

**BANK OF NEW ZEALAND OFFICERS'  
PROVIDENT ASSOCIATION**

# **ANNUAL REPORT**

**FOR THE YEAR ENDED  
31 OCTOBER 2008**



**BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION**

# THE YEAR IN SUMM

The Board of Management (BOM) is pleased to present the 121st Annual Report of the Bank of New Zealand Officers' Provident Association.

This and the following page provide headlines for the year. More detailed information on some matters mentioned can be found on subsequent pages of this report.

For Division 2 members' allocation of earnings is on a monthly basis. Members who joined during the year received an aggregate earnings rate for their period of membership. A table of rates is provided in this report for monthly and year to date periods.

## *Equities*

The investment manager for the International Equities sector changed as of 25 January 2008 from an Assure Funds Management passive style grey-list based indexed product to an active style multi-manager JANA Investment Advisers Product. This product is currency hedged to Australian dollars but a separate hedge is maintained from Australian dollars to New Zealand dollars. The Assure product was also hedged to New Zealand dollars. JANA is a large Australian based investment services provider, associated with National Australia Bank.

## Investments

### *Earnings*

Aggregate earning rates for member choice investment options within Division 2 for the year ended 31 October 2008 were:

Balanced	(20.42)%
Cash	6.20%
Growth	(31.53)%
Balanced 19.5	(20.44)%
Cash 19.5	7.17%
Growth 19.5	(31.35)%

The options with a 19.5 suffix are for members who qualify and elect to be taxed at a PIR of 19.5%. The other options are taxed at 30%. PIR stands for Prescribed Investor Rate under the PIE (portfolio investment entity) regime.

Well publicised declines in global investment markets and the global credit freeze were reasons for the negative rates for the Balanced and Growth options. Detail is provided within the Investments section of the Report.

## Scheme Membership

### *Division 2 – Membership*

Membership decreased by 104 to be 3006 on 31 October 2008. The decrease was attributed to a combination of tightening financial conditions, Kiwisaver, and reduction in Bank staff eligible to join the scheme.

### *Communications*

Issues of a Proverbial newsletter were listed on the web-site ([www.bnzopa.co.nz](http://www.bnzopa.co.nz)) after the end of the first, second and third financial quarters. As at end of November 2008 just over 65% of the membership had utilised the secure section of the site to view earning rate, benefit entitlement, and transaction detail.

Where possible, communication with members is now either via the web-site or by e-mail. Board of Management elections during October were conducted electronically.

The Office of the Government Actuary communicated during October that members may agree to accept an electronic version of this Annual

Contents	Page	Board of Management			
Investment Performance	4	Subcommittees	15	Financial Performance	17
Membership Changes	13	Declaration by the Board	16	Auditors' Report	18
Members of the Board	14	Actuarial Declaration	16	Abridged Financial Summary	19
Advisors to the Board	15	Further Information	17	Statement of Investment Policy	23

Report in place of a paper version but retain a right to revert to receiving a paper version.

## Board of Management

Charles Roberts did not seek re-election as Division 1 representative on the Board of Management when his term was due to expire on 31 October 2008. There were three nominations for the position with Neil Bradley elected from the result of an electronic ballot.

David Cairns did not seek re-election as a North Island based member of the Board of Management. David's term was due to expire on 30 November 2008. There were two nominations for the position with Matthew Cullum elected from the result of an electronic ballot.

The Board of Management wishes to take this opportunity to record its thanks and appreciation to Charles and David.

## Scheme secretariat

### *Special Benefits*

Special benefits of \$5m were allocated on 4 January 2008 for the year ended 31 October 2007 to a total of about 7275 members and former members. About 500 former members have yet to be located and paid about \$162,500 for the 2005 to 2007 year allocations.

### *Systems*

The membership registry system had functionality added during the year for PIE (portfolio investment entity) reporting to the Inland Revenue Department and members.

Because of changes to tax legislation, KPMG reviewed the Excel models used for monthly calculation of the income tax and tested output against an independent calculation. There were no issues to report from the review and testing.

## Compliance

### *Rule Changes*

There were no Rule amendments during the year.

### *Prospectus*

A new Prospectus dated 11 April 2008 was registered on 9 May 2008. A refresher certificate dated 24 July 2008 was registered on 31 July 2008.

The Investment Statement was updated for the new Prospectus.

### *Accounting*

The Association has complied with changes to NZ International Financial Reporting Standards (NZIFRS) for the year ended 31 October 2008.

There were changes for PIE, FDR and provisional tax payment aspects of taxation for the year.

The financial statements included within this report are in 'summary form'. The full statements are available free of charge from the scheme secretariat upon request.

### Your guide to the "jargon"

*In preparing this report every effort has been made to provide you with information in an easy-to-understand manner. Unfortunately, due to the nature of some of the issues covered here, there are times when technical terminology has been used to ensure the information is factually correct. To help you understand terms or 'jargon' used in this report key words have been underlined like this and an explanation provided in a box on the same page.*

# INVESTMENT PERFORMANCE

## Earnings Rates by month for Member Choice Investment Options

The first two columns under each investment option in the table show the earning rate allocated to members for a month and a year to date period.

The third column under each option gives an aggregate rate for members who joined during the year, by reference to the line that matches the month of joining. For example, a member who joined the Balanced 19.5 option during April received a (15.53)% earning rate for the April - October period.

	Balanced option			Cash option			Growth option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year Aggr.	Month	YTD Aggr.	Part year aggregate
November 2007	(1.47)	(1.47)	(20.42)	0.42	0.42	6.21	(2.84)	(2.84)	(31.53)
December	(0.07)	(1.54)	(19.23)	0.47	0.89	5.77	(0.25)	(3.08)	29.53)
January 2008	(3.15)	(4.64)	(19.18)	0.42	1.32	5.27	(6.66)	(9.54)	(29.36)
February	0.70	(3.97)	(16.55)	0.53	1.85	4.83	0.73	(8.88)	(24.32)
March	(2.13)	(6.02)	(17.13)	0.49	2.35	4.28	(3.37)	(11.95)	(24.86)
April	2.99	(3.21)	(15.32)	0.53	2.89	3.77	5.05	(7.50)	(22.24)
May	0.65	(2.58)	(17.78)	0.56	3.47	3.22	1.04	(6.54)	(25.98)
June	(4.37)	(6.84)	(18.31)	0.48	3.97	2.65	(6.93)	(13.02)	(26.74)
July	(0.22)	(7.04)	(14.58)	0.55	4.54	2.16	(0.57)	(13.51)	(21.29)
August	0.35	(6.72)	(14.39)	0.49	5.05	1.60	(0.35)	(13.81)	(20.84)
September	(7.09)	(13.33)	(14.69)	0.53	5.61	1.10	(10.51)	(22.87)	(20.56)
October	(8.18)	(20.42)	(8.18)	0.57	6.21	0.57	(11.23)	(31.53)	(11.23)

	Balanced 19.5 option			Cash 19.5 option			Growth 19.5 option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year Aggr.	Month	YTD Aggr.	Part year aggregate
November 2007	(1.42)	(1.42)	(20.44)	0.48	0.48	7.18	(2.77)	(2.77)	(31.35)
December	0.02	(1.40)	(19.30)	0.55	1.03	6.66	(0.15)	(2.92)	29.40)
January 2008	(3.06)	(4.42)	(19.32)	0.48	1.52	6.08	(6.63)	(9.35)	(29.29)
February	0.69	(3.76)	(16.77)	0.60	2.13	5.57	0.66	(8.75)	(24.27)
March	(2.14)	(5.82)	(17.34)	0.56	2.70	4.94	(3.32)	(11.78)	(24.77)
April	2.88	(3.11)	(15.53)	0.61	3.33	4.36	4.81	(7.54)	(22.18)
May	0.54	(2.58)	(17.78)	0.65	4.00	3.73	0.92	(6.69)	(25.75)
June	(4.52)	(6.99)	(18.31)	0.56	4.58	3.06	(7.15)	(13.36)	(26.43)
July	(0.28)	(7.25)	(14.58)	0.64	5.25	2.48	0.07	(13.99)	(20.77)
August	0.67	(6.62)	(14.39)	0.56	5.84	1.83	(0.35)	(13.93)	(20.19)
September	(7.12)	(13.27)	(14.69)	0.61	6.48	1.26	(10.34)	(22.83)	(20.25)
October	(8.27)	(20.44)	(8.18)	0.65	7.18	0.65	(11.05)	(31.35)	(11.05)

The 19.5 suffixed options were introduced from 2 November 2007 for members who qualify for a PIR (portfolio investor rate) of 19.5%. The non-suffixed options are taxed at the Association tax rate of 30% which was applicable from 1 November 2007.

The Growth member choice investment options returns for the year were lower than that of the Balanced options because of larger allocations to the Equities investment sectors. The Equities sectors under-performed Fixed Interest sectors.

### Earnings Rates by year for main Member Choice Investment Options

Year	Balanced Net	Cash Net	Growth Net	90 day Bill index Gross less tax
2004	6.22%	4.41%	3.79%	3.9%
2005	8.85%	4.95%	7.75%	4.75%
2006	14.45%	4.90%	20.77%	5.15%
2007	7.20%	5.03%	10.20%	5.5%
2008	(20.42)%	6.21%	(31.53)%	9.03%
Average (rounded)	3.3%	5.1%	2.20%	5.67%

The asset allocation mix within each of the options has changed between 2004 and 2007 thereby inhibiting direct year on year comparison. Brief explanation on performance against target is provided as:

#### *Cash*

The Cash option target investment return is to perform closely in line with the NZX 90 Day Bank Bill Index (a wholesale cash benchmark), before fund expenses and fees are taken into account. The index of 9.0% less a 30% tax rate was about 6.3% for the 2008 year. The actual rate as above at 6.21% was after fees, expenses, and tax, so may be read as close to expectation.

#### *Balanced*

The Balanced option target investment return is to outperform, over a long-term horizon, the NZX 90 Day Bank Bill Index by 2% (on an after tax basis), before fund expenses and fees are taken into account. That is, in other words, to exceed the Cash option return by 2% over a long term. For the term horizon available to date of 2004 to 2008, the target has not been met because of the negative returns for 2008.

#### *Growth*

The Growth option target investment return is to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index by 3% (on an after tax basis), before fund expenses and fees are taken into account. That is, in other words, to exceed the Cash option return by 3%. For the available term horizon, 2004 to 2008, the target has not been met due to negative returns in 2008.

### Investment Sector Returns compared with targets

The scheme has a formal Statement of Investment Policy and Objectives (SIPO). The most recent version is reproduced within this report. The table that follows outlines how the assets were invested for each sector and each option, the index or benchmark (B/mark) against which performance is measured and the actual return achieved.

An article that follows titled 'Negative Earnings' provides actual performance comparisons to SIPO expectations.

PARAGRAPHS THAT FOLLOW REFER TO THIS TABLE							
Asset sector	% Allocation of Assets			Index for performance measurement	RETURN % (before tax & expenses)		
	Option	B/mark	Actual		Index	Actual	Differ.
<b>New Zealand Equities</b> Invested as an 'active' style mandate with ING (NZ)	Balanced	10	10	NZX50 with imputation credits	(31.7)	(31.3)	+0.4
	Growth	20	20				
<b>International Equities</b> Invested in Assure International Equity Passive Index Fund –hedged until 25 January 2008 Invested in JANA Global core multi-manager active style product hedged to AUD – with separate AUD to NZD hedge from 25 January 2008	Balanced	27.5	28	MSCI Grey List hedged –	(12.0)	(12.4)	(0.4)
	Growth	47.5	47.5	MSCI hedged	(28.1)	(33.6)	(5.5)
<b>Global Fixed Interest</b> Invested in a PIE version of a TOWER unit trust product, managed by PIMCO	Balanced	40	41	Lehman Bros Global Aggregate Index (NZD) - hedged	6.9	(1.7)	(8.6)
	Growth	15	16				
<b>NZ Fixed Interest</b> Invested in a mix of Govt. and corporate bonds, and discounted securities; with AllianceBernstein New Zealand	Balanced	12.5	11	NZX New Zealand Government Stock index	9.5	11.6	+2.1
	Growth	7.5	6				
<b>Cash</b> Managed by AllianceBernstein New Zealand	Balanced	2.5	2.5	NZX Bank Bill index	9.0	9.4	+0.4
	Cash	100	100				
	Growth	2.5	3				
<b>Property</b> AMP Global Property Securities Product (PIE version since 1 April 2008)	Balanced	7.5	7.5	UBS Warburg Global Real Estate Investors Index	(49.6)	(47.4)	+2.2
	Growth	7.5	7.5				

### **Benchmark Definitions** (courtesy of Russell Investments)

#### **NZX 50 Gross Index – with imputation credits**

This index consists of the top 50 companies listed on the New Zealand Exchange (NZX) weighted by free float adjusted market capitalisation. Free float refers to the shares of a company that are regarded as normally available for market trading. For example, the shares held by the NZ Government in AirNZ are excluded from its free float. The index accounts for about 98% of the pool of tradable securities listed on the New Zealand exchange. The index is calculated with gross dividends reinvested.

### **Morgan Stanley Capital International (MSCI) World Index 143% hedged into NZD**

A market capitalisation-weighted index composed of companies representative of the market structure of 23 developed countries in North America, Europe, and the Asia-Pacific regions.

The index is hedged to the New Zealand dollar (NZD) at 143%, being equivalent to 100% after tax.

### **Lehman Brothers Global Aggregate Index Hedged into NZD**

A market capitalisation-weighted index consisting of a broad range of investment grade fixed interest securities, including both government and non-government issues (around 50% each). Country eligibility is determined based on market capitalisation and investibility criteria. All issues have a remaining maturity of at least one year. This index is fully hedged back to the New Zealand dollar.

### **NZX New Zealand Government Stock Gross Index**

The index tracks movements in the New Zealand Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The calculation for this index assumes the full amount of all coupon (interest) payments are reinvested in the index.

As at 31 October 2007 there were eight bond issues within the index with maturity dates from 2008 to 2017.

### **NZX New Zealand 90 Day Bank Bill Index**

The index provides a measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. This index is valued on a mark to market basis, i.e., valued at current market yields not at purchase yields.

In simple terms, a 90 day bank bill might be described as the interest rate that banks pay on a three-month deposit of wholesale money. Yield may be described as the expected annualised rate of return from holding a bond/fixed interest security until it matures.

### **UBS Warburg Global Real Estate Investors Index**

A free float capitalisation-weighted arithmetic average return index that measures the performance of property investment companies. It excludes property development companies. The index represents total returns, i.e., both gains from income (trust distributions and dividends) and capital movements. It comprises approximately 200 real estate companies and investment trusts listed mainly in the United States and Europe. The index is fully hedged back to the New Zealand dollar.

*Hedging - Currency risk arises when an investor acquires assets that are denominated in a foreign currency. By their nature, future currency rates cannot be predicted with certainty. As a consequence future returns in the 'home' currency are less predictable. For the fund, a hedge is a forward currency contract to offset this currency risk. Hedges are held for the International Bond, Global Property, and International Equities investments.*

*For International Bonds the hedge ratio is 100% because the absolute volatility of investment returns introduced by currency risk is appreciable in relative terms. For International Equities the ratio from 1 November 2007 was 100% after tax which equates to the ratio 143% before tax, at a 30% tax rate on the hedge return.*



## Comment on sector returns

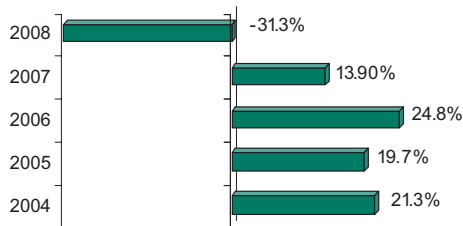
### Warning - past performance should not be taken as an indicator of future performance

The bar graphs that follow, for the main asset sectors, show performance returns for the last five years.

The International Equity investment return for 2008 was a combination of investment in an Assure Funds Management wholesale superannuation fund product until 25 January 2008, thereafter in a JANA multi-manager product. The Global Fixed Interest investment was in a PIE version of a TOWER Asset Management unit trust product. The Global Properties investment was via the AMP Superannuation Investment Trust (a wholesale superannuation scheme) in a Global Property Securities Fund until 31 March 2008, and thereafter in a PIE version of the same Global Property Securities Fund. For the other sectors an investment manager trades within guidelines issued by OPA. In all cases (except for the currency hedges) the securities are held by, and transactions processed via, a custodian, not the investment manager.

### New Zealand Equities

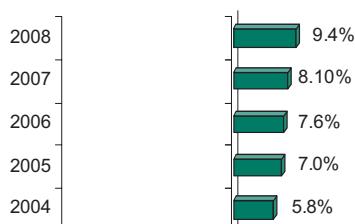
#### NZ Equities Returns



The 2008 return of -31.3% was in strong contrast to strong positive results for previous years. The manager, ING, outperformed the benchmark during what proved to be difficult market conditions. The share prices for main shareholdings in the portfolio were down for the year with Telecom down about 48%, Contact Energy down about 9%, and Fletcher Buildings down about 53%.

### Cash

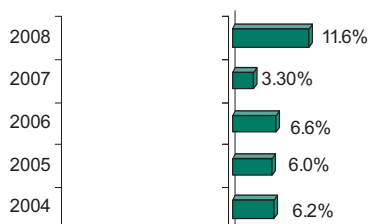
#### NZ Cash Returns



The Cash sector was the only one for which returns rose steadily over the last 5 years, although interest rates began to drop around 2008's year end.

### New Zealand Fixed Interest

#### NZ Fixed Interest Returns

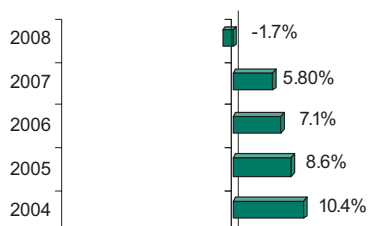


NZ Fixed Interest returns bounced back from 2007's low return to record the best result of all sectors for 2008.

As in the Cash sector underlying interest rates began to drop about year-end but as credit conditions tightened sharply, yields increased for the corporate bond sector.

### Global Fixed Interest

#### Global Fixed Interest Returns

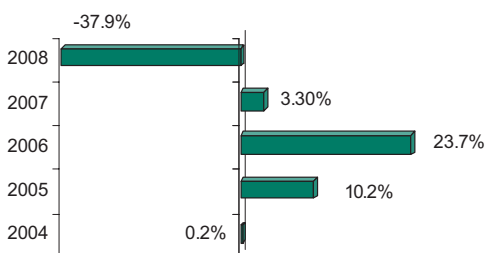


PIMCO (Pacific Investment Management Company) the manager employed by TOWER, under performed the index for the year, for reasons primarily attributable to the global credit freeze. Further explanation is provided in an article that follows titled 'Negative Earnings'.

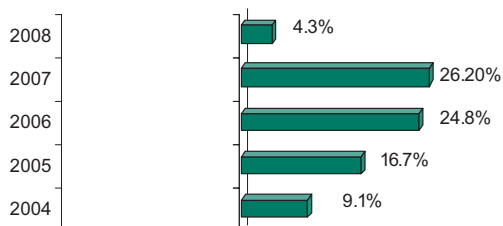


## International Equities

### International Equities Returns



### International Equities Returns hedged



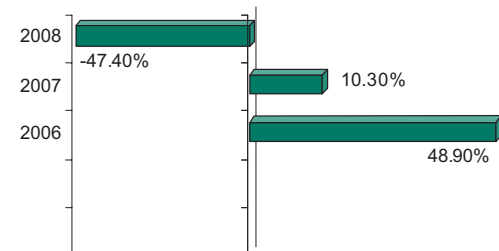
Note: the 2008 line in the graph to the left shows only JANA returns (25 January – 31 October)

Most of the 2008 loss occurred during September and October with returns from the JANA product for those months of (21.6)% and (22.7)% respectively. The cause was the impact on equities markets of what has become labelled as the global credit crunch.

2008 is not directly comparable to earlier years (mainly USD to NZD hedging) because of a change in January 2008 of the International Equities investment that is hedged to investment in a product hedged to AUD, with a separate hedge from AUD to NZD (shown in bar).

## Property

### Global Property Returns



The volatility of the markets within the product can be seen by comparing returns for 2006 to 2008. Most of the 2008 loss occurred in the 4th quarter (the index returned -30% for October), with AMP, the product manager, advising that during October the product index experienced its best and worst ever daily performances.

The Global Property investment commenced on 28 October 2005.

## Negative Earnings

For the 2008 year, the Balanced and Growth member choice options recorded significant negative earnings, at unprecedented levels for the first year since member choice options were introduced in August 2003.

The last years of negative earnings were in 2001 and 2002 years when the total scheme was invested in a Balanced type mandate – the returns for those years were (5.62)% and (2.45)% respectively. For both the 2001 and 2002 years the only investment sector to report negative earnings was International Equities. In 2008 in contrast the ‘growth’ asset sectors, - International Equities, New Zealand Equities, and Global Property Securities - all reported negative earnings - as did the ‘income’ sector, Global Fixed Interest.

The 2008 returns are largely the consequence of the ‘global credit crunch’, the causes of which have been well publicised, with effects still being felt as this Report was published.

For the Balanced member choice options the SIPO states that:

‘The target investment return will be to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index (a wholesale cash benchmark) by 2% (on a 30% tax rate after-tax basis), before fund expenses and fees are taken into account.

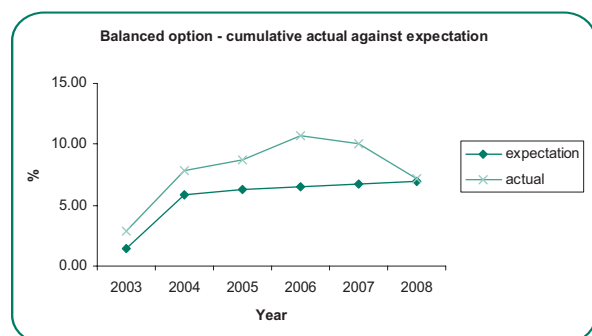
In any given year this option has about a 1 in 7 probability of experiencing a negative return, before fund expenses and fees are taken into account. For a 5 year period, this probability reduces to less than 1 in 100, or 1%.’

For the Growth options, the target is 3% out-performance with a 1 in 5 probability of a loss for any given year, and for a 5 year period the loss probability reduces to about 1 in 25, or 4%.

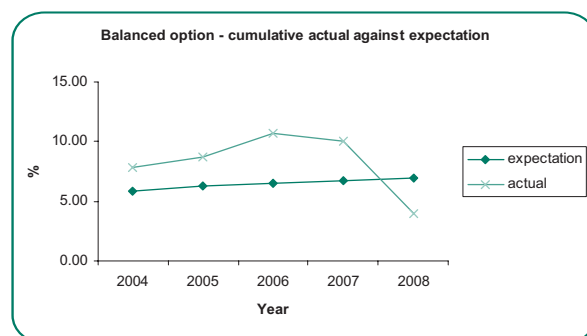
So, for the 5 year period 2003- 2008, how did the 2008 negative returns measure against those expectations?

The graphs below show the average return for periods from 2004 to 2008. Returns for the 5 year period to October 2008 are shown on the right and compared with the same charts to July 2008 on the left. The July charts were shown in the August 2008 edition of Proverbial.

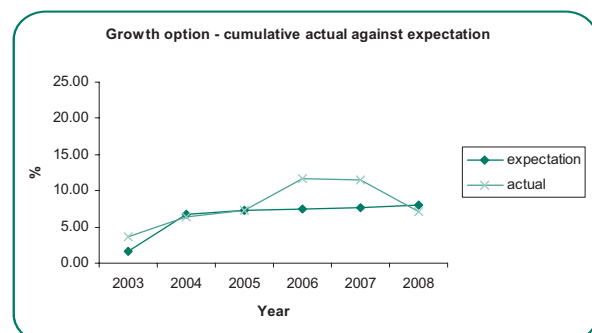
### Balanced To July 2008



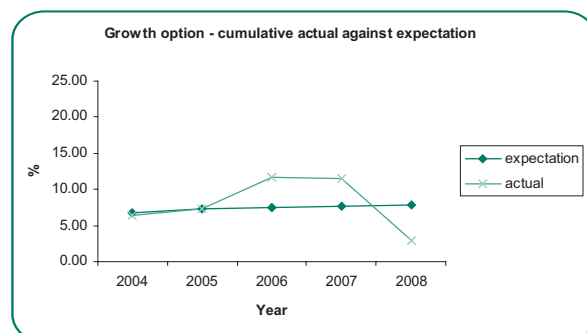
### Balanced To October 2008



### Growth to July 2008



### Growth to October 2008



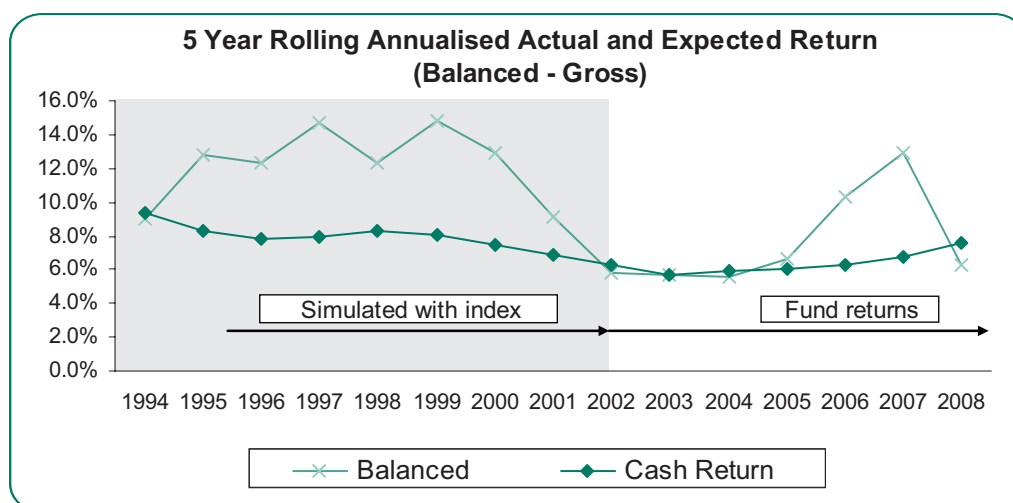
Note: the 5 year period from 2003 to 2008 coincides with the 1 August 2003 implementation of member choice investment and changes to the SIPO for these member choice options.

The difference between the 2008 points on the graphs demonstrates the extent of negative performance in the months August–October 2008. That is, against SIPO expectations, performance was tracking close to expectations for the 5 years ended 31 July 2008, but for the 5 years ended 31 October 2008 performance declined noticeably, due to September and October 2008 returns.

The extent of the market declines in ‘growth’ assets during September – October 2008 may be demonstrated by the movements in indices of the following asset classes:

Month / Sector	NZ Equities	Int. Equities	Global Prop. Sec.
Index	NZX 50	MSCI World net Hedged to NZD	UBS Warburg Global Property hedged to NZD
September	(7.2)%	(12.3)%	(5.78)%
October	(8.7)%	(22.5)%	(34.35)%

For the Balanced member choice options, these sectors comprise 45% of the asset mix and for the Growth options they comprise 75% of the asset mix.



The graph above labelled ‘5 year Rolling Annualised Actual and Expected Return’ compares, the returns for a simulated / actual Balanced option to Cash returns. It shows that although the last 5 years has not rewarded Balanced options (nor if added Growth options), they are rewarded more often than not, and that the Balanced option shown should provide a Cash plus 2% return on average per the SIPO description.

The TOWER Global Fixed Interest product manager, PIMCO, added to the negative returns during September and October. Whilst the index for that sector was positive, PIMCO’s returns were negative and under-performed the index by about 6.8% for the two months. An understanding from TOWER was that PIMCO underestimated how deeply and broadly the credit crisis would develop, and the extent to which government policy actions and forced asset selling would depress security prices. Although hindsight shows PIMCO was too early in purchasing high quality credit issues. TOWER has stated they are comfortable with the quality of the portfolio PIMCO holds. The current income yield is close to 9%, default risk is considered to be low and there is significant potential to recover value when credit conditions normalise.

## SPECIAL BENEFITS

Since 1 June 2006 assets representing the value of the Surplus, Pension, and Division 1 liabilities have been invested separately in Fixed Interest type securities under an investment management agreement with AllianceBernstein New Zealand.

The Memorandum of Agreement dated November 2004 in place between the Board of Management and the Bank specifies mechanisms for allocation of Special Benefits on an annual basis until 31 October 2009. It requires annual consultation between the scheme and Bank actuaries with recommendation from them of the level of Special Benefits to be allocated each year. The agreement includes provision for adjustment if there are extraordinarily favourable or extraordinarily unfavourable circumstances.

For the years ended 31 October 2007 and 2008 the actuaries determined there were extraordinarily favourable circumstances. Their recommendation, in accordance with the Memorandum, was that the Bank maintain the subsidy (or employer contribution) rate at 7% for the year commencing 1 November 2007 with a gearing ratio of 1:1.2 applied to replace a previous 1:1 ratio. In effect, the subsidy at the maximum 7% level with a 1:1.2 gearing is equivalent to a subsidy level of 8.4%; or for a member contributing at 4% equivalent to 4.8%. The actuaries determined that for the year commencing 1 November 2008 the same arrangements should continue as were in place for the 2008 year.

## RULE AMENDMENTS

There were no Rule amendments during the year ended 31 October 2008.

# MEMBERSHIP CHANGES

Membership changes for the 2007/2008 scheme year				
	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2007	1	3110	3111	
Plus: New members		486	486	
Less: Resignations		329	329	6.190
Redundancies		78	78	5.600
In-service withdrawals		160	160	6.730
Normal retirements		21	21	4.533
Deaths		2	2	0.641
Special Benefits				3.699
Partial withdrawals				3.958
Closing membership 31 October 2008	1	3006	3007	31.351

Pensioner changes for the 2007/2008 scheme year				
	Pensioners	Widows / Widowers	Children	Total
Opening as at 1 November 2007	116	97	3	216
Plus: New		5		5
Less: Deceased	10	9		19
Closing as at 31 October 2008	106	93	3	202

## Commentary

At year end Division 2 membership had decreased by 104. The decrease was attributed to a combination of tightening financial conditions, Kiwisaver, and reduction in Bank staff eligible to join the scheme.

The Association registered as a PIE with effect from 2 November 2007, with about 450 members electing to switch to new member choice options taxed at 19.5%.

A member choice investment option 'switch' election as of 1 May 2008 resulted in about 200 members switching options. That was an increase over 2007 of about 100 members.. As at 31 October 2008 the analysis of member choice investment options by membership numbers was:

Balanced	62%	(2007 76%)
Balanced 19.5	10%	
Cash	11%	(2007 10%)
Cash 19.5	2.5%	
Growth	12%	(2006 14%)
Growth 19.5	2.5%	

The split by benefit entitlement values was about 77% to combined Balanced, 14% to combined Cash and 9% to combined Growth respectively (2007, 85%, 5% and 10%).

# MEMBERS OF THE BOARD

The Board is made up of four representatives appointed by the Bank and four elected by members of the scheme. On, or about, 31 October 2008 members of the Board of Management were:

Name	Bank Position	Constitution	Changes
<b>Bank-appointed representatives</b>			
Martin Philipsen	Chief Risk Officer, Risk Management NZ	BOM member since March 2006; appointed by the Board of Directors of the Bank, May 2007. Chairperson since May 2007.	
Paul Steven Bevin	Independent of Bank	Since July 2005, appointed by the Chief Executive of the Bank	
Glenn Robert Patrick	Chief Operating Officer, Retail Banking	Appointed May 2007, nominee of the Chief Executive of the Bank	
Christopher James Bayliss	General Manager, Retail Banking	Appointed July 2006, by the Board of Directors of the Bank	
<b>Member-elected representatives</b>			
Matthew Rowland Cullum	Business Partner, Retail, People & Corporate Relations, Auckland	Must reside in North Island Elected 28 October 2008	Replaced David Cairns who resigned from the Board, 28 October 2008
Hugh Alexander Smith	General Counsel, Wellington	Must reside in North Island Elected September 2006	
Neil Watson Bradley	New Zealand Treasurer, Finance, Auckland	If no Division 1 member nominated, a division 2 member Elected 28 October 2008	Replaced Charles Roberts who resigned from the Board, 28 October 2008
Matthew James Eaden	Partner, Business, BNZ Partners, Christchurch	Must reside in South Island Elected March 2007	

## ADVISORS TO THE BOARD

While carrying out its regular duties throughout the year the Board called upon a number of expert advisers. Advisers to the Board for the scheme year under review were:

*Actuary:*

Michael Robinson of Mercer (NZ) Ltd,  
PO Box 105 591, Auckland

*Auditors:*

Deloitte, P O Box 1990, Wellington

*Solicitors:*

Chapman Tong Law, P O Box 10 614, Wellington

*Investment:*

Russell Investments Limited,  
PO Box 105-191, Auckland

*Tax:*

KPMG, PO Box 996, Wellington

*The Investment Managers were:*

Assure Funds Management Limited, P O Box 1299,  
Wellington (until 25 January 2008)

JANA Investment Advisers, Melbourne, Australia  
(from 25 January 2008)

AllianceBernstein New Zealand Limited, P O Box  
1994, Wellington

TOWER Asset Management Limited, P O Box  
2798, Wellington

AMP Capital Investors Limited, P O Box 3764,  
Wellington

ING (NZ) Limited, P O Box 7149, Auckland

From time to time the Board also calls on other expert advisers to assist with specific issues.

## BOARD OF MANAGEMENT SUBCOMMITTEES

The role of the Subcommittees is to assist the Board to achieve its governance responsibilities and investment objectives through in-depth analysis and regular review of issues impacting on the OPA. Each committee operates to a charter. The main issues addressed during the year were:

### **Audit & Risk**

- Commissioning an interim audit during the year of the Membership system. No matters for concern were reported.
- Review plans for implementation of NZIFRS (new financial reporting standards)
- Update of the disaster recovery plan
- Negotiation of the annual audit programme.

### **Investment**

- Monitor investment performance (quarterly) and strategy with help from Russell Investments
- Review Global Fixed Interest sector for change of structure and manager (ongoing)

- Implement change of management for International Equities investment (JANA Investment Advisers)
- Updates to Investment Guidelines
- Review hedging policy for International Equities sector (ongoing)
- Review impact of income tax changes on scheme (PIE, FDR, and change of provisional tax payment dates)

### **Strategy and Communications**

- Communications with members about investment policies and volatile market conditions
- Monitor impacts of Kiwisaver and a preliminary look at a Kiwisaver section within the scheme.



## DECLARATION BY THE BOARD

The Superannuation Schemes Act 1989 requires that trustees of all registered superannuation schemes make the following declarations to confirm that their scheme has been operating within certain guidelines.

The Board of Management:

- confirms that all contributions required to be made to the scheme, in accordance with the Rules of the OPA, have been made,
- certifies that all benefits required to be paid from the scheme, in accordance with the Rules of the OPA, have been paid,
- certifies that the market value of the assets of the scheme at 31 October 2008 exceeded the total value of benefits that would have been payable had all members of the scheme ceased to be members at that date, and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries (such as pensions) as at 31 October 2008,
- advises that more than 10% of the market value of the OPA's assets were invested with companies associated with the scheme sponsor through

investments with JANA Investment Advisers Pty Limited and Bank of New Zealand during the year as follows:

- approx. \$29m was invested in the JANA multi-manager core global equities product
- approx. \$32.3m was invested in Bank of New Zealand bonds and discount paper via Alliance Bernstein mandates for Non Division 2 assets, New Zealand Fixed Interest, and Cash.
- confirms the abridged financial statements within this Report were authorised for issue on 2 December 2008.

As at 31 October 2008, all eligible Board members were members of Division 2 of the scheme. Paul Bevin was not eligible to be a member.



Martin Philipsen                      Hugh Smith  
for and on behalf of the Board

## ACTUARIAL DECLARATION

The most recent formal actuarial valuation was carried out as at 31 October 2005. The valuation revealed that the fund was in a sound position with an actuarial surplus of approx. \$61.9m. The actuary advised it was appropriate for the Bank to continue its contribution holiday until the next actuarial review. (i.e., the Bank's subsidy could continue to be sourced from the Scheme's surplus funds). The Board has complied with that advice. The Board receives updates from the Actuary of the Pensioner and Division 1 liabilities annually. These Division 1 and Pension liabilities are included in the financial statements for the year ended 31 October 2008 at \$40,961,000. Because of changes to the investment of assets representing the Surplus/Pension/Division 1 assets during 2006, these liabilities were valued as at 31 October 2006 using on an assumed earning

rate of 4.0% per annum net (in place of 5.5% which had been used in previous valuations). Subsequent valuations for 31 October 2007 and 31 October 2008 used a rate of 4.2% for 2007, 4.0% for 2008 and 2009, and 5.25% thereafter.

The actuary was undertaking a formal triennial actuarial valuation as at 31 October 2008 at the time this report was being prepared.

*Actuary* – A mathematician, skilled in making financial calculations and economic projections, who may advise on funding requirements and benefit calculations applicable to defined benefit superannuation schemes.

*Actuarial valuation* – A full formal review of the financial position of the fund, conducted by the scheme's actuary. The review determines whether the scheme is 'on track' to pay current and future benefits from its own funds, and to provide an opinion on the funding for the Bank subsidy.

## FURTHER INFORMATION

If you would like more information about matters covered in this report or about scheme membership in general, you should contact:

The Scheme Secretariat  
Bank of New Zealand Officers' Provident Association  
P O Box 2392  
Wellington

E-mail: [bnzopa@bnz.co.nz](mailto:bnzopa@bnz.co.nz)  
Telephone: (04) 474 6780  
Fax: (04) 474 9048

### Members of the Secretariat are:

Bruce Burrows, Business Manager  
Cyril Bray, Administration Officer

You may view or receive, at no cost, a copy of any of the following material on request to the scheme secretariat:

- Full set of financial statements
- the OPA's Investment Statement
- recent Annual Reports
- the OPA's registered Prospectus (registered on 9 May 2008)
- the Rules of the OPA
- latest triennial [actuarial valuation](#)
- the Memorandum of Agreement detailing the settlement arrangement between the Association and the Bank (without appending schedules that

contain information relating to individual members and former members)

The Investment Statement, Rules, and recent Annual Reports are all available for reading on the Association's web-site.

### Complaints, Disputes and Communications

The OPA has formally adopted dispute handling procedures in accordance with recommendations from the Retirement Commissioner. If you have a complaint or dispute in relation to the operation of the OPA you should contact the Chairperson c/- the Scheme Secretariat at the address shown on this page.

### Communication with the Board

If you wish to communicate with the Board, the address for correspondence is:

The Chairperson  
Bank of New Zealand Officers' Provident Association  
P O Box 2392, Wellington

### Your feedback is welcome

The Board is committed to keeping members informed of the significant issues facing the scheme. The main communication channels used are email and the web-site ([www.bnzopa.co.nz](http://www.bnzopa.co.nz)).

## FINANCIAL PERFORMANCE

Key results shown in the financial statements that follow include:

- The main revenue contributors were:
  - gains from the Non Division 2 assets of about \$6.2m;
  - interest income from the New Zealand Fixed Interest and Cash sectors of about \$3.2m;
  - losses from the International Equities investments of about \$21.2m which split as product losses of about \$21.3m and associated currency hedging gains of about \$0.1m;
  - losses from Global Property Securities sector of about \$6.3m
  - losses of about \$6.3m net of dividend income of about \$0.7m from New Zealand Equities;
  - losses from the Global Fixed Interest investment of about \$0.3m.
- recurring operating expenses were at about the same level for last year
- Income tax expense at about \$2.3m – main taxable income was from the NZ Cash, Fixed Interest and Non Division 2 asset sectors
- Benefits paid were about \$3m less than last year (Resignation values were lower) and included about \$3.5m of Special Benefit payments to current and former members in January 2008. Member fortnightly contributions received were close to the level for last year, but there was an decrease in voluntary lump sum contribution value.
- The scheme surplus, shown under Member Liabilities reduced in value during the year, as shown in the analysis that follows.

Transactions affecting the surplus summarised as:

Opening value	\$44.8m
Plus / (less)	
Bank subsidy allocation	(11.0)
Special benefit allocation	(5.0)
Pensioner / Division 1 adjustments	1.0
Vesting fall back from exits	0.5
Undistributed earnings 2008	1.0
Closing value	\$31.3m

There was rebalancing of investment assets during the year when required because of investment value movements.

## AUDITORS REPORT

### **To the Members of the Bank of New Zealand Officers' Provident Association**

The Summary Financial Statements of the Bank Of New Zealand Officers' Provident Association (the "OPA") set out on pages 19 – 22 has been extracted from audited financial statements for the year ended 31 October 2008 on which we expressed an unqualified opinion dated 2 December 2008.

#### *Board of Managements' Responsibilities*

The Board of Management is responsible for preparing the Summary Financial Statements in accordance with New Zealand law and generally accepted accounting practice.

#### *Auditor's Responsibilities*

We are responsible for reporting whether the information contained in the Summary Financial Report has been correctly extracted from audited financial statements.

#### *Basis of Opinion on the Summary Financial Report*

We have undertaken procedures to provide reasonable assurance that the amounts set out in the Summary Financial Report have been correctly taken from the audited financial statements of the OPA for the year ended 31 October 2008.

We have no relationship with or interests in the OPA other than in our capacity as auditors.

#### *Unqualified Opinion on the Summary Financial Report*

In our opinion, the information reported in the Summary Financial Statements for the year ended 31 October 2008 on pages 19 to 22:

- complies with FRS-43: Summary Financial Statements ;
- has been correctly taken from the audited financial statements of the OPA from which it was extracted; and
- is consistent in all material respects with the audited financial statements of the OPA for the year ended 31 October 2008.

For a better understanding of the scope of our audit of the OPA's financial statements and of the OPA's financial position, financial performance and cash flows for the year ended 31 October 2008, this report should be read in conjunction with the OPA's audited financial statements for that period. Our examination of the summary financial statements was completed on 18 December 2008 and our unqualified opinion is expressed as at that date.



Chartered Accountants  
WELLINGTON, NEW ZEALAND

# ABRIDGED FINANCIAL SUMMARY

The abridged financial statements are an extract from the Bank of New Zealand Officers' Provident Association full statutory format financial statements, signed on 2 December 2008, with an unqualified audit opinion. They should be read in conjunction with Notes 1 to 4 below and Notes 1 to 21 from the full financial statements. The abridged financial statements do not provide as complete an understanding as the full statutory format financial statements. If you would like to receive a free copy of the full set of financial statements, please contact the Scheme Secretariat.

There is statement in the full statutory financial statements for the year ended 31 October 2008 that they comply with International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZIFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The accounting policies adopted are:

- The measurement base adopted is that of historical cost modified by the revaluation of assets which are measured at fair values at balance date.
- Statutory Base: These financial statements have been prepared in compliance with FRS 43 (summary financial statements), the Superannuation Schemes Act 1989, Financial Reporting Act 1993 and the Bank of New Zealand Officers' Provident Association Rules.

The measurement currency is New Zealand dollars.

## NOTE 1 - Contingent Liabilities

### *Agreement as to Future Use of Surplus*

The Board and the Bank concluded an agreement in October 2004 which set out a management plan for the surplus until 2009, at which time the Fund was expected to be in equilibrium.

A dispute arose in November 1995 when the Bank challenged the validity of the Board's then policy of distributing earnings on surplus assets to the members. High Court proceedings in December 1998 found the policy to be invalid. A Board appeal to the Court of Appeal in July 1999 was also unsuccessful and the policy was discontinued as from 31 October 1995.

The Board subsequently sought to return the Fund to equilibrium through member benefit

improvements. The Bank challenged a number of issues, the principal matter being the ability of the Board to backdate benefit improvements. After High Court proceedings in July 2001 and Court of Appeal proceedings in March 2002, the Privy Council confirmed the Board was able to backdate benefit improvements to members.

In 2001, the Bank contribution levels were increased significantly from a maximum subsidy of 7% to 10% and from a subsidy ratio of 1:1 to 1:1.5 for the period from 1 September 2001 to 4 November 2004. Following the Privy Council's finding, the Board put a proposal to the Bank which contained member benefit improvements for the 1995 to 2001 period and the 2005 to 2009 period. The Bank and the Board met in a mediation in June 2004 where it was agreed that up to \$25 million of surplus would be used for Special Member Benefits in the 2005 to 2009 period subject to providing additional protection for the pension liability and a Bank contribution holiday to 2009 based on a subsidy rate of 7% and a subsidy ratio of 1. The agreement is detailed in Rule amendments which were sanctioned by the Bank directors and a Memorandum of Agreement.

The agreement prescribes how the Bank contribution rate and the amount of surplus to be released between 2005 and 2009 will be determined. The Bank contribution subsidy will ordinarily be set at 7% and the subsidy ratio at 1, unless there were circumstances which allow for the level of Bank subsidy to be lowered or increased. Ordinarily \$5 million will be released each year for Special Member Benefits although that amount will be reduced if there is insufficient surplus available or increased if less than \$5 million is paid in the preceding years and there is sufficient surplus to make up the shortfall. Although half the amount of surplus released will be used for historic Special Benefits relating to the 1995 and 2001 period and half for the 2005 to 2009 period, payment of this component of the Special Benefits will be spread over the 2005 to 2009 period. While the payment of the Special Member Benefits should return the Fund to equilibrium in 2009, if that is not the case and surplus assets still remain in the Fund in 2009, the Board and the Bank have agreed to discuss how those assets might be fairly apportioned between the Bank and benefits to members.

Special Benefits of \$5m were allocated for each the years ended 31 October 2005, 31 October 2006, and 31 October 2007. It is anticipated a further \$5m will be allocated for the year ended 31 October 2008 on 6 January 2009.

A gearing ratio for the Bank subsidy of 1:1.2 is to apply from 1 November 2007 until 31 October 2009.

There were no other contingent liabilities at 31 October 2008 (2007: nil).

## **NOTE 2 – Vested Benefits**

Vested benefits are the rights which are not conditional on continued membership, under the conditions of the Association. The total vested accrued liability was \$200.6 million, compared to assets of \$265.6 million, per the actuarial valuation as at 31 October 2005. The difference (\$65.0 million) between these two amounts will reduce to the extent the Bank continues to meet its subsidy from the surplus and will also reduce to the extent that members accrue additional service and are allocated Special Benefits. The equivalent total vested accrued liability at 31 October 2008 (to \$200.6m) was \$174.7 million, compared to assets of \$208.4 million. The surplus value, on a vested accrued liability basis, was about \$31.3 million, with non-vested benefits being about \$2.4 million.

## **NOTE 3 – Disclosing the impact of adopting NZ International Financial Reporting Standards**

In adopting NZ IFRS for the first time for the year ending 31 October 2008, the Standards that were expected to have the most significant financial impact on the Association were:

### NZ IAS 12 - Income taxes

NZ IFRS requires income tax to be calculated using the balance sheet method.

This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its

tax base.

This change has not had material impact on the Association's financial statements.

### NZ IAS 26 - Accounting and Reporting by Retirement Benefits Plans

NZ IFRS requires investments of retirement benefit plans to be measured at fair value. Fair value is different from net market value under current NZ GAAP in two ways. Firstly under NZ IFRS there is no allowance for disposal costs to be netted off fair value of the investment. Secondly, under NZ IFRS the fair value of investments is to be measured using bid price rather than last sale price.

The quantum of adjustments on transition to NZ IFRS was not material.

In summary, adoption of NZ IFRS did not result in a material variation in the Association's financial statements.

## **NOTE 4 – Events Subsequent to Balance date**

The Board of Management approved allocation of \$5m of Special Benefits for the 2008 year for 6 January 2009.

There were no other material events subsequent to balance date.

Any movements in market value of investments from balance date to the date of issue of this report have not been reflected in these financial statements.



# BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

## STATEMENT OF CHANGES IN NET ASSETS

*For the year ended 31 October 2008*

	2008 \$(000's)	2007 \$(000's)
<b>INVESTMENT ACTIVITIES</b>		
Investment revenues / (losses)		
NZ Fixed Interest & Cash revenue	2,057	1,946
Global Fixed Interest revenue	406	393
NZ Equities dividend & interest	730	808
Non Division 2 assets - Fixed interest	992	1,149
Non Division 2 – swap cash flow movements	(1,541)	-
International Equities rebate income	50	-
Changes in net market values:		
• Realised Gains / (Losses)	(4,537)	12,960
• Unrealised Gains	(22,960)	6,716
<b>Total investment revenues</b>	<b>(24,803)</b>	<b>23,972</b>
<b>Other income</b>		
Miscellaneous income	64	3
<b>Total other income</b>	<b>64</b>	<b>3</b>
<b>Total investment revenues</b>	<b>(24,739)</b>	<b>23,975</b>
Less Investment management fees	819	813
<b>Net investment activities</b>	<b>(25,558)</b>	<b>23,162</b>
<b>Operating expenses</b>		
• Audit fees	32	30
Other fees paid to Auditors	1	0
Actuarial fees	13	18
Depreciation	39	40
General expenses	81	106
Interest expense	(1)	0
Other professional fees	175	200
Staff	235	234
BOM remuneration	17	15
Non-deductible GST	38	40
Use of money interest - IRD	0	91
<b>Total operating expenses</b>	<b>630</b>	<b>941</b>
• <b>Net income/(deficit) before tax and membership activities</b>	<b>(26,188)</b>	<b>22,388</b>
<b>Income tax expense</b>	<b>2,283</b>	<b>6,230</b>
<b>Net income/(deficit) after tax and before membership activities</b>	<b>(28,471)</b>	<b>16,158</b>
<b>MEMBERSHIP ACTIVITIES</b>		
• <b>Members' contributions</b>	<b>10,737</b>	<b>11,536</b>
• <b>Less Benefits paid</b>	<b>35,688</b>	<b>38,738</b>
<b>Net membership activities (decrease)/ increase</b>	<b>(24,951)</b>	<b>(27,202)</b>
<b>Net (decrease)/increase in assets</b>	<b>(53,422)</b>	<b>(11,044)</b>
<b>Net assets available to pay benefits at beginning of year</b>	<b>261,796</b>	<b>272,840</b>
<b>Net assets available to pay benefits at end of year</b>	<b>208,374</b>	<b>261,796</b>

A realised gain is the increase in value received on the sale of an investment.

When the market value of an asset increases that capital gain in its value is shown as an unrealised gain in the accounts. The asset has not been sold only its capital value has increased, but the gain is made available for distribution to members. Similarly, if the market price falls the capital value of the assets decline it is an unrealised loss and that reduces the amount of income to be made available for distribution.

Fees paid to the auditors (Deloitte) split into two sections; 'Audit Fees' which represent the fees paid for the audit of the statutory accounts at financial year end; and 'Other fees paid to Auditors' being fees paid to the auditor primarily for 'Agreed Upon Procedure' engagements

The amount used in the earnings rate calculation as earnings.

Includes members' contribution from salary and lump sum voluntary contributions. It does not include Bank subsidy contribution, as it is not a cash inflow, but a transfer from the surplus to members balances.

Payments made to pensioners and benefits paid to those members who left the scheme due to resignation, redundancy etc.

Any differences between totals and additions/subtractions are attributable to 'rounding'.

# BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

## STATEMENT OF NET ASSETS

*as at 31 October 2008*

	2008 \$(000's)	2007 \$(000's)
<b>Investments</b>		
Bank deposits	357	787
NZ Government stock	5,357	4,521
Other fixed interest investments	6,379	6,971
NZ discounts	24,573	13,368
NZ Equities – Active	13,013	19,382
Global Fixed Interest (TOWER product)	45,475	65,051
International Equity – JANA product	28,757	-
Assure International Equity Index Fund	-	51,721
Non Division 2 assets – Fixed Interest	73,671	88,021
Global Property Securities (AMP product)	6,228	12,650
Forward foreign exchange contracts	6,758	206
	210,568	262,678
<b>Other assets</b>		
Bank accounts	188	17
Accounts receivable	32	400
Current Tax	-	621
<b>Fixed Assets</b>	22	56
	242	1,094
<b>Total assets</b>	<b>210,810</b>	<b>263,772</b>
<b>Deduct liabilities</b>		
Accounts payable	338	583
Current tax	1,193	-
Deferred tax liability	905	1,393
<b>Total liabilities</b>	<b>2,436</b>	<b>1,976</b>
<b>Net assets available to pay benefits</b>	<b>208,374</b>	<b>261,796</b>
<b>Represented by member liabilities</b>		
<b>Division 2</b>	<b>136,115</b>	<b>173,452</b>
<b>Division 1 &amp; Pension liability</b>	<b>40,961</b>	<b>43,538</b>
<b>Undistributed earnings – current year</b>	<b>994</b>	
<b>Scheme surplus</b>	<b>30,304</b>	<b>44,806</b>
	<b>208,374</b>	<b>261,796</b>

The value of the assets held in the Secretariat offices mainly computer equipment.

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2005 after allocating earnings for the 2005 year.

Division 1 Liability – The value the actuary determines is required to cover the remaining Division 1 member Pension Liability – The amount the actuary determines is required to pay future pensions to OPA pensioners.

The amount of earnings remaining in the Fund after allowing for allocation of earnings to members, interim earnings paid to exited members and the pensioner / division 1 liability.

## Statement of Cash Flows

*for the year ended 31 October 2008*

	2008 \$(000)'s	2007 \$(000)'s
Net cash flows used in operating activities	(22,599)	(31,244)
Net cash flows from investing activities	22,770	31,218
Net increase / (decrease) in cash held	171	(26)
Add opening cash brought forward	17	43
Closing cash carried forward	188	17

Any differences between totals and additions/subtractions are attributable to 'rounding'.



# STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

## What is it?

It is a formal description of a plan that outlines the terms and responsibilities for investment of the scheme assets, specifying the risk levels acceptable, and giving consideration to the purpose of the fund as defined within its Rules. It does not cover how the funds are invested or the instructions to / expectations of a fund manager; those are incorporated in separate investment guidelines. The statement is reproduced as:

## Introduction

The Bank of New Zealand Officers' Provident Association (OPA) scheme may be considered a hybrid, consisting of a closed defined benefit section (Division 1) and a defined contribution section (Division 2). Division 2 contains all but one of the members and is akin to a cash accumulation scheme. The OPA, established over 100 years ago, operates under an Act of Parliament, the Bank of New Zealand Officers' Provident Association Act, 1971 (the Act).

The primary purpose of the scheme now is to receive, manage, and administer contributions from members and subsidy from the Bank of New Zealand (the Bank), and to pay benefits, in accordance with the Rules. The Rules were last amended during May 2007.

Division 2 of the scheme as a voluntary cash accumulation one accounts for each member's individual interest, based on contributions received from the member and the Bank, and sums allocated per the Rules from the earnings of the investment portfolio administered by the Board of Management (BOM).

The BOM are elected by the members and appointed by the Bank in accordance with the Rules. The management of the investment assets of the scheme, undertaken by the BOM, is determined by the Rules and the Act.

This 'Statement of Investment Policy and Objectives' (SIPO) for the scheme is reviewed as needed, but at least annually, to ensure that the contents remain valid to satisfy the requirements of the OPA.

## Board Of Management Responsibility

The Act describes in section 5 (Powers of Association) the powers, rights, and authorities available to the Board. Specifically Clause 5.2.k states:

'Invest and deal with the moneys of the Association in the manner authorised by the rules...'

In turn, Rule C3.3 covers Investment. It states in part:

'...The moneys of the Association may be invested in the name of the Association, or in the name of the Bank's nominee company or a trustee company or corporation as trustee or agent for the Association, in any manner authorised by law or by the Trustee Act 1956 and the Superannuation Schemes Act 1989, as the Board may in its discretion decide.....'

The BOM is responsible for:

- determination of the level of investment risk acceptable for the scheme, and interpreting this into an appropriate investment strategy.
- determination of investment guidelines and objectives for the efficient implementation and ongoing management of the scheme's investment portfolio.
- appointment of an investment manager or managers, to undertake the investment of the OPA's assets. The appointment/s to be arranged in such a manner, that the investment manager/s is mandated to fulfil an investment function as directed by the BOM. The appointment/s is reviewed at intervals of not less than every 3 years to ensure that the investment objectives of the OPA are satisfied.
- efficiently managing the scheme, meeting formally at least every 3 months to review performance, and any matters of policy on recommendation from the Investment sub-committee. The BOM appoints a Secretary to administer the scheme on an ongoing basis.
- employing other consultants for external advice and services and to determine their degree of responsibility towards efficient operation of the scheme.

The BOM has a sub-committee structure within which the Investment sub-committee considers and reports to the BOM on the responsibilities outlined above.

In determining the investment policy and objectives, the BOM recognises the concept of prudence, as provided for, although arguably not directly applicable to the OPA, in the Trustee Act. That policy prevails in the management of the OPA's investment portfolio (with exception to be made for non-diversified member choice investment options) by being advised to, and understood by, the appointed investment manager/s.

During 2003 Member Choice Investment Options were introduced for Division 2 members and the SIPO modified by adding Investment Objectives for each option to a similar format to that already in place. This edition of the SIPO has the Investment Objectives for each option modified to a different format.

### Investment Objectives

*Cash (& Cash 19.5 from 2 Nov. 2007)*

The objective of this option is to provide returns consistent with traditional cash investments such as term deposits. To achieve this, the fund will invest in a portfolio of wholesale New Zealand cash.

The target investment return from investing 100% in wholesale cash will be to perform closely in line with the NZX 90 Day Bank Bill Index (a wholesale cash benchmark), before fund expenses and fees are taken into account.

In any given year this option has a negligible probability of experiencing a negative return, before fund expenses and fees are taken into account.

*Balanced (& Balanced 19.5 from 2 Nov. 2007)*

The objective of this option is to provide returns over the long term that are moderately higher than those of traditional cash investments such as term deposits. Returns will be generated from both income and capital growth. There may be variations in returns from year to year, including the prospect of negative returns.

This option will invest across a diversified mix of asset classes including, but not limited to, cash, fixed interest, equities and property. The allocations to income assets (cash and fixed interest) and growth assets (equities and property) will be reasonably similar.

The target investment return will be to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index (a wholesale cash benchmark) by 2% (on a 30% tax rate after tax basis), before fund expenses and fees are taken into account.

In any given year this option has about a 1 in 7 probability of experiencing a negative return, before fund expenses and fees are taken into account. For a 5 year period, this probability reduces to less than 1 in 100, or 1%.

*Growth (& Growth 19.5 from 2 November 2007)*

The objective of this option is to provide returns over the long term that are materially higher than those of traditional cash investments such as term deposits. Returns will be generated from both income and capital growth. There may be wide variations in returns from year to year, including the prospect of negative returns.

This option will invest across a diversified mix of asset classes including, but not limited to, cash, fixed interest, equities and property. The allocation to growth assets (equities and property) will be significantly higher than the allocation to income assets (cash and fixed interest).

The target investment return will be to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index (a wholesale cash benchmark) by 3% (on a 30% tax rate after-tax basis), before fund expenses and fees are taken into account.

In any given year this option has about a 1 in 5 probability of experiencing a negative return, before fund expenses and fees are taken into account. For a 5 year period, this probability reduces to about 1 in 25, or 4%.

### Investment Policies

The investment policies set by the BOM are:

1. Investment risk must be minimised for the expected level of return.
2. An appropriate level of portfolio risk will be determined and accepted by the BOM in consultation with its advisors.
3. Portfolios will accept risks in a prudent manner.
4. An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained, relative to the objectives for that portfolio.
5. Tax efficiency is regarded as important.
6. Liquidity must be maintained at an appropriate level given that medium term liquidity is expected to remain negative.
7. Costs incurred in the running of the scheme will be controlled as effectively as possible.
8. Flexibility must be accommodated to allow for changes in the members' needs, and the economic, social, political and investment environments.
9. The portfolios and investment managers will be monitored on an ongoing basis.
10. All aspects of the investment process and functions must be reviewed regularly.
11. The BOM's responsibilities under common law and statute must be met, except where otherwise excluded within the Rules.







