
		2018	2017	2018
	NOTE	NZD'000	NZD'000	NZD'000
Revenue	2(a)	46,112	41,629	52,308
Expenses	2(b)	46,112	41,629	52,308
Surplus/(Deficit) for the year		**-**	**-**	**-**
Other comprehensive revenue and expense		-	-	-
Total comprehensive revenue and expense for the year		**-**	**-**	**-**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018	NOTE	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000	BUDGET (UNAUDITED) 2018 NZD'000
ASSETS				
Current assets				
Cash and cash equivalents	4(b)	2,392	1,286	1,317
Receivables from exchange transactions	4(c)	10,133	10,628	9,900
Receivables from non-exchange transactions	4(c)	97	96	-
Prepayments		436	363	-
Total current assets		**13,058**	**12,373**	**11,217**
Non-current assets				
Receivables from exchange transactions	4(c)	642	556	-
Property, plant and equipment	4(d)	-	-	-
Total non-current assets		**642**	**556**	**-**
Total assets		**13,700**	**12,929**	**11,217**
LIABILITIES				
Current liabilities				
Payables under exchange transactions	4(e)	1,496	885	586
Employee entitlements	4(f)	10,378	10,143	8,333
Income received in advance		-	76	-
Deferred lease incentive	4(g)	86	86	131
Total current liabilities		**11,960**	**11,190**	**9,050**
Non-current liabilities				
Employee entitlements	4(f)	642	556	1,027
Deferred lease incentive	4(g)	598	683	640
Total non-current liabilities		**1,240**	**1,239**	**1,667**
Total liabilities		**13,200**	**12,429**	**10,717**
Net assets		**500**	**500**	**500**
PUBLIC EQUITY				
Accumulated comprehensive revenue and expense		-	-	-
General equity reserve		500	500	500
Total public equity	4(h)	500	500	500

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN PUBLIC EQUITY

For the year ended 30 June 2018	ACTUAL		
	GENERAL EQUITY RESERVE	ACCUMULATED COMPREHENSIVE REVENUE AND EXPENSE	TOTAL
	NZD'000	NZD'000	NZD'000
Balance at 1 July 2016	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2017	**500**	**-**	**500**
Total comprehensive revenue and expense for the year	-	-	-
Balance at 30 June 2018	**500**	**-**	**500**

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018	NOTE	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000	BUDGET (UNAUDITED) 2018 NZD'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Receipts from the Crown		633	791	728
Receipts from the New Zealand Superannuation Fund		45,297	38,155	49,199
Interest received		46	52	60
Goods and Services Tax		-	-	58
Other receipts		582	51	125
Total cash inflow from operating activities		**46,558**	**39,049**	**50,170**
Cash was applied to:				
Payments to Board members		(394)	(409)	(417)
Payments to suppliers		(11,701)	(9,147)	(15,047)
Payments to employees		(33,243)	(30,000)	(35,432)
Goods and Services Tax		(114)	(68)	-
Total cash outflow from operating activities		**(45,452)**	**(39,624)**	**(50,896)**
Net cash provided by/(used in) operating activities		**1,106**	**(575)**	**(726)**
Net cash provided by investing activities		**-**	**-**	**-**
Net cash provided by financing activities		**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**1,106**	**(575)**	**(726)**
Cash and cash equivalents at the beginning of the financial year		1,286	1,861	2,043
Cash and cash equivalents at the end of the financial year	4(b)	2,392	1,286	1,317

The attached notes form part of, and should be read in conjunction with, these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June 2018	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
RECONCILIATION OF SURPLUS/(DEFICIT) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(Deficit) for the year	-	-
Changes in working capital:		
(Increase)/Decrease in assets:		
Receivables and prepayments	335	(2,352)
Increase/(Decrease) in liabilities:		
Trade and other payables	856	1,529
Deferred lease incentive	(85)	248
Net cash provided by/(used in) operating activities	**1,106**	**(575)**

The attached notes form part of, and should be read in conjunction with, these financial statements.

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE, AND BASIS OF PREPARATION

(a) General information

These are the financial statements of the Guardians of New Zealand Superannuation (Guardians) and its subsidiaries (Group). The Guardians is a Crown entity as defined by the Crown Entities Act 2004. The Guardians is also a public authority in terms of the Income Tax Act 2007 and therefore is exempt from income tax.

The Guardians is domiciled in New Zealand and the address of its principal place of business is set out in the Corporate Directory on page 213.

The financial statements of the Guardians and Group for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of the Guardians of New Zealand Superannuation on 27 September 2018.

(b) Statement of compliance

The financial statements have been prepared in accordance with the Crown Entities Act 2004 and the Public Finance Act 1989.

The Guardians is a public benefit entity, as the primary purpose is to manage and administer the New Zealand Superannuation Fund (Fund). The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Tier 1 Public Benefit Entity (PBE) Accounting Standards.

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (NZD'000) unless stated otherwise.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported. Accounting policies relating to specific financial statement items are set out in the relevant notes to the financial statements. Accounting policies that materially affect the financial statements as a whole are set out below.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Guardians and its subsidiaries as at 30 June 2018.

The financial statements of subsidiaries are prepared for the same reporting period as the Guardians using consistent accounting policies. In preparing consolidated financial statements, all inter-entity transactions, balances, unrealised gains and losses are eliminated.

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE, AND BASIS OF PREPARATION (CONTINUED)

(e) Subsidiaries

Subsidiaries are those entities that are controlled by the Guardians. The Guardians controls an entity when it has the power to govern the financial and operating policies of that entity so as to obtain benefits from their activities.

The Guardians has interests in the following subsidiaries:

				OWNERSHIP INTEREST AND VOTING RIGHTS	
NAME	NOTE	BALANCE DATE	COUNTRY OF INCORPORATION	2018 %	2017 %
New Zealand Superannuation Fund Nominees Limited	(i)	30 June	New Zealand	100	100
NZSF Timber Investments (No. 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Timber Investments (No. 4) Limited	(i)	30 June	New Zealand	100	100
NZSF Private Equity Investments (No. 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Rural Investments (No. 1) Limited	(i)	30 June	New Zealand	100	100
NZSF Aotea Limited	(ii)	30 June	New Zealand	100	100

(i) The principal activity of each subsidiary is to act as a nominee company, holding assets and liabilities on behalf of the Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements. Nominee companies may only act on the direction of the Guardians.

(ii) The principal activity of NZSF Aotea Limited is to hold assets and liabilities on behalf of the Fund. These assets and liabilities are recognised in the financial statements of the Fund and accordingly are not presented in these financial statements.

(f) Significant judgements and estimates

The preparation of the Guardians financial statements requires the Board and management to make judgements and use estimates that affect the reported amounts of revenue, expenses, assets, liabilities and the accompanying disclosures. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amounts of assets and liabilities in future periods. The judgements and estimates used by the Board and management are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Guardians and that are believed to be reasonable under the circumstances. The judgements and estimates that the Board and management have assessed to have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Employee entitlements - long service leave (Note 4(f)); and
- Employee entitlements - long-term portion of incentives (Note 4(f)).

(g) Other significant accounting policies

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are converted to New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary assets and liabilities are translated at the exchange rate prevailing at balance date. Where there is a movement in the exchange rate between the date of a foreign currency transaction and balance date, the resulting exchange differences are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

GOODS AND SERVICES TAX (GST)

Revenue, expenses, assets and liabilities are recognised in the financial statements exclusive of GST, with the exception of receivables and payables which are stated inclusive of GST. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.

STATEMENT OF CASH FLOWS

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

Operating activities include all activities other than investing or financing activities. Cash inflows include all receipts from the sale of goods and services, interest and other sources of revenue that support the Group's operating activities. Cash outflows include payments made to employees, suppliers and for taxes and levies, other than income tax.

Investing activities are those activities relating to the acquisition, holding and disposal of current and non-current securities and any other non-current assets.

Financing activities are those activities relating to changes in public equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(h) Changes in accounting policies

There have been no changes in accounting policies during the year. All accounting policies have been applied consistently throughout these financial statements.

Certain prior year comparatives have been restated to conform with current year presentation.

SECTION 1: GENERAL INFORMATION, STATEMENT OF COMPLIANCE, AND BASIS OF PREPARATION (CONTINUED)

(i) Standards issued but not yet effective

The following standard has been issued but is not yet effective for the year ended 30 June 2018.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON FINANCIAL STATEMENTS	APPLICATION DATE FOR GUARDIANS*
PBE IFRS 9	Financial Instruments	PBE IFRS 9 introduces into PBE Standards the reforms introduced by NZ IFRS 9 in the for-profit sector. This standard replaces most of the requirements of PBE IPSAS 29. The new standard: (a) Introduces a new classification model for financial assets, which may cause certain financial assets to be classified and measured differently as compared with PBE IPSAS 29. (b) Introduces a more flexible and less rules-based hedge accounting model, which allows hedge accounting to be applied to a wider range of risk management strategies. (c) Introduces a new forward-looking impairment model for financial assets, based on expected credit loss, which may cause certain assets to be impaired earlier than they would under the current 'incurred loss' model. (d) Requires PBE's to provide additional disclosures about hedge accounting and impairment. Early application of the standard is permitted.	1 January 2021 / 1 January 2018 for Crown entities	The new standard will affect the classification of some financial assets but it will not have a material impact on the measurement of financial assets in the Guardians financial statements.	1 July 2018

* Designates the beginning of the applicable annual reporting period.

(j) Budget figures

The budget was approved by the Board of the Guardians of New Zealand Superannuation for the year ended 30 June 2018. The budget figures are unaudited.

SECTION 2: FINANCIAL PERFORMANCE

(a) Revenue

	NOTE	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Cost reimbursement from the New Zealand Superannuation Fund	3(a)	45,255	40,540
Other revenue		177	440
Interest income		46	52
Revenue from exchange transactions		**45,478**	**41,032**
Appropriations from the Crown	3(a)	634	597
Revenue from non-exchange transactions		**634**	**597**
Total revenue		**46,112**	**41,629**

Accounting Policy

The Guardians primarily derives revenue through the provision of services to the Crown and to the Fund. Revenue is recognised when it is probable that economic benefits will flow to the Guardians and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

REVENUE FROM EXCHANGE TRANSACTIONS

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Rendering of services

Cost reimbursement from the Fund is recognised by reference to the stage of completion of services provided at balance date when the transaction involving the rendering of services can be reliably estimated. The stage of completion is measured by the proportion of costs incurred to date compared with estimated total costs of the transaction.

Interest income

Interest income is recognised as the interest accrues, using the effective interest method. The effective interest method allocates interest at a constant rate of return over the expected life of the financial instrument based on the estimated future cash flows.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Appropriations from the Crown

Revenue is recognised from the Crown when it is probable that appropriations will be received, the value of those appropriations can be reliably measured and the transfer is free from conditions that require the assets to be refunded or returned to the Crown if the conditions are not fulfilled. To the extent there is a related condition attached to the appropriations that would give rise to a liability to repay the appropriate amount, deferred revenue is recognised instead of revenue. In such situations, revenue is then recognised as the conditions are satisfied.

SECTION 2: FINANCIAL PERFORMANCE (CONTINUED)

(b) Expenses

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Employee benefits (including salaries, annual leave and long service leave) and other employment-related expenses	25,324	23,704
Employee incentive scheme	7,976	7,861
Employer contributions to KiwiSaver	1,291	968
Employee entitlements and other employment-related expenses	**34,591**	**32,533**

Further disclosures on employee entitlements are contained in Note 4(f).

	NOTE	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Travel and accommodation expenses		2,242	1,918
IT expenses		4,072	2,993
Operating lease expenses		1,137	657
Professional fees		817	360
Board members' fees	3(a)	394	409
Auditor's remuneration	2(c)	47	46
Other expenses		2,812	2,713
Other expenses		**11,521**	**9,096**
Total expenses		**46,112**	**41,629**

Operating lease expenses relate to office premises in one location with a remaining term of 8 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period. Non-cancellable lease commitments payable in relation to the leased asset have been disclosed in Note 6(a).

Accounting Policy

OPERATING LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is (or contains) a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases in which the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease expenses are recognised on a straight-line basis over the period of the lease.

(c) Auditor's remuneration

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Audit of the Guardians financial statements	47	46
Audit of subsidiaries of the Group	-	-
Total auditor's remuneration	**47**	**46**

The auditor of the Group is Graeme Bennett of Ernst & Young, on behalf of the Auditor-General.

The financial statements of the Group's subsidiaries are not separately audited following the July 2013 amendments to the Crown Entities Act 2004 which include removal of the requirement for subsidiaries to prepare and have audited individual financial statements.

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION

(a) Related party transactions

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions.

All related party transactions have been entered into on an arm's length basis. Outstanding amounts with related parties at balance date are unsecured and subordinate to other liabilities. Interest is not charged on outstanding balances. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 30 June 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: $nil).

PARENT ENTITY

The parent entity in the Group is the Guardians which is a Crown Entity. Crown appropriations for the year ended 30 June 2018 were $634,000 (2017: $597,000). The related party receivable from the Crown as at 30 June 2018 is $97,000 (2017: $96,000).

SUBSIDIARIES

Details of the Guardians interests in subsidiaries are disclosed in Note 1(e). There were no related party transactions with these entities during the year.

OTHER RELATED PARTIES

The Guardians pays expenses relating to the Fund, as it is required to do under the Act. A portion of these expenses is reimbursed by the Fund as is entitled under the Act. The amount of reimbursement from the Fund for the year ended 30 June 2018 was $45,255,000 (2017: $40,540,000). The related party receivable from the Fund as at 30 June 2018 is $10,500,000 (2017: $10,542,000).

In addition to the above, the Group purchases services from Datacom Employer Services Limited and Datacom Systems Limited, which are subsidiaries of a joint venture owned by the Fund. These purchases totalled $1,557,000 for the year ended 30 June 2018 (2017: $1,317,000). The related party payable to these entities as at 30 June 2018 is $165,000 (2017: $144,000).

OTHER GOVERNMENT-RELATED ENTITIES

In conducting its activities, the Group is required to pay various taxes and levies (such as GST, Fringe Benefit Tax (FBT), Pay As You Earn (PAYE), and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Group is exempt from paying income tax.

The Group has entered into a number of other transactions with other government-related entities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

KEY MANAGEMENT PERSONNEL

Key management personnel of the Guardians comprise members of the Board and the Leadership Team.

The compensation of the Board and the Leadership Team is set out below:

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Leadership team		
Number of employees	7	7
Employee benefits (including salaries, annual leave and long service leave)	2,548	3,170
Employee incentive scheme	1,432	1,937
	3,980	**5,107**
Board members' fees		
Board members earned the following fees during the year:		
C Savage (Chair)	98	98
L Wright (Deputy Chair)	61	61
P Dunphy(retired 31 March 2018)	39	54
S Moir	49	49
C Ansley	49	49
D Pearce	49	49
J Williamson	49	49
	394	**409**

Board remuneration is set by the Minister of Finance in accordance with the Fees Framework for the Members of Statutory and Other Bodies Appointed by the Crown. The Minister has set the annual base fees for all Board members at $49,000, plus additional annual amounts for the Chair (a further $49,000), Deputy Chair (a further $12,250) and Chair of the Audit Committee (a further $4,900).

Board members' and employees' indemnity and insurance

The Guardians has indemnified Board members and certain employees (and former employees) who have been appointed as directors, nominated by the Guardians, or as other officers of entities in which the Guardians has invested. These indemnities are given, to the maximum extent permitted by the Crown Entities Act 2004, in respect of any liability connected with acts or omissions carried out as a consequence of the role. Each indemnified person is also indemnified in respect of costs incurred by that person in defending or settling any claim or proceeding.

The Guardians has effected Directors and Officers Liability insurance cover in respect of the liability or costs of Board members, employees and external director appointees.

SECTION 3: RELATED PARTY TRANSACTIONS AND EMPLOYEE REMUNERATION (CONTINUED)

(b) Employees' remuneration over $100,000 per annum

For a full discussion of the Guardians remuneration framework, please refer to page 90 of the Annual Report.

The total remuneration figures in the following table consist of both an employee's gross base salary and the proportion of their incentive entitlement that will be paid out after balance date. The remuneration bands and benefits are annual amounts. As some employees commenced part-way through the year, the actual remuneration they received during the year is less than the amount shown. For employees who left during the year, their actual remuneration paid has been reported, rather than their annual remuneration.

The employee incentive has both individual performance and financial performance targets of the Fund. The financial performance component is based on rolling four-year periods of returns against thresholds and benchmarks.

TOTAL REMUNERATION AND BENEFITS

ACTUAL					
BASE REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2018	NUMBER OF EMPLOYEES 2017	TOTAL REMUNERATION RANGE NZD'000	NUMBER OF EMPLOYEES 2018	NUMBER OF EMPLOYEES 2017
100 - 110	8	6	100 - 110	7	5
110 - 120	6	4	110 - 120	5	7
120 - 130	10	11	120 - 130	8	5
130 - 140	8	3	130 - 140	6	4
140 - 150	6	3	140 - 150	3	5
150 - 160	4	6	150 - 160	5	4
160 - 170	4	6	160 - 170	4	4
170 - 180	3	3	170 - 180	3	3
180 - 190	4	2	180 - 190	5	4
190 - 200	3	1	190 - 200	2	2
200 - 210	4	8	200 - 210	7	4
210 - 220	8	8	210 - 220	3	1
220 - 230	8	2	220 - 230	1	2
230 - 240	5	4	230 - 240	2	2
240 - 250	3	5	240 - 250	2	3
250 - 260	6	4	250 - 260	5	6
260 - 270	3	2	260 - 270	2	2
270 - 280	1	1	270 - 280	2	3
280 - 290	1	3	280 - 290	3	-
290 - 300	1	-	290 - 300	5	2
300 - 310	-	-	300 - 310	3	4
310 - 320	1	1	310 - 320	2	1
320 - 330	1	1	320 - 330	-	-
330 - 340	-	1	330 - 340	1	2
340 - 350	1	1	340 - 350	4	2
350 - 360	2	-	350 - 360	1	2
360 - 370	-	3	360 - 370	2	5
370 - 380	1	1	370 - 380	2	1
380 - 390	2	2	380 - 390	3	-
390 - 400	2	-	390 - 400	1	1
400 - 410	-	1	400 - 410	2	2

ACTUAL					
BASE REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES	TOTAL REMUNERATION RANGE	NUMBER OF EMPLOYEES	NUMBER OF EMPLOYEES
NZD'000	2018	2017	NZD'000	2018	2017
420 - 430	-	1	420 - 430	2	-
430 - 440	-	-	430 - 440	-	3
450 - 460	-	-	450 - 460	1	2
470 - 480	1	-	470 - 480	-	-
500 - 510	-	-	500 - 510	2	-
510 - 520	-	-	510 - 520	-	1
520 - 530	1	1	520 - 530	1	-
540 - 550	-	-	540 - 550	-	-
550 - 560	-	-	550 - 560	2	1
580 - 590	1	-	580 - 590	2	1
590 - 600	-	-	590 - 600	1	2
600 - 610	-	-	600 - 610	2	2
610 - 620	-	-	610 - 620	-	1
640 - 650	-	-	640 - 650	-	1
680 - 690	-	-	680 - 690	-	1
730 - 740	-	-	730 - 740	1	-
740 - 750	-	1	740 - 750	-	-
840 - 850	-	-	840 - 850	-	1
920 - 930	-	-	920 - 930	1	-
1100 - 1110	-	-	1170 - 1180	-	1
	109	**96**		**116**	**105**

During the year ended 30 June 2018 there was one payment made in respect of one individual who resigned during the year totalling $30,346 (2017: $183,904).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SECTION 4: FINANCIAL POSITION

(a) Financial instruments

		ACTUAL		
2018		LOANS AND RECEIVABLES	FINANCIAL LIABILITIES AT AMORTISED COST	TOTAL
	NOTE	NZD'000	NZD'000	NZD'000
Financial assets				
Cash and cash equivalents	4(b)	2,392	-	2,392
Receivables from exchange transactions (excluding GST receivable)	4(c)	9,874	-	9,874
Receivables from non-exchange transactions	4(c)	97	-	97
Total financial assets		**12,363**	**-**	**12,363**
Financial liabilities				
Payables under exchange transactions	4(e)	-	1,496	1,496
Total financial liabilities		**-**	**1,496**	**1,496**

2017				
Financial assets				
Cash and cash equivalents	4(b)	1,286	-	1,286
Receivables from exchange transactions (excluding GST receivable)	4(c)	10,483	-	10,483
Receivables from non-exchange transactions	4(c)	96	-	96
Total financial assets		**11,865**	**-**	**11,865**
Financial liabilities				
Payables under exchange transactions	4(e)	-	885	885
Total financial liabilities		**-**	**885**	**885**

Accounting Policy

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group is party to financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, receivables and payables. All financial instruments are recognised in the Consolidated Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Consolidated Statement of Comprehensive Revenue and Expense.

INITIAL RECOGNITION

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the financial instrument. They are initially recognised at fair value plus transaction costs.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, the Group classifies its financial assets and financial liabilities into the following categories:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes cash and cash equivalents and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities. This category includes trade payables and accrued expenses. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or when the Group has transferred substantially all of the risks and rewards of ownership. The Group derecognises a financial liability when the obligation under the liability is discharged, cancelled or has expired.

IMPAIRMENT

The Board and management assess, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Financial difficulty of a debtor, default payments or receivables of more than 60 days overdue are considered objective evidence of impairment of receivables. The amount of the impairment loss is the difference between the carrying amount of the financial asset and the present value of the estimated cash flows, discounted at the original effective interest rate.

OFFSETTING OF FINANCIAL INSTRUMENTS

The Group offsets financial assets and financial liabilities when it has a current legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis.

(b) Cash and cash equivalents

Accounting Policy

Cash and cash equivalents includes cash balances on hand, cash held in bank accounts, demand deposits and other highly liquid investments with an original maturity of three months or less.

(c) Receivables

	NOTE	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	9,858	9,986
Trade receivables		16	497
GST receivable		259	145
		10,133	**10,628**
Receivables from non-exchange transactions			
Receivable for Crown appropriations	3(a)	97	96
		97	**96**
Non-current receivables			
Receivables from exchange transactions			
Receivable for reimbursement of the Guardians expenses from the New Zealand Superannuation Fund	3(a)	642	556
		642	**556**

Receivables are non-interest bearing and have standard 30-day credit terms. The Group does not have a history of default on receivables and accordingly, no allowance has been made for impairment.

SECTION 4: FINANCIAL POSITION (CONTINUED)

(d) Property, plant and equipment

The Group's property, plant and equipment comprises office and computer equipment that are classified as non-cash-generating assets as they are not held for the primary objective of generating a commercial return. These assets are fully depreciated. The Group does not hold any cash-generating assets.

There were no additions or disposals of property, plant and equipment in the current or prior year.

(e) Payables

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Payables under exchange transactions		
Trade payables	986	834
Accrued expenses	510	51
	1,496	**885**

Trade and other payables represent amounts due to third parties in the normal course of business. The average credit period on trade payables is 30 days. Short-term payables are non-interest bearing and are stated at their nominal value. The Group has risk management policies in place to ensure that all payables are paid within the credit time-frame.

(f) Employee entitlements

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Current liabilities		
Accrued salaries (including annual leave and long service leave) - key management personnel	330	289
Accrued salaries (including annual leave and long service leave) - other employees	1,525	1,302
Incentives - key management personnel	1,513	1,937
Incentives - other employees	7,010	6,615
	10,378	**10,143**
Non-current liabilities		
Long service leave - key management personnel	56	57
Long service leave - other employees	356	293
Incentives - key management personnel	34	50
Incentives - other employees	196	156
	642	**556**

Accounting Policy

Liabilities for salaries, annual leave, long service leave and incentives are recognised in the Consolidated Statement of Comprehensive Revenue and Expense during the period in which the employee rendered the related service when it is probable that settlement will be required and such employee entitlements are capable of being measured reliably.

Employee entitlements that are due to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee entitlements that are not due to be settled within 12 months are measured at the present value of the estimated future cash outflows. The estimated future cash flows are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information.

LONG SERVICE LEAVE

Employees become eligible for long service leave after five years of service.

INCENTIVES

The Guardians has an incentive scheme in place for all employees. For some employees, a component of their incentive payment is based on the performance of the Fund that vests progressively over a rolling four-year period. During the first three years of the four-year calculation period, the value of the accrual is dependent on the outcome of future periods. The liability reflected in the Consolidated Statement of Financial Position reflects the present value of the Guardians obligations in respect of that liability. The liability has been calculated based on a medium-term expectation of Fund performance.

Key judgement - long service leave

The key assumptions used in calculating the long service leave liability include the discount rate, the likelihood that the employee will reach the required level of service and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability. Expected future payments are discounted using forward rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns.

Key judgement - long-term portion of incentive

Calculation of the long-term portion of the incentive liability utilises assumptions regarding the future performance of the Fund, the employee's average salary over the vesting period and the percentage of service rendered. The key variable is the performance of the Fund. Should the performance of the Fund differ from the assumption used in the calculation of the long-term portion of the incentive liability, this will impact the employee entitlements expense in the Consolidated Statement of Comprehensive Revenue and Expense and the carrying amount of the incentive liability in the Consolidated Statement of Financial Position. The Group manages this risk by using a medium-term expectation of Fund performance.

(g) Deferred lease incentive

The deferred lease incentive relates to the lease of office premises. The lease incentive is recognised as a reduction of rental expense on a straight-line basis over the period of the lease. The remaining term is 8 years.

(h) Public equity

Equity is the Crown's interest in the Group and is measured as the difference between total assets and total liabilities.

As a public benefit entity that is fully funded by Crown appropriations (for budgeted Board and audit costs) and by Fund reimbursements (for all other operating costs), the Group has no specific liquidity policies, procedures or targets. Operating budgets are set on an annual basis, with an emphasis upon cost control. The Group is not permitted to borrow and ensures a positive cash position at all times through collection of appropriations and reimbursements.

SECTION 5: RISK MANAGEMENT

(a) Risk management

Through its activities, the Group is exposed to various types of risk including market risk, credit risk and liquidity risk. These risks are not considered significant because the Group does not hold significant financial assets or financial liabilities and it is fully funded by Crown appropriations and Fund reimbursements.

The Board and management of the Guardians are responsible for the management of risk. A separate Risk Committee has been established by management as a risk oversight body to support the Board with the management of risk.

The Guardians has established risk management policies, procedures and other internal controls to manage the Groups exposure to risk. The framework for managing this risk is set out in its Statement of Investment Policies, Standards and Procedures including its Risk Management Policy.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. The market risk that the Group is primarily exposed to is interest rate risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of the Group's cash and cash equivalents will fluctuate due to changes in market interest rates. The Group is primarily exposed to changes in New Zealand short-term interest rates in relation to its cash and cash equivalents which are held in short-term floating interest rate accounts.

The Group invests cash and cash equivalents, ensuring a fair market return on any cash position, but does not seek to speculate on interest returns and does not actively monitor exposure to interest rates or interest rate returns. Derivative financial instruments are not used to manage exposure to movements in interest rates.

The following table shows the Group's sensitivity to a change in interest rates with all other variables remaining constant. The basis point movement used represents the Board's and management's assessment of a reasonably possible change in interest rates.

	ACTUAL		
	BASIS POINTS	SURPLUS/(DEFICIT) FOR THE YEAR AND EQUITY	
		2018	2017
		NZD'000	NZD'000
Cash and cash equivalents	+100	24	13
Cash and cash equivalents	-100	(24)	(13)

(c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss. The Group is exposed to credit risk arising from its cash and cash equivalents and receivables. The maximum amount of credit risk for each class of financial asset is the carrying amount included in the Consolidated Statement of Financial Position.

The Group mitigates its exposure to credit risk by investing cash and cash equivalents with reputable financial institutions with a high credit rating. The Group does not require any collateral or security to support its financial instruments.

CONCENTRATIONS OF CREDIT RISK

The Group primarily invests cash and cash equivalents with Westpac New Zealand Limited which had a credit rating of AA- as at 30 June 2018 (2017: AA-).

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities as they fall due. The Group's liquidity management framework is designed to ensure that the Group has the ability to generate sufficient cash in a timely manner to meet its financial commitments.

The Group has a positive cash position as it recovers all expenses from the Crown or the Fund.

MATURITY PROFILE OF FINANCIAL ASSETS

The following table shows the maturity profile of financial assets available to meet financial obligations. The maturity profile is based on the earlier of contractual repricing or maturity period and excludes accrued interest.

	ACTUAL	
2018	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE
	%	NZD'000
Financial assets		
Cash and cash equivalents - no fixed maturity	1.50	2,392
		2,392
2017		
Financial assets		
Cash and cash equivalents - no fixed maturity	1.62	1,286
		1,286

SECTION 6: UNRECOGNISED ITEMS

(a) Commitments and contingencies

OPERATING LEASE COMMITMENTS

The base future minimum amounts payable under non-cancellable operating leases are as follows:

	ACTUAL 2018 NZD'000	ACTUAL 2017 NZD'000
Less than 1 year	1,243	1,218
1 to 2 years	1,268	1,242
2 to 5 years	3,904	3,878
Later than 5 years	4,043	5,542
	10,458	**11,880**

CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 June 2018 (2017: nil).

(b) Subsequent events

There were no reportable events subsequent to balance date (2017: nil).

(c) Comparison to budget (unaudited)

	ACTUAL 2018 NZD'000	BUDGET (UNAUDITED) 2018 NZD'000	FAVOURABLE/ (UNFAVOURABLE) VARIANCE 2018 NZD'000
Consolidated Statement of Comprehensive Revenue and Expense: total expenses incurred*	46,112	52,308	6,196
Consolidated Statement of Changes in Public Equity	500	500	-
Consolidated Statement of Financial Position	500	500	-

* Expenses were lower then budget predominantly due to lower remuneration and travel costs. This was due to recruitment activity being slower than was envisaged in the budget.

Building a better working world

Independent Auditor's Report

TO THE READERS OF THE GUARDIANS OF NEW ZEALAND SUPERANNUATION'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of the Guardians of New Zealand Superannuation and its subsidiaries (the Group). The Auditor-General has appointed me, Graeme Bennett, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

OPINION

We have audited:

- The financial statements of the Group on pages 180 to 202, that comprise the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Comprehensive Revenue and Expense, Consolidated Statement of Changes in Public Equity and Consolidated Statement of Cash Flows for the year ended on that date and notes to the financial statements including a summary of significant accounting policies; and
- The performance information of the Group on pages 102 to 104.

In our opinion:

- The financial statements of the Group on pages 180 to 202:
  - Present fairly, in all material respects:
    - Its financial position as at 30 June 2018; and
    - Its financial performance and cash flows for the year then ended; and
  - Comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Accounting Standards.
- The performance information on pages 102 to 104:
  - Presents fairly, in all material respects, the Group's performance for the year ended 30 June 2018, including:
    - For each class of reportable outputs its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - Complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 27 September 2018. 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 and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

BASIS OF 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 audit opinion.

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

The Board is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE FINANCIAL STATEMENTS AND THE PERFORMANCE INFORMATION

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations.

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

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 and the performance information, 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 and the performance information 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 Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.
- We communicate with the Board 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 is responsible for the other information. The other information comprises the information included on pages 1 to 114, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information 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 and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information 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 Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

We have provided services in relation to employee and executive remuneration. Other than this engagement and the audit, we have no relationship with or interests in the Fund, or any of its subsidiaries.

Graeme Bennett
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

SECTION 7/7

Appendix
He Āpitihanga

7
APPENDIX

Growing capital for future generations.

COMPLIANCE STATEMENTS

SIPSP COMPLIANCE

The Guardians' Statement of Investment Policies, Standards and Procedures (SIPSP) is published on our website www.nzsuperfund.nz. On behalf of the Board and Management of the Guardians of New Zealand Superannuation, we hereby certify that, to the best of our knowledge, the SIPSP has been complied with during the 2017/18 financial year.

CATHERINE SAVAGE, CHAIR

MATT WHINERAY, CEO

PRESENTATION OF THE ANNUAL REPORT

We are pleased to provide this Annual Report of the Guardians of New Zealand Superannuation for the year ended 30 June 2018.

CATHERINE SAVAGE, CHAIR

LINDSAY WRIGHT, CHAIR - AUDIT COMMITTEE

GLOSSARY

ACC	Accident Compensation Corporation.
Access point	The actual investment the Fund makes to gain exposure to a desired risk (e.g. buying a listed equity). Access points are our way of exploiting opportunities, themes, stress test outcomes and manager skill. The access point can be passive, active, synthetic or funded, directly (internally) or externally managed.
Active return	Any return differential between the actual portfolio and the Reference Portfolio. In the context of an investment, the positive return we hope to earn for taking on active risk. Same as value add.
Active risk	Any deviation in risk in the actual portfolio relative to the Reference Portfolio. Active risk is a relative risk concept. The active risk in the portfolio is dominated by activities in our value adding strategies. Note that the actual portfolio can have the same total or absolute risk as the Reference portfolio but still have active risk. Technically active risk is expressed as the expected standard deviation of the active returns.
Active strategies	Value add strategies.
Actual portfolio	The Fund's portfolio at any point in time reflecting all the positions arising from the Fund's value adding strategies as well as drift. Conceptually, the actual portfolio equals the reference portfolio (cash plus risk premiums) plus drift plus active risk.
Asset class	An asset class is a group of securities or assets that share common risk and return characteristics.
Basis point	One-hundredth of a percentage point.
Belief	The Fund's stated view on some aspect of financial markets and investing. It a result of mixed judgement and evidence.
Benchmark	A standard against which the performance of a security, index or investor can be measured.
BMO	Bank of Montreal – the Fund's responsible investment engagement service provider.
Capability	Management's ability to execute a value add strategy. Incorporates depth and breadth of experience, risk management abilities etc.
Capital	A corpus of funds that can be invested to generate economic value.
Cash	Generally taken to mean a very short term investment earning interest from a highly-rated bank or an equivalent bank bill.
CEM	CEM Global Benchmarking - a provider of benchmarking services and peer comparisons.
CFI	Crown Financial Institution.
Collateralisation	The primary means of managing credit exposure among our counterparties. It represents monies or securities that are posted between us and counterparties to mirror unrealised profit and loss on our open derivatives positions.
Compensation	Return for taking on risk. Often, the compensation is the risk premium, or excess return over cash, that the investment offers.
Conviction	A measure of the degree of confidence we have in an active manager's investment skill. The Fund's approach to rating an active manager. Applicable to both public and private market managers. The conviction rating is a quantitative overall score based on the scores of a number of individual, largely qualitative, factors.
Cost-asset ratio	Operating expenses ÷ average assets over the period.
Counterparty	A counter-party describes a legal entity that presents an exposure to financial risk. The Fund's counter-parties are typically banks.
Crown entity	An organisation that forms part of New Zealand's state sector, as established under the Crown Entities Act 2004. Crown entities are legal entities in their own right. A decision to assign a government activity or function to a Crown entity indicates that the function should be carried out at 'arm's-length' from the Government. The Crown entity's board directs the entity's day-to-day operations.
Cyber-security	Technologies, processes and practices that are designed to protect networks, computers, programmes and data from attack, damage or unauthorised access.
Derivative	A financial instrument that derives its value from the value of underlying entities such as an asset, index, or interest rate - it has no intrinsic value in itself. The derivative itself is merely a contract between two or more parties, the value of which at any one time is determined by fluctuations in value of the underlying asset. Derivatives can be used to manage risk, reduce cost and enhance returns.
Direct	A direct activity is a financial market transaction undertaken by the Fund's management.

GLOSSARY (CONTINUED)

Diversification	The potential improvement in a portfolio's Sharpe ratio that arises from introducing assets into the portfolio that behave differently from the assets in the Reference Portfolio. Introducing any new asset or asset class into the portfolio will have a diversification benefit. The more diversified a portfolio, the more difficult it is to achieve further diversification gains.
DM	Developed Markets.
Double arm's length	The Guardians is an autonomous Crown entity, meaning it is legally separate from the Crown and operates at 'double arm's-length'. The first arm of independence is that the Government does not decide the pool of candidates for the Board of the Guardians (candidates are identified by an independent Nominating Committee). The second arm of independence is that investment decisions are made by the Board and Management of the Guardians.
EM	Emerging Markets
Endowment	A characteristic of the Fund that provides the Fund with a natural advantage or edge over the typical investor.
Equilibrium	The long-term or steady state. Generally expressed in the context of long-term average expected risks and returns.
Equities	More commonly known as shares or stocks. Securities that signify ownership in a corporation and represents a claim on part of the corporation's assets and earnings.
ESG	Environmental, Social and Governance.
Externally managed	An investment managed by an appointed external manager.
Fixed income	Assets providing income to investors via a fixed periodic payment. In the context of the Reference Portfolio, fixed income is a very well diversified set of exposures, including sovereign bonds, investment grade credit, agency debt, high yield bonds and emerging market debt. Inflation-linked securities are also included though an element of the income is variable because it is linked to future inflation out-turns.
Foreign exchange	The Fund's exposure to non-NZD cash rates. In our Reference Portfolio, there is no foreign exchange exposure as all non-NZD denominated assets (i.e., foreign funded assets) are hedged back to NZD. Hedging back to NZD essentially replaces foreign cash returns with NZD cash returns. Foreign exchange in the Fund's context refers to a basket of the major foreign currencies.
Fund Investment Vehicle (FIV)	An entity formed or controlled by the Guardians for the purpose of holding, facilitating, or managing investments in the Fund.
Futures	A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.
Global Reporting Initiative (GRI)	An international independent organisation that helps businesses, governments and other organisations understand and communicate the impact of business on critical sustainability issues.
Growth assets	In the Reference Portfolio, growth assets comprise equities and REITs. Some private market assets are also growth assets, e.g., private equity. Over the long-term and on average, the largest share of returns accruing to investments in growth assets derive from underlying exposures to real economic growth.
Hurdle	The minimum expected return required from a proposed investment to compensate the Fund for the inherent risks, fees and other costs (such as taxes) of that investment.
Illiquid	The inability to buy or sell an investment in a timely manner with minimal transaction costs.
Initial margin	Collateral exchanged between parties to protect against the potential future exposure of changes in the mark-to-market value of a derivatives transaction during the time it takes to close out and replace the position in the event the other party defaults.
Internal Investment Mandate (IIM)	The policy governing the management of an internal mandate falling under an active strategy.
Investment	An allocation of risk capital to a specific manager or activity. Could include an individual investment undertaken by the Fund's internal management under an Internal Investment Mandate (IIM).
Iwi	Meaning 'peoples'. Iwi is often translated as a tribe. Iwi forms the largest social units within Māori culture.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.

Mandate	An official order or commission to do something.
Market risk	Is the non-diversifiable risk associated with exposure to a broad mix of asset classes. The risk in the market portfolio. In the context of the Fund, this also refers to the risk in an investment that is correlated with the Reference Portfolio or some investable public market benchmark or asset class.
Merger arbitrage	Involves simultaneously purchasing and selling the stocks of two merging companies to take advantage of the difference in price of those stocks pre-merger.
Net return	Returns over and above the Treasury bill return – the Government's cost of debt.
Opportunity	A feature of the investment environment that is conducive to generating positive risk-adjusted active returns.
OTC	A financial instrument (securities, derivatives, stocks) traded in some context other than on a formal exchange. The phrase 'over the counter' (OTC) can be used to refer to financial instruments that trade via a dealer network as opposed to a centralised exchange.
Passive management	Passive management, or 'index-tracking', is a style of investment management through which a fund's portfolio mirrors a selected market index. Stocks move in and out of the portfolio according to index inclusion rather than through an active investment decision.
Physical	An investment that is funded with cash to the full notional amount of the investment.
Portfolio	A portfolio can be thought of as a pie that is divided into pieces of varying sizes, representing a variety of asset classes and/or types of investments to achieve an appropriate risk-return portfolio allocation.
Portfolio completion	The set of market activities that deliver the desired portfolio, including placement of market orders, hedging activity and other Treasury functions.
Portfolio construction	The allocation of risk in a portfolio. Generally applied to active management, portfolio construction embraces the broad allocation of risk capital to various value-add strategies, as well as the specific allocations of risk capital to individual investments.
Private equity	Private placement of capital with defined ownership rights (i.e., claims to the profits generated by the business).
Rebalancing	The process of realigning the weightings of one's portfolio of assets. Rebalancing involves periodically buying or selling assets to maintain your original desired level of asset allocation.
Reference Portfolio	A simple low cost, passively managed and well-diversified portfolio of listed asset classes that is consistent with the Fund achieving its return objectives without undue risk, i.e. fit for purpose. Conceptually, the Reference Portfolio comprises a 100% cash position (NZD) plus a set of risk premiums or excess returns that also sum to 100%.
REITS	Real Estate Investment Trusts.
Return	The financial reward on an investment after manager fees and taxes. This includes earnings (such as dividends) as well as capital gains that are realised when as asset is disposed of or matures.
Risk	The standard deviation of expected returns. The Fund's risk model uses equilibrium risk (and return) assumptions.
Risk allocation process (RAP)	The process by which risk capital is allocated to the Fund's opportunities. Under the RAP: 1. opportunities are assessed for relative attractiveness; 2. allocation approaches determine the how much risk capital should be allocated for various levels of attractiveness; and 3. the approaches are scaled to meet risk budgets set for groups of opportunities and for the Fund as a whole. This latter budget is referred to as the total active risk budget and the groups of opportunities as risk budget baskets.
Risk budget	Articulates the average amount of active risk that is expected to be allocated to an opportunity or group of opportunities referred to as risk budget baskets. Risk budgets aggregate to the total active risk budget. Risk budgeting is a stage of the risk allocation process.
Risk premium	The return in excess of cash earned by investors as compensation for taking passive exposure to the market or an asset class. Risk premium and excess return can be used interchangeably.

GLOSSARY (CONTINUED)

Santiago Principles	A set of principles and practices generally accepted by the member institutions of the International Forum of Sovereign Wealth Funds as amounting to a basic code of good practice for sovereign wealth funds.
Securities lending	Loaning a stock, derivative or other security to an investor or a firm.
Sharpe ratio	A characterisation of how well the return of an investment compensates the investor for the risk taken.
Short	A short or short position is an investment strategy where an entity sells a security, currency or derivative with the view of buying back the same amount of the relevant at a lower price.
SIPSP	Statement of Investment Policies, Statements and Procedures.
Skill	Active investment expertise. The ability to generate active returns.
Sovereign Wealth Fund	Pools of money derived from a country's reserves, which are set aside for investment purposes that will benefit the country's economy and citizens.
SOI	Statement of Intent.
Strategic tilting	Tilting is a value adding strategy where the mix of the Fund's market or currency exposures relative to the Reference Portfolio is changed to increase exposure to undervalued asset classes.
Swap	A derivative in which two parties agree to exchange one stream of cash flows against another.
Synthetic	Obtaining exposures using derivatives. Generally does not require to be funded.
Theme	Long term influences on the economy and capital markets that are expected to be relatively immune to business cycle and other short-term influences. An enduring characteristic or feature of the global economic or financial environment.
Tilt	Changes in the mix of the Fund's market or currency exposures relative to the Reference Portfolio (other than through drift or the proxies). Tilting is a value add strategy.
Total risk	Generally referring to the Fund's total or absolute risk.
Treasury Bill	Debt instruments issued by the government that mature in less than one year; the yield on these measures the cost of running a budget deficit.
UNPRI	United Nations Principles for Responsible Investment.
Value add	See active returns. In performance reporting, the difference between the actual return and the Reference Portfolio return, net of the costs of obtaining passive exposures.
Value-adding strategies	Board approved strategies that define the objectives and parameters for taking on active risk. Also referred to as active strategies or just strategies.
Variation margin	Collateral exchanged between parties to protect against current exposures caused by changes in the mark-to-market value of a derivatives transaction.
Volatility	The amount of uncertainty or risk about the size of changes in a security's value.

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