



# **Cook Islands National Superannuation Fund**

**Annual Report of the Trustee to the Members  
for the year ended 31 December 2013**

## **Trustee Report**

## Message from the Trustee

The Trustee is pleased to present to the Members of the Cook Islands National Superannuation Fund (the 'Fund') the Trustee Report for the year ended 31 December 2013. The Trustee Report is produced to keep you informed of the Fund's financial results during the year and your investment in the Fund. The Trustee Report to Members is made annually.

Attached to the Trustee Report is your individual member statement which lists the value of your benefits as at 31 December 2013.

## Fund Activity

During the year under review, combined contributions from members and their employers were in excess of \$9.3 million (2012: \$9.2m). Benefit payments exceeded \$1.2 million (2012: \$1.0m). The net asset value of the Fund grew by \$13.7 million to reach \$77.9 (2012: \$64.2m) million by the end of 2013. Also, 733 new members joined the Fund, bringing the total membership to 7,690 (including 72 Pensioners) at the end of 2013.

## Fund Investments

Following the closure of the Russell World Equity Strategies Fund and the Russell World Bond Fund in March 2013, the Trustee in consultation with the Board selected the following investment funds to hold the Fund's investments. The investment funds managed by Russell Investment Group Limited are set out in the table below.

## Investment Funds

Fund Name	Sector	Domiciled
Russell Global Bond Fund Class B	Income Assets	Aus
Russell Global Opportunities Fund (\$NZ Hedged Class B)	Growth Assets	Aus
Russell Investments Australasian Share Fund	Growth Assets	NZ
Russell Investments NZ Fixed Interest Fund	Income Assets	NZ

## Asset Allocations

Fund Name	Actual Allocation	Range
Russell Global Bond Fund Class B	50.1%	48% - 56%
Russell Global Opportunities Fund (\$NZ Hedged Class B)	26.2%	20%– 27%
Russell Investments Australasian Share Fund	10.7%	10 %- 13%
Russell Investments NZ Fixed Interest Fund	13.0%	12 %- 14%

The total investment of the Fund by geographic region and by asset class as 31 December 2013 is shown in the charts on page 4, and described in more detail by sub-Fund in the following paragraphs.

## Russell Global Bond Fund – Class B

### Description

The Russell Global Bond Fund – Class B aims to provide a total return, before costs and tax, higher than the fund's benchmark (Barclays Global Aggregate Bond NZ Dollar Hedged Index) over the medium term by providing exposure to a diversified portfolio of predominately fixed income securities denominated in foreign currencies and largely hedged into New Zealand Dollars.

The investment fund invests predominately in debt securities issued by supranationals, international governments, quasi-governments, agencies and corporates as well as structured credit securities including mortgage and asset backed securities. The investment fund may also be exposed to low grade or unrated debt securities, emerging markets and currency to a limited extent. Derivatives may also be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to New Zealand Dollars.

The fund is an Australian registered Unit Trust.

The fund was established in May 2013 and for the period to 31 December 2013 the gross return of the Fund was -0.66%.

## Market Exposure – Regional Allocations

North America	42.2%
Europe (excl UK)	22.8%
Australasia	13.8%
Japan	5.7%
UK	3.6%
Other	11.9%

## Russell Global Opportunities Fund (\$NZ Hedged – Class B)

### Description

The Russell Global Opportunities Fund (\$NZ Hedged – Class B) aims to significantly outperform the fund's benchmark (Russell Global Large Gap NZD Hedged – Net Index), before costs and tax, over the long term by providing exposure to a diversified portfolio of predominately international shares, largely hedged to New Zealand Dollars.

The investment fund invests predominately in a range of international shares listed on stock exchanges in developed and emerging international markets. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to New Zealand Dollars.

The fund is an Australian registered Unit Trust.

The fund was established in May 2013 and for the period to 31 December 2013 the gross return of the Fund was 15.57%.

### Market Exposure – Regional Allocations

North America	52.3%
Europe / Middle East / Africa (excl UK)	21.6%
Emerging Markets	9.5%
UK	9.5%
Japan	6.3%
Asia Pacific (excl Japan)	0.8%

## Russell Investments Australasian Share Fund

### Description

The Russell Investments Australasian Share Fund aims to provide a total return, before costs and tax, higher than the benchmark (NZX50 with imputation credits) over the long term by having an underlying exposure to a diversified portfolio of predominately New Zealand and Australian Shares. The investment policy of the Fund is to be invested in equity securities in Australia and New Zealand.

The fund was established in March 2013 and for the nine month period to 31 December 2013 the gross return of the fund was 10.05%.

The fund is a New Zealand registered Unit Trust.

### Top 10 Holdings

Fletcher Building	13.8%
Telecom	8.3%
Fisher and Paykel	6.9%
Auckland Airport	5.6%
Mainfreight	5.4%
Contact Energy	4.9%
Ryman Healthcare	4.6%
Sky TV	3.4%
Tower	2.8%
Kathmandu	2.7%

## Russell Investments NZ Fixed Interest Fund

### Description

The Russell Investments NZ Fixed Interest Fund aims to provide a total return, before costs and tax, higher than the benchmark (ANZ Government Stock Index) over the long term by having an underlying exposure to a diversified portfolio of fixed interest securities.

The investment policy of the fund is to be invested in fixed interest securities denominated in New Zealand currency

The fund was established in March 2013 and for the nine month period to 31 December 2013 the gross return of the Fund was 0.05%.

The fund is a New Zealand registered Unit Trust.

### Top 10 issuers

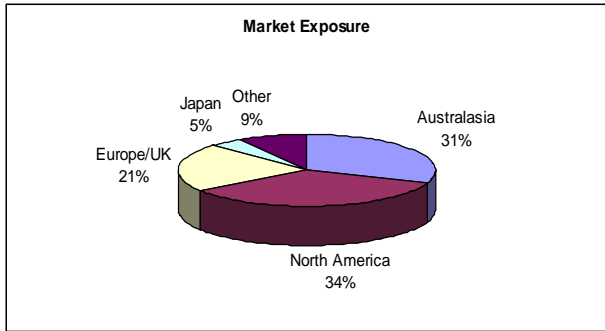
NZ Government	59.8%
BNZ	7.1%
Commonwealth Bank	4.1%
Auckland Council	3.6%
NZ Local Government Funding Agency	3.4%
Westpac	3.1%
Dunedin City Treasury	2.6%
Rabobank	2.6%
Cash	1.6%
Fonterra	1.3%

## Investment Fund Performance

For the year to 31 December 2013, the Fund produced an overall net investment gain of 8.86% (2012: 14.13%) after allowing for investment management fees.

Listed below are the interim annual rates used to calculate benefit payments for Members who exited the Fund during the year.

Month of Exit	Interest Rate Fund Year to Date % pa
January 2013	15.6
February	12.1
March	12.4
April	12.1
May	11.6
June	5.8
July	7.6
August	4.9
September	6.8
October	8.6
November	8.2
December	8.0



## How the Fund Works

The Fund is designed to provide Members with a means to save for their retirement. The Fund is intended to help give Members financial security in their retirement or, in the event of their death before retirement, security for their dependants.

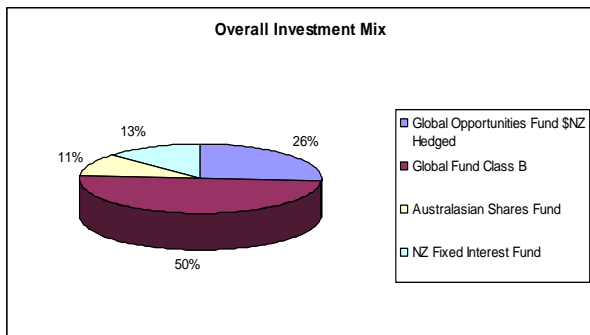
The total Fund return is a combination of the change in market value plus any distributions, which are reinvested back into the Fund. During 2013, Members benefited from strong returns from the equity sector funds while the fixed interest funds were negatively impacted, mainly on the news that the U.S. Federal Reserve would taper its “quantitative easing” program.

While the potential remains for high levels of investment volatility, it was pleasing to see the positive returns generated during the year, which have been reflected by the investment gains allocated to Members. However, while uncertainty still remains in investment markets the relatively conservative nature of the Fund’s investments would help absorb negative investment returns to some extent.

As part of the ongoing and long term nature of the Fund, the Trustee will continue to undertake investment reviews in conjunction with the Administration and Investment Managers and Tax Advisor.

Membership of the Fund is compulsory for all people working in the Cook Islands or employed outside the Cook Islands by an employer resident in the Cook Islands, unless the employer qualifies for a specific exemption. As a member you contribute a percentage of your salary to the Fund and your Employer also contributes. All contributions are allocated to Member and Employer Accounts (collectively known as Compulsory Accounts) held in your name. Each year Compulsory Accounts are credited with interest reflecting the rate earned by the Fund during the year. Please note that in financial years where there are investment losses, Compulsory Accounts could be impacted negatively by the allocation of any investment losses. The compulsion described above is subject to litigation. Refer to section on High Court Litigation on page 5 of this report.

The main purpose of the Fund is to provide for retirement through long term savings. To encourage savings, you are not able to withdraw monies from the Fund while remaining a contributing member. The Fund also provides you with Life Insurance cover provided you meet certain criteria.



On retirement you become entitled to a pension benefit based on the amount held on your behalf in your Compulsory Account, subject to the balance of the Compulsory Account meeting a minimum value (see Pension Rates Section below). Up to 25% of the retirement benefit can be taken as a lump sum and the balance is used to determine your pension payment. Please refer to the Members Information Handbook for details of your entitlements upon retirement, death or disability.

## Pension Rates

An actuarial review of the Fund was conducted for the year ended 31 December 2010, the findings of which were not implemented. An actuarial review has been undertaken for the year ended 2013 and the Trustee and the Board are considering the recommendations contained in the review.

The full list of the current pension rates at various retirement ages is available from the Chief Executive Officer.

## Fund Expenditure Policy

At present, the majority of the Cook Islands Office expenses are funded by the Cook Islands Government through a budget appropriation known as POBOC. The level of POBOC funding and any changes to future levels will be determined by the Cook Islands Government. Details of expenses and POBOC funding are shown in the full financial statements.

During 2013, a Trustee Funding Policy was entered into between the Board and Trustee. The Policy has been designed to promote the transparency and accountability of all Fund expenses through the introduction of improved internal controls and the oversight by the Trustee at the setting of each annual budget. The introduction of this policy has led to improved and more streamlined account reporting for the Fund.

## Internet Account Access

The successful introduction of internet access has been a useful tool for members to monitor their individual accounts. Details on how to access your account can be found on the Fund's website (see directory- page 7) via the ebenefits tab.

that the Act was invalid was issued on 31 March 2014. The Cook Islands Government has appealed against the judgement and the appeal was scheduled to proceed in the week beginning 9 June 2014. On 19 February 2014, a Court Order of Stay was issued so the Fund can continue in the interim.

*As further information is received on the outcome of court proceedings, the Office of the Fund will advise you.*

## Trustee's Certificate

Public Trust as Trustee of the Cook Islands National Superannuation Fund, hereby certifies, after having made due enquiry, to the best of our knowledge and belief, that during the financial year ended 31 December 2013:

- all contributions made to the Fund during the financial year were in accordance with the Trust Deed and were passed promptly to the Administration Manager;
- all benefits required to be paid from the Fund in accordance with the Trust Deed were paid by the Administration Manager; and
- the market value of the Fund as at the close of the financial year is sufficient to cover all accrued benefit entitlements that would have been payable had all Members of the Fund 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 as at the close of the financial year.

Dennis Church  
General Manager – Corporate Trustee Services  
Public Trust

## Amendments to Trust Deed

No amendments have been made to the Trust Deed since inception of the Fund.

## High Court Litigation

Members will be aware of the recent decision in the High Court where the Court held that the compulsory nature of contributions as mandated under the Cook Islands National Superannuation Act 2000 was a breach of the Cook Islands Constitution and a declaration

## Directory

### BOARD

Financial Secretary Richard Neves (Acting Chairman)  
([richard.neves@cookislands.gov.ck](mailto:richard.neves@cookislands.gov.ck))

- Cook Islands Workers Assn      Anthony Turua  
([anthony@education.gov.ck](mailto:anthony@education.gov.ck))
- Non-Chamber Employers      Heinz Matysik  
([heinz@lawyers.co.ck](mailto:heinz@lawyers.co.ck))
- Chamber of Commerce      Tatiana Burn  
([tats@perfumes.co.ck](mailto:tats@perfumes.co.ck))
- Contributors Representative      Anna Koteka  
([kotekas@oyster.net.ck](mailto:kotekas@oyster.net.ck))

### CHIEF EXECUTIVE OFFICER

Damien Beddoes (from 7 July 2014)  
[ceo@superfund.gov.ck](mailto:ceo@superfund.gov.ck)

### TRUSTEE

Public Trust  
P O Box 31543  
Lower Hutt 6315  
(website [www.publictrust.co.nz](http://www.publictrust.co.nz))

### ADMINISTRATION MANAGER

Aon New Zealand  
P O Box 3167  
Shortland Street  
Auckland 1140  
(website [www.aon.co.nz](http://www.aon.co.nz))

### INVESTMENT MANAGER

Russell Investment Group Limited  
P O Box 105-191  
Auckland Central  
(website [www.russell.com/nz](http://www.russell.com/nz))

### INSURER

AIA New Zealand  
Private Bag 300981  
Albany  
North Shore City 0752  
(website [www.aia.co.nz](http://www.aia.co.nz))

### AUDITOR

Deloitte  
P O Box 1990  
Wellington

### ACTUARY

Aon Hewitt, New Zealand  
P O Box 3167  
Shortland Street  
Auckland 1140  
(website [www.aon.co.nz](http://www.aon.co.nz))

### ENQUIRIES OR CORRESPONDENCE

Chief Executive Officer  
CINSF Office  
P O Box 3076  
Avarua  
Rarotonga  
Cook Islands  
Phone (682) 25515  
Facsimile (682) 26615  
Website: [www.cinsf.com](http://www.cinsf.com)

## Summary Financial Statements for the year ended 31 December 2013

	2013 NZ \$	2012 NZ \$
<b><u>Summary Statement of Changes in Net Assets</u></b>		
Net Investment Gain	6,222,300	6,940,520
Plus: Other Income	468,970	468,616
Less: Other Expenses	<u>(1,056,395)</u>	<u>(923,350)</u>
<b>Surplus Before Taxation and Membership Activities</b>	<b>5,634,875</b>	<b>6,485,786</b>
Income Tax Expense	<u>(642)</u>	<u>(431)</u>
<b>Surplus After Taxation and Before Membership Activities</b>	<b>5,634,233</b>	<b>6,485,355</b>
<b>Membership Activities</b>		
Member Contributions	3,928,624	4,100,678
Member Voluntary Contributions	52,585	62,250
Contributions Yet To Be Allocated	1,448,193	969,077
Employer Contributions	<u>3,928,624</u>	<u>4,100,678</u>
Total Contributions	9,358,026	9,232,683
Less: Benefits Paid	<u>(1,267,931)</u>	<u>(1,063,700)</u>
<b>Net Membership Activities</b>	<b>8,090,095</b>	<b>8,168,983</b>
<b>Increase In Net Assets During The Year</b>	<b><u>13,724,328</u></b>	<b><u>14,654,338</u></b>
<b><u>Summary Statement of Net Assets</u></b>		
Assets		
Financial Assets – At Fair Value Through Profit or Loss	75,135,175	61,299,812
Other Assets	<u>3,081,366</u>	<u>3,139,315</u>
<b>Total Assets</b>	<b>78,216,541</b>	<b>64,439,127</b>
<b>Less: Total Liabilities</b>	<u>(242,027)</u>	<u>(188,941)</u>
<b>Net Assets Available For Benefits</b>	<b><u>77,974,514</u></b>	<b><u>64,250,186</u></b>
Vested Benefits	<b><u>77,411,853</u></b>	<b><u>63,845,271</u></b>
<b><u>Summary Statement of Cash Flows</u></b>		
Net Cash Flows from Operating Activities	7,589,263	8,020,753
Net Cash Flows from Investing Activities	<u>(7,645,000)</u>	<u>(7,380,000)</u>
Net Increase/(Decrease) in Cash Held	<u>(55,737)</u>	<u>640,753</u>
Cash at Beginning of Year	<u>2,135,101</u>	<u>1,494,348</u>
<b>Cash At End Of Year</b>	<b><u>2,079,364</u></b>	<b><u>2,135,101</u></b>

## Notes to the Summary Financial Statements for the year ended 31 December 2013

A summary of the Fund's audited financial statements for the year ended 31 December 2013 which were authorised for issue by Public Trust (the "Trustee") on 25 June 2014 is shown on pages 7 to 8. The summary financial statements have been extracted from the full financial statements for the year ended 31 December 2013 which were authorised for issue by the Trustee on 25 June 2014. The auditor issued an unqualified audit report with an Emphasis of Matter paragraph regarding going concern on the full financial statements dated 25 June 2014.

The summary financial statements have been prepared in accordance with FRS 43: *Summary Financial Statements*. The full financial statements have been prepared in accordance with New Zealand generally accepted accounting practice and they comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. The full financial statements also comply with International Financial Reporting Standards. The Fund has made an explicit and unreserved statement of compliance with International Financial Reporting Standards in note 2 to the full financial statements.

The full financial statements and the summary financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Fund operates.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements of the Fund as they do not include all of the disclosures provided in the full financial statements. A copy of the full financial statements can be obtained, free of charge, from the Cook Islands Office located in the Clarkes Building, Parekura, Rarotonga, Cook Islands.

### Going Concern

As described in the Subsequent Events note below, these circumstances represent a material uncertainty on the Fund’s ability to continue as a Going Concern and therefore the Fund may be unable to realise its assets and discharge its liabilities in the normal course of business. On 19 February 2014 a Court Order of Stay was issued so the Fund can continue on a voluntary, rather than compulsory, contribution basis and as such the financial statements continue to be prepared on a Going Concern basis.

Should the Fund be wound up the Trust Deed sets out the manner in which this will occur, the Trust Deed contains dissolution provisions that the Trustee must follow. These provisions include the realisation of the Fund's assets, and after payment of expenses and allowance for liabilities, the allocation of proceeds to members and pensioners in a given order of priority. At all times during the dissolution process, the Trustee is required to continue to act in the best interests of members.

### Subsequent Events

At a hearing in the High Court of the Cook Islands in 2013, the Minister responsible for the Fund took action against various parties relating to the non-payment of compulsory contributions as mandated under the Cook Islands National Superannuation Fund Act 2000. On 12 February 2014 a judgement was issued which concluded that the compulsory nature of contributions was a breach of the Articles of the Cook Islands constitution and a declaration that the Act was invalid was issued on 31 March 2014. No remedies were sought so none were given. On 19 February 2014 a Court Order of Stay was issued, so the Fund can continue on a voluntary, rather than compulsory, contribution basis and as such the financial statements can continue to be prepared on a Going Concern basis. The hearing for remedy is scheduled for September 2014. The Cook Islands Government has appealed the judgement and the appeal was scheduled to proceed in the week beginning 9 June 2014.

## Membership changes during the year

The below table shows the membership movements for the year ended 31 December 2013.

### MEMBERS

<b>As at 1 JANUARY 2013</b>	<b>7,025</b>
New Members	733
Retirements	(58)
Deaths	(13)
Expatriate Withdrawal	(63)
Disablements	-
Withdrawn Membership*	(6)
<b>Members at 31 DECEMBER 2013</b>	<b>7,618</b>

\* Withdrawn Membership refers to duplicate names that have been removed

### PENSIONERS

<b>As at 1 JANUARY 2013</b>	<b>58</b>
New Pensioners	14
<b>Pensioners at 31 DECEMBER 2013</b>	<b>72</b>





## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COOK ISLANDS NATIONAL SUPERANNUATION FUND

### Report on the Summary Financial Statements

The accompanying summary financial statements of the Cook Islands National Superannuation Fund (the "Fund") on pages 7 and 8, which comprise the Summary Statement of Net Assets as at 31 December 2013, and the Summary Statement of Changes in Net Assets and Summary Statement of Cash Flows for the year then ended, and related notes, are derived from the audited financial statements of the Fund for the year ended 31 December 2013. We expressed an unmodified audit opinion with an emphasis of matter paragraph on those financial statements in our report dated 25 June 2014.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Fund.

This report is made solely to the Fund's members, as a body. Our audit has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

### *Trustee's Responsibility for the Financial Statements*

The Trustee is responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43: *Summary Financial Statements*.

### *Auditor's Responsibilities*

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the Fund.

### *Opinion*

In our opinion, the summary financial statements are correctly extracted from the audited financial statements of the Fund for the year ended 31 December 2013 and are consistent, in all material respects, with those financial statements, in accordance with FRS-43.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to the Going Concern and Subsequent Events notes to the summary financial statements, which indicate that the Fund may be unable to realise its assets and discharge its liabilities in the normal course of business due to the Cook Islands National Superannuation Fund Act 2000 being declared invalid. This condition indicates the existence of a material uncertainty that may cast significant doubt about the Fund's ability to continue as a going concern.



**Chartered Accountants**  
25 June 2014  
Wellington, New Zealand