



Annual Report and Financial Statements

Year ended 31 March 2010

[www.gmk.co.nz](http://www.gmk.co.nz)

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Adviser disclosure statements and an  
Investment Statement for the Gareth Morgan  
KiwiSaver Scheme are available at [www.gmk.co.nz](http://www.gmk.co.nz)  
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**GMK membership**  
continued to grow steadily  
over 2009 and 2010, in fact  
by more than **12,000**.

At March 31 2010 there  
were **47,257** members in  
our Scheme; we reached  
the **50,000** member  
milestone in July.

It's good to see a steady  
stream of thinking Kiwis  
making an active choice  
to join a genuinely Kiwi  
KiwiSaver scheme.

## 2009/10 in review



### WHAT YOU CAN EXPECT FROM US

- Fair treatment for all investors
- Total respect for investors and their money
- Detailed monthly reporting online
- Clear and honest communication
- Wealth protection first, growth second
- Fee for service only; no commissions
- Duty of care, accountability

It wasn't until early 2009 when governments and central banks really opened their cheque books that the 2007-2008 credit crisis was turned around. At the time there was serious talk of the developed economies sliding into a 1930s-type recession. Despite the mammoth monetary and fiscal rescue packages put in place in the US and Europe, we maintained a cautious investment stance.

It's easy to see in hindsight that we could have thrown caution to the wind and bought the most cyclically sensitive stocks on the basis that there would indeed be a sharp economic and market recovery, and for good measure hedged everything back to the South Pacific peso (the New Zealand dollar, which had been in free fall). We could have, but we didn't. Would we make that same call again? Yes.

The world was full of uncertainty through the first half of 2009. The extent of the rescue packages highlighted the anxiety of those closest to the problems—that the consequences of the financial crisis for economies could be severe. Recent events in Europe have rocked world financial markets again and highlight the fact that the crisis may not be dead and buried, yet.

We've taken a fair bit of stick from members for not delivering the returns others have over the past year. But such short term comparisons are just dumb. Our performance across all three portfolios since KiwiSaver began compares very favourably with the other big providers.

continued

## 2009/10 in review

continued

**The difference in investment returns reflects a difference in our investment approach.**

## So, let's talk about how we go about investing your money.

I've said this many times, but it bears repeating:

### Wealth preservation is our number one priority.

Growing your wealth is a second order priority. You work hard to build your savings so it's critical that those savings are intact for your retirement—our job is to look after those savings. The slump and rally in financial markets over the last two years is a stark illustration of how our investment approach differs from most other providers—we've largely maintained the value of savers' contributions through the cycle in contrast to the big losses and gains experienced by members of most other KiwiSaver schemes.

continued

## GMK TEAM UPDATES

Gareth Morgan Investments employs 40 staff, all based in our Wellington office, and all involved, one way or another, with our KiwiSaver scheme. Members deal directly with Karena Goodall, Liz Bushell, Justine Fung, Eliot Abraham and Anita Patel. They're responsible for answering your phone and email enquiries, processing applications and transfers, and solving any account problems.

Behind the Member Services team are several other groups:

### Investment Strategy

making the investment decisions

### Compliance and Legal

making sure we tick all the legal boxes

### Operations

completing account transactions and reconciliations

### Information Technology

developing the software that makes everything tick smoothly

### Administration

providing support across all teams

### Marketing and Communications

connecting with you and potential members

We have expanded GMI's senior management team to include Cathy Magiannis Chief Executive, and Steve Wiggins General Manager Marketing, Sales and Customer Service. The reason for these appointments is the growth we're experiencing as a company. Both Cathy and Steve have experience in managing organisational growth, so they bring important depth and breadth to the management team.

Cathy led the KiwiSaver implementation team at IRD. She assembled and managed the team that successfully launched KiwiSaver under a very demanding timeframe.

Steve comes to us with more than 15 years of experience in the financial services industry, primarily with AMP. He was responsible for establishing the direct sales force for AMP in New Zealand.

VISITING MEMBERS

AROUND THE

COUNTRY

We don't have a branch office in every town, but we do know the value of face-to-face communication. This past year we've launched a new member service program. We call it the **Flying Squads**—our team visits centres around New Zealand and updates members on financial markets and KiwiSaver.

A lively and valuable part of these sessions is the questions and answers—members get a chance to ask any questions they like, and get answers on the spot.

The sessions have been well attended and well received. We advertise them in the monthly reporting emails, and we send invitations by post or email. We encourage you to come along to these sessions when they are in your area. We want to hear from you and we want to keep you as well informed about your KiwiSaver investment as possible.

2009/10 in review

continued

## We are a diversified global investment manager.

Diversification is about spreading your savings across a large number of investments to minimise the impact of any one investment failing. New Zealand offers just a tiny fraction of the world's possible investments. Given that most Kiwis are heavily exposed to New Zealand assets already (via their job and house) we take the view that their wealth is best protected by investing their savings in the world's capital markets.

An important consequence of investing globally is that investment returns, which are reported in New Zealand dollars, are pretty exposed to the gyrations in the New Zealand dollar, one of the world's most volatile currencies. The climb in the New Zealand dollar last year was a major factor denting returns in our Growth portfolio. The more conservative your Investment Direction is, the more exposed to New Zealand dollar assets you will be, and thus the less your returns will be affected by fluctuations in the New Zealand dollar.

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continued

2009/10 in review

continued

## We are an active investment manager.

Financial markets are dynamic and can be very volatile. In managing your savings we believe it's important to respond to rather than ignore changes in market conditions. We constantly review the degree of exposure your portfolio has to share markets and currencies and we make changes in exposure levels on the basis of anticipated economic and financial market developments. We reject the idea of setting your portfolio exposures according to specific criteria and then leaving it to ride the full ups and downs that markets deliver.

It is important to know that active management is not synonymous with an aggressive or high risk approach. In fact it can mean quite the opposite—we have approved absolute investment limits beneath which we exercise our investment judgement.

Understanding the investment approach of your Kiwi-Saver provider is a really important aspect of being a savvy investor. Now I'm the first to admit that our style won't suit everyone. That's fine. But for those of you who do trust us with your money, it's important that you understand what we do, how we do it, and what that means for your portfolio. You're always welcome to email or phone us with your questions.

Cheers



Gareth

GMI

SUPERANNUATION

SCHEME

We launched the GMI Superannuation Scheme in 2009. It has much in common with the Gareth Morgan KiwiSaver Scheme—the same detailed monthly reporting, one simple fee, no reserve accounts or vesting, no unit pricing, and the same investment strategy team managing the funds. Individuals can join and contribute voluntarily or through their workplace and employers can contribute to their employees' accounts.

The Scheme doesn't have the Government contributions like the KiwiSaver scheme, but you can make withdrawals after you turn 55, and in some cases earlier. It is also registered to accept UK Pension transfers.

An investment statement and more information about the GMI Superannuation Scheme is available at [www.gmisuper.co.nz](http://www.gmisuper.co.nz) or request a paper copy by phoning 0800 427 384.

## The Gareth Morgan KiwiSaver Scheme

### Financial Statements

For the year ended 31 March 2010

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In accordance with section 123 of the KiwiSaver Act 2006, Public Trust, (the "Trustee") reports as follows:

The numerical changes in the membership of the Scheme for the year ended 31 March 2010 are:

	Total Scheme Membership Year ended	
	31-Mar-10	31-Mar-09
Opening	35,095	20,009
New Entrants	12,703	15,336
Withdrawals	(541)	(250)
<b>Closing</b>	<b>47,257</b>	<b>35,095</b>

The financial statements of the Scheme for the year ended 31 March 2010 are attached (pages 11-22).

The auditor's report on the financial statements of the Scheme is attached (page 10).

The trust deed was amended on 18 February 2010. The amendment removed Perpetual Trust Limited as trustee of the Scheme and appointed Public Trust as the new trustee of the Scheme, and made certain other minor amendments.

Scheme Management information:

<b>Trustee</b>	Public Trust
<b>Administration Manager</b>	Gareth Morgan KiwiSaver Limited
<b>Investment Manager</b>	Gareth Morgan Investments Limited Partnership (formerly Gareth Morgan Investments Limited)
<b>Insurer</b>	QBE Insurance (Intl) Limited (formerly Lumley General (NZ) Limited)
<b>Auditor</b>	KPMG
<b>Solicitor</b>	DLA Phillips Fox

All correspondence from members to the Trustee should be sent to:

General Manager  
Corporate Trustee Services  
Public Trust  
Level 10  
141 Willis Street  
PO Box 5067  
Wellington

The Directors of Public Trust are:

**Current Directors:**

Trevor David Janes (appointed Chairman 1 May 2010)	Susan Mary Anna McCormack (appointed 1 May 2010)
Candis Eileen Craven	Fiona Ann Oliver
Rodger John Finlay	Hinerangi Ada Raumati
Robin Gilmer Hill	Sarah Mary Roberts

**Former Directors:** Donal Francis Curtin - resigned 30 April 2010

The benefits payable from the Scheme are based on the investment return of the Scheme's assets. The table below indicates the average month end interim rates of return for each of the three underlying portfolios, used to calculate benefit payments to members who withdrew from the Scheme during the period to 31 March 2010. The returns are net of tax and fees, and are shown to represent members on a Prescribed Investor Rate of either 19.5% or 30%.

Month of withdrawal	Conservative portfolio		Balanced portfolio		Growth portfolio	
	19.5% PIR	30% PIR	19.5% PIR	30% PIR	19.5% PIR	30% PIR
<b>2009</b>						
Apr	1.67%	1.55%	3.76%	3.61%	5.91%	5.78%
May	-0.73%	-0.71%	-2.30%	-2.17%	-3.52%	-3.33%
June	-0.01%	-0.04%	-0.35%	-0.35%	-0.70%	-0.68%
July	1.11%	1.06%	2.69%	2.64%	4.18%	4.15%
Aug	0.22%	0.16%	-0.45%	-0.50%	-1.82%	-1.83%
Sept	0.28%	0.21%	0.19%	0.10%	-0.30%	-0.39%
Oct	0.12%	0.11%	0.22%	0.22%	-0.39%	-0.30%
Nov	0.81%	0.75%	1.27%	1.25%	2.68%	2.73%
Dec	0.31%	0.26%	0.56%	0.54%	-0.21%	-0.18%
<b>2010</b>						
Jan	-0.18%	-0.22%	-1.37%	-1.39%	-1.72%	-1.71%
Feb	0.57%	0.51%	0.68%	0.65%	1.07%	1.07%
Mar	0.93%	0.87%	2.39%	2.38%	3.47%	3.44%

The most recent prospectus of the Scheme was registered on 18 February 2010.

## Other Disclosures

<i>KiwiSaver Act 2006 Schedule 1</i>	Total Scheme 2010		Total Scheme 2009	
	Number of Members	\$	Number of Members	\$
<b>Withdrawals:</b>				
The number of members of the Scheme who during the year have made a withdrawal for the purchase of a first home under clause 8 of the KiwiSaver scheme rules and the total amount withdrawn by all of those members:	-	-	-	-
The number of members of the Scheme who during the year have made a withdrawal by a member's personal representative under clause 9 of the KiwiSaver scheme rules and the total amount withdrawn by all of those members:	43	242,311	28	92,032
The number of members of the Scheme who during the year have made a withdrawal on the grounds of significant financial hardship under clause 10 of the KiwiSaver scheme rules and the total amount withdrawn by all of those members:	51	157,304	12	25,459
The number of members of the Scheme who during the year have made a withdrawal on the grounds of serious illness under clause 12 of the KiwiSaver scheme rules and the total amount withdrawn by all of those members:	7	43,803	9	49,246
The number of members of the Scheme who during the year have made a withdrawal on the grounds of permanent emigration under clause 14 of the KiwiSaver scheme rules and the total amount withdrawn by all of those members:	18	57,813	-	-
Transfers to other schemes	498	2,604,725	152	412,688
Scheme refunds to the Inland Revenue Department	9,881	1,086,691	49	70,656
<b>Total Withdrawals</b>	<b>10,498</b>	<b>4,192,647</b>	<b>250</b>	<b>650,081</b>
<b>Fees:</b>				
<b>The total amount of fees that have been charged in the period subsequent to the last annual report:*</b>	<b>45,770</b>	<b>2,958,028</b>	<b>32,804</b>	<b>1,510,516</b>
* includes administration fees, management fees and trustee fees				

<i>KiwiSaver Act 2006 s 123</i>	Total Scheme 2010		Total Scheme 2009	
	Number of Members	\$	Number of Members	\$
The total amount of each type of contribution received by the provider for the year, under section 123(5)(f) of the KiwiSaver Act 2006 and the number of members credited with each type:				
• Employee contributions	31,580	63,172,880	23,121	46,167,091
• Employer contributions	30,228	33,495,426	21,669	16,416,142
• Crown contributions	42,424	39,135,459	30,756	31,236,977
• Transfers from other KiwiSaver schemes	5,057	28,846,552	3,010	8,424,942
• Transfers from registered superannuation schemes (non KiwiSaver)	221	1,976,681	173	2,996,282
• Voluntary member contributions	10,875	13,358,255	8,712	8,162,605
<b>Members with accumulations and total accumulations</b>	<b>46,796</b>	<b>179,985,254</b>	<b>33,188</b>	<b>113,404,039</b>
The total amounts of fee subsidies credited to members for the year, under section 123(5)(h) of the KiwiSaver Act 2006 and the number of members credited:	27,906	558,120	32,660	1,203,361

## TRUSTEE'S CERTIFICATE

### To the Members of the Gareth Morgan KiwiSaver Scheme ("the Scheme") for the Year Ended 31 March 2010

As required by the section 123 (3) (b) of the KiwiSaver Act 2006 ("the Act"), Public Trust as Trustee confirms that all contributions received in respect of each Member, including contributions paid via the Commissioner of Inland Revenue in respect of each Member have been applied in accordance with the Trust Deed.

Public Trust as Trustee certifies in accordance with sections 123 (2) and 123 (4) of the Act that:

- All the benefits required to be paid from the Scheme in accordance with the terms of the Trust Deed have been paid.
- The market value of the assets of the Scheme at the close of the financial year equalled the total value of the 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 as at the close of the financial year.

- Any fee subsidies received in respect of each member of the Scheme have been applied in accordance with the prescribed requirements.
- There is a Scheme Provider Agreement between the Commissioner of Inland Revenue and Gareth Morgan KiwiSaver Limited as Provider of the Scheme that remains in force.
- There has been no fee increase of either the Trustee, Administration Manager, Investment Manager, Promoter or any other person charging a fee during the year ended 31 March 2010.

Dennis Church, General Manager  
Corporate Trustee Services, Public Trust

Date: .....

**Audit report**

To the members of The Gareth Morgan KiwiSaver Scheme

We have audited the financial statements on pages 11 to 22. The financial statements provide information about the past financial performance of the Scheme and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 13 to 14.

**Trustees' responsibilities**

The Trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Scheme as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

**Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

**Basis of opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements;
- whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order

to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the Scheme in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the Scheme. The firm has no other relationship with, or interest in, the Scheme.

**Unqualified opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Scheme as far as appears from our examination of those records;
- the financial statements on pages 11 to 22:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the Scheme as at 31 March 2010 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 29 July 2010 and our unqualified opinion is expressed as at that date.

Wellington

The Gareth Morgan KiwiSaver Scheme		Statement of Changes in Net Assets		For the year ended 31 March 2010	
		Total Scheme - Year ended			
		Notes	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s	
<i>Investment activities</i>					
<b>Income</b>					
Dividends			4,703	1,241	
Interest income			5,187	2,918	
Net changes in fair value of investment assets and liabilities	9		9,074	(11,962)	
<b>Net investment income</b>			<b>18,964</b>	<b>(7,803)</b>	
<b>Expenses</b>					
Management and general administration fees*	14		2,958	1,511	
Miscellaneous transaction fees			7	1	
Interest expense			7	5	
Deductible brokerage fees			-	(61)	
<b>Total expenses</b>			<b>2,972</b>	<b>1,456</b>	
<b>Net Profit/(Loss) before membership activities</b>			<b>15,992</b>	<b>(9,259)</b>	

\*The Manager incurs all Scheme trustee fees, audit fees and investment management fees and ordinary expenses on behalf of the Scheme. The Manager recoups these expenses through its management fee.

The notes attached form an integral part of these financial statements

The Gareth Morgan KiwiSaver Scheme		Statement of Changes in Net Assets Attributable to Members		For the year ended 31 March 2010	
		Total Scheme - Year ended			
		Notes	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s	
Net Profit/(Loss) before membership activities			15,992	(9,259)	
<b>Total comprehensive income</b>			<b>15,992</b>	<b>(9,259)</b>	
<i>Membership activities:</i>					
Contributions	4		180,551	114,607	
Withdrawals	4		(4,193)	(650)	
Members' PIE tax for period			(133)	(936)	
<b>Net membership activities</b>			<b>176,225</b>	<b>113,021</b>	
<b>Benefits accrued to members' accounts</b>			<b>192,217</b>	<b>103,762</b>	
Members' funds at beginning of the period			142,158	38,396	
<b>Members' funds at end of the period</b>			<b>334,375</b>	<b>142,158</b>	

The notes attached form an integral part of these financial statements

The Gareth Morgan KiwiSaver Scheme		Statement of Net Assets		As at 31 March 2010	
		Total Scheme - as at 31 March			
		Notes	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s	
<b>Assets</b>					
Cash and cash equivalents	15		14,012	12,016	
Receivables	16		1,774	566	
Investment portfolio	13		318,061	129,622	
Derivatives held for trading			1,123		
Tax credits receivable			-	155	
<b>Total assets</b>			<b>334,970</b>	<b>142,359</b>	
<b>Less Liabilities</b>					
Investments payable			-	(23)	
Management fees payable	14		(317)	(166)	
Members' PIE tax payable			(278)	(12)	
Liability for members' funds			(334,375)	(142,158)	
<b>Total liabilities and member funds</b>			<b>(334,970)</b>	<b>(142,359)</b>	

The notes attached form an integral part of these financial statements

On behalf of the board members of Public Trust who authorised these financial statements for issue:

On behalf of the board members of Public Trust who authorised these financial statements for issue:

Board member



Date 29/07/10

Board member



Date 29/07/10

	Notes	Total Scheme - Year ended	
		31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
<b>Cash flows utilised by operating activities</b>			
<i>Cash was provided from:</i>			
Interest received from bank accounts		476	599
<i>Cash was applied to:</i>			
Payment of management fees	14	(2,807)	(1,424)
Interest expense		(7)	(5)
<b>Net cash flows utilised by operating activities</b>		<b>(2,338)</b>	<b>(830)</b>
<b>Cash flows utilised by investing activities</b>			
<i>Cash was provided from:</i>			
Sale of investments		3,902	1,407
<i>Cash was applied to:</i>			
Purchase of investments		(176,059)	(106,938)
<b>Net cash flows utilised by investing activities</b>		<b>(172,157)</b>	<b>(105,531)</b>
<b>Cash flows from financing activities</b>			
<i>Cash was provided from:</i>			
Members' contributions	4	180,551	114,607
<i>Cash was applied to:</i>			
Benefits paid or transferred	4	(4,193)	(650)
Members' PIE tax paid		133	(992)
<b>Net cash flows from financing activities</b>		<b>176,491</b>	<b>112,965</b>
<b>Net increase in cash</b>		<b>1,996</b>	<b>6,604</b>
Add opening cash and cash equivalents		12,016	5,412
<b>Closing cash and cash equivalents</b>		<b>14,012</b>	<b>12,016</b>

#### Reconciliation of Cash Flows from Operating Activities to Net Profit/(Loss) before Membership Activities

	Notes	Total Scheme - Year ended	
		31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
<b>Net cash flows utilised by operating activities</b>		(2,338)	(830)
<i>Adjusted for:</i>			
Income from investments		18,490	(8,402)
Brokerage expense		-	61
Movement in management fee payable		(151)	(87)
Miscellaneous transaction fees		(7)	(1)
<b>Adjusted flows from operating activities</b>		<b>15,994</b>	<b>(9,259)</b>
<b>Net Profit/(Loss) before membership activities</b>		<b>15,994</b>	<b>(9,259)</b>

The notes attached form an integral part of these financial statements

## 1 Reporting Entity

The financial statements are for the reporting entity Gareth Morgan KiwiSaver Scheme (the "Scheme") which is domiciled in New Zealand. The Scheme is a defined contribution scheme and is a registered KiwiSaver scheme under the KiwiSaver Act 2006, registration number 10025.

The Scheme was formed pursuant to a trust deed dated 2 April 2007. The trust deed of the Scheme was amended and consolidated on 7 September 2007 and 18 February 2010 to, among other things, remove Perpetual Trust Limited as trustee of the Scheme and appointed Public Trust as the new trustee of the Scheme. The Scheme first received members' funds and started investing after 1 October 2007.

The financial statements are for the Scheme and represent the operating result for a twelve month period to 31 March 2010.

The Scheme comprises various portfolios (the "Portfolios") as detailed below. Notwithstanding the division of the Scheme into portfolios, the Scheme comprises a single trust fund with the value of the members' interest in the Scheme determined by amounts held in individual member accounts.

- Conservative portfolio
- Balanced portfolio
- Growth portfolio

## 2 Basis of Preparation

### Statement of Compliance

The financial statements have been prepared in accordance with the trust deed governing the Gareth Morgan KiwiSaver Scheme, the Superannuation Schemes Act 1989, the KiwiSaver Act 2006, the Financial Reporting Act 1993, and New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS"). The Scheme is a profit-orientated entity.

The financial statements were approved by the Trustee on 29 July 2010.

### Measurement Base

The financial statements for the Scheme have been prepared on the historical cost basis, except for investments, which are classified as financial instruments at fair value through profit or loss and are measured at fair value, and derivatives, which are classified as held for trading.

The methods used to measure fair values are discussed further in note 3(c).

### Functional and Presentational Currency

These financial statements are presented in New Zealand dollars (\$), which is the Scheme's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

### Use of Assumptions, Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 8 Use of estimates and judgements.

### Reclassification of comparatives

Certain presentational changes have been made to the Cash Flow Statement and related notes to ensure consistency with current year treatment. These changes, which have been applied retrospectively, are due to a reclassification of Cash flows utilised by investing activities between Purchase of investments and Sale of investments.

### Other accounting developments

#### (i) Disclosures pertaining to fair values and liquidity risk for financial instruments

The Scheme has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments required that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific

disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in notes 8 and 12.

Further, the definition of liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments required disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in note 11.

#### (ii) Presentation of financial statements

Effective 1 January 2009, the Scheme has applied revised NZ IAS 1 Presentation of Financial Statements (2007). The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. The application of the revised standard did not have any impact on the Scheme's financial statements as the Scheme has no equity and no components of comprehensive income other than profit or loss for the period.

## 3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods in these financial statements.

### (a) Statement of Cash Flows

The cash flows of the Scheme do not include those of the investment manager. The following are definitions of terms used in the Statement of Cash Flows:

**Operating Activities** - include all transactions and other events that are not investing or financing activities.

**Investing Activities** - include all activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

**Financing Activities** - include all activities relating to contributions by members and benefits paid.

### (b) Foreign Currency Transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Changes in Net Assets, except those investment assets and liabilities which are recognised together with other net changes in the fair value of investment assets and liabilities in the Statement of Changes in Net Assets.

### (c) Financial Instruments

#### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, cash and cash equivalents, receivables and payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Scheme becomes a party to the contractual provision of the instrument. Financial assets are derecognised if the Scheme's contractual rights to the cash flows from the financial assets expire or if the Scheme transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Scheme commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Scheme's obligations specified in the contract expire or are discharged or cancelled.

Accounting for income recognition is discussed in note 3(e).

*Instruments at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated to fair value through profit or loss if the Scheme manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit and loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

*Other*

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

*Investment assets*

Investment assets held by the Scheme are classified as at fair value through profit or loss.

*Cash and cash equivalents*

Cash or cash equivalents comprise cash balances and call deposits, and are classified as loans and receivables. The carrying value closely approximates their fair value.

*Receivables*

Receivables are stated at their cost less any impairment losses.

*Payables*

Payables are classified as other financial liabilities and are stated at cost.

*(ii) Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised in profit or loss. The derivative financial instruments held during the year to 31 March 2010 were forward foreign exchange contracts and are classified as held for trading.

*(d) Impairment*

The carrying amounts of the Scheme's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Changes in Net Assets.

*(e) Income Recognition*

Comprises interest income on funds invested, dividend income, changes in fair value through profit or loss and foreign currency gains or losses.

Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Scheme's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Changes in the fair value of investment assets and liabilities are recognised in the Statement of Changes in Net Assets as they arise whether that be foreign currency gains or losses or changes in the realised or unrealised value of investments.

*(f) Taxation*

The Scheme qualifies as, and has elected to be, a portfolio investment entity ("PIE") for tax purposes. Under the PIE regime, income is effectively taxed in the hands of the members and therefore the Scheme has no tax expense or deferred tax assets or liabilities.

The current tax balance in the Statement of Net Assets represents tax payable/receivable on behalf of the members under the PIE regime.

Under the PIE regime, the manager attributes the taxable income of the Scheme to members in accordance with their proportionate interest in the Scheme. Income attributed to each member is taxed at the member's Prescribed Investor Rate which is capped at 30%. The manager accounts for tax on behalf of natural persons and adjusts the members' interests in the Scheme to reflect that the Scheme pays tax at varying rates on behalf of members.

#### 4 Contributions and Withdrawals

##### Contributions

The Scheme is a registered KiwiSaver scheme. Contributions are received from members either directly or via the Inland Revenue Department. Contributions in the form of the Kick Start payment and annual fee subsidy are received from the Crown via the Inland Revenue Department. Members can also arrange to transfer funds in from other sources, such as from previous KiwiSaver providers or registered superannuation schemes and pension funds. Contributions are accounted for on a cash basis.

Contributions for the year ended 31 March 2010 were received from the following sources:

	Total Scheme - Year ended	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Inland Revenue Department:		
• Crown contributions	39,694	32,440
• Employer contributions	33,495	16,416
• Employee contributions	63,173	46,167
Voluntary contributions	13,358	8,157
Scheme transfers in	30,823	11,421
Manager reimbursements	8	6
<b>Total contributions</b>	<b>180,551</b>	<b>114,607</b>

##### Withdrawals

Withdrawals for the year ended 31 March 2010 were paid to the following recipients:

	Total Scheme - Year ended	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Scheme transfers out	(2,605)	(413)
Member / IRD refunds	(1,087)	(71)
KiwiSaver Act 2006 Schedule 1 withdrawals	(501)	(166)
<b>Total withdrawals</b>	<b>(4,193)</b>	<b>(650)</b>

#### 5 Adoption Status of Relevant New NZ IFRS and Interpretations

The Scheme has elected not to early adopt the following standards which have been issued but are not yet effective, and have not assessed what impact these will have, if any:

- NZ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – Classification of Rights Issues - effective for annual reporting period beginning on or after 1 Jul 2010.
- NZ IAS 24 Related Party Disclosures (revised 2009) - effective for annual reporting period beginning on or after 1 Jan 2011.
- NZ IFRS 9 Financial Instruments - effective for annual reporting period beginning on or after 1 Jan 2013.

#### 6 Members' Benefits

##### Vested benefits

Vested benefits are benefits the rights to which, under the conditions of the Scheme, are not conditional on continued membership. Under the trust deed of the Scheme all benefits are fully vested. The value of vested benefits is \$334.4m.

##### Guaranteed benefits

No guarantees have been made in respect of any part of the liability for accrued benefits.

## 7 Investment Manager, Administration Manager and Trustee

The Investment Manager of the Scheme is Gareth Morgan Investments Limited Partnership.

The Administration Manager of the Scheme is Gareth Morgan KiwiSaver Limited.

The Trustee is Public Trust.

## 8 Use of Estimates and Judgements

These disclosures supplement the commentary on financial risk management (see note 11).

### Key sources of estimation uncertainty

#### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described below. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

#### Valuation of financial instruments

The Scheme's accounting policy on fair value measurements is discussed in note 3(c).

The Scheme measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price and yield quotations. For all other financial instruments the Scheme determines fair values using valuation techniques. For investments with no active market, fair values are determined using valuations techniques that may make use of recent arm's length transactions of comparable instruments, reference to current market data of comparable instruments, discounted cash flow analysis and option pricing models, and use as much available and supportable market data as possible with judgemental inputs kept to a minimum.

## Financial Instrument Hierarchy as at 31 March 2010 (\$'000s)

	Level 1	Level 2	Level 3
Bonds and Fixed Interest	1,917	86,028	-
Equities and unlisted Unit Trusts	189,267	-	-
Forward Foreign Exchange Contracts	-	1,123	-
	<b>191,184</b>	<b>87,151</b>	-

There were no transfers between Level 1 and Level 2 during the period.

## 9 Net gain/(loss) from Financial Instruments at Fair Value through Profit or Loss

	Total Scheme - Year ended	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Net gain/(loss) from financial instruments held for trading:		
Realised Gains (Loss)		
Derivative financial instruments	(4,280)	-
Unrealised Gains (Loss)		
Derivative financial instruments	961	-
	<b>(3,319)</b>	-
Net gain/(loss) from financial assets designated at fair value through profit or loss:		
Realised Gains (Loss)		
Equity investments	1,464	(6,497)
Debt securities	371	(21)
Unrealised Gains (Loss)		
Equity investments	12,731	(6,338)
Debt securities	470	208
	<b>15,036</b>	<b>(12,648)</b>
Net gain/(loss) from financial instruments at fair value through profit or loss		
Realised Gains (Loss)	(2,684)	1,847
Unrealised Gains (Loss)	41	(1,161)
	<b>(2,643)</b>	<b>686</b>
Total net gain/(loss) from Financial Instruments at Fair Value through Profit or Loss	<b>9,074</b>	<b>(11,962)</b>

## 10 Funding Policy

The Scheme is a Defined Contribution scheme as defined by the KiwiSaver Act 2006. Funding in the form of contributions is received from three sources: Scheme members; Scheme member employers; and the Inland Revenue Department (in accordance with the provisions of the KiwiSaver Act 2006).

## 11 Financial Risk Management

### (a) Introduction and overview

The Scheme has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk.

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk, and the Scheme's management of capital.

**Risk management framework**

The Scheme maintains positions in a variety of derivative and non-derivative financial instruments in accordance with its investment management strategy. The Scheme's investment management strategy is to maintain positions in a diversified range of securities within the asset class target bands dictated by the members' investment directions. The Scheme's investment portfolio comprises quoted and non-quoted equity investments and debt securities, derivative financial instruments and investments in non-quoted investment Schemes that it intends to hold for an indefinite period of time.

Asset purchases and sales are determined by the Scheme's Investment Manager, who has been given discretionary authority to manage the distribution of the assets to achieve the Scheme's investment objectives. Compliance with the target asset allocations and the composition of the portfolio is monitored by the management of the Manager on a daily basis. In instances where the portfolio has diverged from target asset allocations, the Scheme's Investment Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

**(b) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme, resulting in a financial loss to the Scheme. It arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents.

For risk management reporting purposes the Scheme considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

**Management of credit risk**

The Scheme's policy only allows Fixed Interest investment in liquid securities, meaning that there is a secondary market available where these assets are readily traded. In addition, the Scheme has established counterparty limits for investments and derivatives separately depending on their credit rating.

The Scheme has set a 5% limit per issuer for investments in Fixed Interest securities. There is no limit placed on cash deposits.

**Exposure to credit risk**

The carrying amount of financial assets represents the Scheme's maximum credit exposure.

An exposure of greater than 5% of the value of the Scheme to a counterparty is defined as significant. The Scheme's maximum exposure to credit risk for investments and cash balances by significant counterparty is as follows:

	Total Scheme Year ended 31-Mar-10 \$ 000s	% of Scheme Assets 2010	Total Scheme Year ended 31-Mar-09 \$ 000s	% of Scheme Assets 2009
ASB Bank - Cash and Term deposits	50,611	15%	32,965	23%
ASB Bank - Fixed Interest securities	3,959	1%	7,719	5%
<b>Total ASB Bank Credit Risk</b>	<b>54,570</b>	<b>16%</b>	<b>40,684</b>	<b>28%</b>
ANZ Bank - Cash and Term deposits	9,503	3%	9,384	7%
ANZ Bank - Fixed Interest securities	3,863	1%	3,005	2%
<b>Total ANZ Bank Credit Risk</b>	<b>13,366</b>	<b>4%</b>	<b>12,389</b>	<b>9%</b>
Westpac Bank - Cash deposits	0	0%	5,929	4%
Westpac Bank - Fixed Interest securities	5,392	2%	1,360	1%
<b>Total Westpac Bank Credit Risk</b>	<b>5,392</b>	<b>2%</b>	<b>7,289</b>	<b>5%</b>
<b>Total Significant Credit Risk Exposure</b>	<b>73,328</b>	<b>22%</b>	<b>60,362</b>	<b>42%</b>

The Scheme's cash and cash equivalents are held mainly with ASB Bank which is rated AA (2009: AA) based on rating agency Standard and Poor's ratings. The Investment Manager monitors the financial position of each bank on an ongoing basis.

**Investments in debt securities**

Credit risk arising on debt securities is mitigated by investing primarily in investment-grade rated instruments, principally with credit ratings of at least "AA-" as determined by Standard & Poor's. The Investment Manager reviews a monthly rating update from the rating agency and rebalances the portfolio where necessary.

The Scheme may also invest in unrated debt securities whereby the Investment Manager assigns a credit rating to these securities using a methodology that is consistent with that used by the credit rating agency.

At 31 March, the debt securities the Scheme was invested in had the following credit quality:

Rating	2010	2009
AAA	7%	1%
AA+	5%	9%
AA	32%	63%
AA-	38%	7%
A+	5%	6%
A	5%	0%
A-	1%	0%
BBB+	4%	5%
Not Rated	3%	9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

**Derivative financial instruments**

The Scheme uses over the counter (OTC) derivatives. OTC derivatives expose the Scheme to the risk that the counterparties to the derivative financial instruments might default on their obligations to the Scheme. Derivative profit and loss positions are monitored daily and the counterparty risk is managed within our issuer guidelines.

Derivative financial instruments are transacted with counterparties which are rated at least AA based on rating agency Standard & Poor's ratings, within predetermined limits, and with whom the Investment Manager has netting arrangements. The netting arrangements provide for the net settlement of contracts with the same counterparty in the event of default. As a result of master netting agreements, at 31 March 2010, the Scheme would be entitled to offset derivative assets of \$1,224,735 (2009: \$0) against derivative liabilities of \$101,390 (2009: \$0) in the event of counterparty defaults.

For the purposes of reporting in the statement of net assets, outstanding derivative financial assets and liabilities have been netted. The net exposure to credit risk may change significantly within a short period of time due to the highly volatile nature of the fair value of the derivatives underlying the arrangements.

**Concentration of credit risk**

The Investment Manager reviews credit concentration of securities held based on counterparties and industries and geographical location.

As at the reporting date, the Scheme's securities exposures were concentrated in the following industries:

	Assets as at 31-Mar-10 %	Income Year ended 31-Mar-10 %	Assets as at 31-Mar-09 %	Income Year ended 31-Mar-09 %
Banking and Finance	32.3%	-9.9%	63.5%	-48.2%
Local Government	5.9%	4.8%	0.0%	-1.0%
Tourism, Hotels, Entertainment	0.5%	2.2%	1.1%	2.7%
Natural Resources, Agriculture and Fisheries	5.9%	3.7%	2.9%	16.9%
Consumer Goods, Retail, and Manufacturing	11.7%	28.8%	5.7%	10.9%
Media, Telecommunications and Technology	3.6%	8.9%	2.3%	6.7%
Utilities, Energy, Infrastructure and Transport	8.0%	3.1%	3.0%	12.1%
Construction and Property	1.2%	1.6%	0.0%	5.2%
Health and Pharmaceuticals	3.8%	3.0%	2.0%	1.7%
Emerging Markets	6.6%	18.2%	3.5%	19.9%
Specialised Funds	20.5%	35.5%	16.0%	73.3%
<b>Total Business Sector Risk</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As at the reporting date, the Scheme's securities exposures were concentrated in the following geographical locations:

	Assets as at 31-Mar-10 %	Income Year ended 31-Mar-10 %	Assets as at 31-Mar-09 %	Income Year ended 31-Mar-09 %
New Zealand	45.2%	2.4%	67.2%	-34.0%
Australia	21.7%	48.7%	10.3%	22.4%
Great Britain	11.8%	19.1%	7.4%	73.3%
United States of America	13.6%	20.6%	12.7%	31.1%
Sweden	0.5%	2.1%	0.0%	1.8%
Switzerland	4.4%	8.3%	2.4%	2.9%
Argentina	0.0%	0.0%	0.0%	2.4%
Japan	0.6%	1.2%	0.0%	0.0%
France	0.8%	-0.6%	0.0%	0.0%
Spain	1.3%	-1.9%	0.0%	0.0%
<b>Total Geographical Risk</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

There were no significant investment concentrations in this portfolio to any individual issuer or group of issuers at 31 March 2010 or 31 March 2009.

**Settlement risk**

The Scheme's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the vast majority of transactions the Scheme mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes described earlier.

**(c) Liquidity risk**

Liquidity risk is the risk that the Scheme will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Scheme.

**Management of liquidity risk**

The Gareth Morgan KiwiSaver Scheme is not a unitised Scheme. Withdrawals are managed by each member having their share of the Scheme assets sold at the prevailing market price.

Order of liquidity was determined by the time on average it takes to liquidate the Scheme's assets. Cash deposits are with either ASB Bank, ANZ Bank, BNZ Bank or Westpac Bank and able to be withdrawn within 24 hours. However, shares and fixed interest may take longer to liquidate due to their sale on the secondary market, with overseas markets offering greater liquidity than local markets.

Liquidity risk in order of most liquid:	Total Scheme as at 31-Mar-10 \$ 000s	% of Scheme	Total Scheme as at 31-Mar-09 \$ 000s	% of Scheme
NZ Cash deposits	33,678	10%	20,945	14%
Foreign Cash deposits	22,816	7%	39,344	28%
Overseas Equities	113,635	34%	32,212	23%
NZ Equities	5,628	2%	3	0%
Unlisted Unit Trusts	70,005	21%	14,211	10%
NZ Fixed Interest	89,208	26%	34,923	25%
Foreign Fixed Interest	-	0%	-	0%
<b>Total Liquidity Risk</b>	<b>334,970</b>	<b>100%</b>	<b>141,638</b>	<b>100%</b>

The Scheme may enter into derivative arrangements in the ordinary course of business to manage foreign currency risk. The Investment Manager provides oversight for risk management and derivative activities.

**Maturity analysis for financial liabilities**

Financial liabilities of the Scheme comprise sundry payables, claims payable and net assets available for benefits. Sundry payables and claims payable have no contractual maturities but are typically settled within 30 days. Net assets available for benefits are payable within 35 days, as required by the KiwiSaver Act 2006.

	Carrying Amount	Gross nominal inflow / (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year
<b>31 March 2010</b>					
<b>Non-Derivative Liabilities</b>					
Members' PIE tax payable	(278)	-	(278)	-	-
Management fees payable	(317)	-	(317)	-	-
Liability for members' funds	(334,375)	-	-	(334,375)	-
<b>Derivative Liabilities</b>					
Outflows	-	-	-	-	-
Inflows	-	-	-	-	-
	<b>(334,970)</b>	<b>-</b>	<b>(595)</b>	<b>(334,375)</b>	<b>-</b>
	Carrying Amount	Gross nominal inflow / (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year
<b>31 March 2009</b>					
<b>Non-Derivative Liabilities</b>					
Balances due to brokers	(23)	-	(23)	-	-
Members' PIE tax payable	(12)	-	(12)	-	-
Management fees payable	(166)	-	(166)	-	-
Liability for members' funds	(142,158)	-	-	(142,158)	-
<b>Derivative Liabilities</b>					
Outflows	-	-	-	-	-
Inflows	-	-	-	-	-
	<b>(142,359)</b>	<b>-</b>	<b>(201)</b>	<b>(142,158)</b>	<b>-</b>

Liability for members' funds is shown as 1 to 3 months reflecting the fact that members can, with suitable notice, request the transfer of their funds to another scheme.

**(d) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risk**

The Scheme's strategy for the management of market risk is driven by the Scheme's investment objectives. The investment objectives of the Scheme's portfolios are to provide investors with access to low, medium and high risk diversified investment portfolios with an allocation of assets spread across local and international cash, fixed interest securities, shares and investment funds.

The Scheme's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures in place. The policies and procedures for managing market risk include specific investment limits on the various financial instruments the Scheme invests in that ensure diversity, and the use of forward foreign currency contracts to mitigate fluctuations in foreign currency exchange rates. The risk profiles of the assets of the Scheme are reviewed monthly to ensure compliance with Scheme investment policies and procedures, and are measured in various ways, including standard deviation of monthly historical portfolio returns on an asset class basis. The Scheme's market positions are monitored on a daily basis by management of the Investment Manager.

An overview of the Scheme's investment portfolio performance as at 31 March 2010 is set out in Appendix 1 (unaudited).

The Scheme may use derivatives to manage its exposure to foreign currency, interest rate and equity market risks. The instruments available for use include interest rate swaps, forward contracts, futures and options. During the year ended 31 March 2010, forward foreign currency contracts were the only derivative used by the Scheme (2009: no derivatives were used).

At the year end the Scheme held assets in foreign currencies as follows:

	Total Scheme as at 31 March 2010				Total Scheme as at 31 March 2009			
	Non-derivative Financial Assets	Forward Exchange Contracts	Net Exposure	% of Net Scheme Assets	Non-derivative Financial Assets	Forward Exchange Contracts	Net Exposure	% of Net Scheme Assets
	\$ 000s	\$ 000s	\$ 000s	2010	\$ 000s	\$ 000s	\$ 000s	2009
Australian dollar	88,340	3,002	91,342	27%	23,734	-	23,734	17%
Euros	7,184	(11,232)	(4,049)	-1%	9,953	-	9,953	7%
U.S. dollar	47,423	(8,484)	38,939	12%	28,930	-	28,930	20%
Pound sterling	40,156	-	40,156	12%	11,503	-	11,503	8%
Swiss franc	14,861	-	14,861	4%	3,374	-	3,374	2%
Swedish krona	1,797	-	1,797	1%	2,291	-	2,291	2%
Norwegian kroner	-	-	-	0%	3,530	-	3,530	2%
Canadian dollar	4,349	1,204	5,553	2%	2,452	-	2,452	2%
Japanese yen	1,954	(8,203)	(6,248)	-2%	-	-	-	0%
<b>Total foreign currency risk</b>	<b>206,064</b>	<b>(23,713)</b>	<b>182,351</b>	<b>54%</b>	<b>85,767</b>	<b>-</b>	<b>85,767</b>	<b>61%</b>
New Zealand dollar	127,782	24,950	152,732	46%	55,871	-	55,871	39%
<b>Total currency risk</b>	<b>333,846</b>	<b>1,237</b>	<b>335,083</b>	<b>100%</b>	<b>141,638</b>	<b>-</b>	<b>141,638</b>	<b>100%</b>

In respect of other monetary assets and liabilities held in currencies other than New Zealand dollars, the Scheme ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

**Interest rate risk**

The Investment Manager manages interest rate risk by actively managing the average maturity date of the Scheme's fixed interest investments, in response to changes in the Manager's interest rate view.

Only Fixed Interest assets are reported below as these interest bearing assets return income from a fixed interest rate and are recognised at fair value through profit or loss. As reported in the Liquidity Risk section above, Fixed Interest made up 26% of the Scheme's total assets as at 31 March 2010, (2009: 25%).

Interest rate exposures:	Total Scheme as at 31 March 2010 \$ 000s	% of Scheme 2010	Total Scheme as at 31 March 2009 \$ 000s	% of Scheme 2009
0-7%	51,523	15%	15,099	11%
7-10%	36,422	11%	19,824	14%
Over 10%	-	-	-	-
<b>Total Interest Rate Exposure</b>	<b>87,945</b>	<b>26%</b>	<b>34,923</b>	<b>25%</b>

*Interest rate sensitivity:*

At 31 March 2010 it is estimated that a general increase of one percentage point in interest rates will decrease the Scheme's profit before income tax, due to losses on the capital value of fixed interest holdings, by approximately \$1.51m (2009: \$643,000 decrease), and a general decrease of one percentage point in interest rates will increase the Scheme's profit before income tax by approximately \$1.55m (2009: \$659,000).

**Foreign currency risk**

The Scheme is exposed to foreign currency risk on investments that are denominated in currencies other than the New Zealand dollar (\$). The currencies in which transactions are primarily denominated are Australian dollars (AUD), U.S. dollars (USD), Pound sterling (GBP), Euros (EUR), Swedish kronas (SEK), Canadian dollars (CAD) and Japanese yen (JPY). The Scheme also uses forward exchange contracts to manage its foreign currency risk.

*Foreign exchange sensitivity:*

If the New Zealand dollar strengthened by a further 15%, the Scheme's income would have decreased by \$26.6m (2009: \$442,000). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis in 2009, albeit that a 1% rate of change was used. The rate was changed to 15% for 2010, which was considered appropriate because it approximated the actual movement of the New Zealand dollar on a trade weighted period over the period.

A weakening of the New Zealand dollar by 15% would have an equal but opposite effect, on the basis that all other variables remain constant.

**Equity price risk**

Equity price risk relates to the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

Price risk is managed by the Investment Manager by diversifying the portfolio across a number of instruments and investment themes. The majority of equities held by the Scheme are large cap listed equities, which are priced and monitored daily by the Investment Manager. Equity positions are formally reviewed monthly and the position will be rebalanced if the current holding deviates more than 0.2% from the preferred position.

**(e) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Scheme's operations either internally within the Scheme or externally at the Scheme's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risks arise from all of the Scheme's activities.

The Scheme's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- contingency plans
- ethical business standards
- risk mitigation, including insurance where this is effective.

The directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risks is carried out via ad-hoc discussions with the service providers.

**(f) Capital management**

The Scheme's capital is represented by the market value of the underlying investments held by the Scheme on behalf of its members and is reflected in the Statement of Net Assets. In accordance with the accounting policies and the risk management policies in note 11, the Scheme endeavours to invest the contributions received in appropriate investments whilst maintaining sufficient liquidity to meet any withdrawal requests.

The Scheme is not subject to any externally imposed capital requirements.

## 12 Financial assets and liabilities

### Accounting classifications and fair values

The table below provides reconciliation of the line items in the Scheme's statement of net assets to the categories of financial instruments.

Total Scheme 2010	Held for trading Year ended 31-Mar-10 \$ 000s	Designated at fair value Year ended 31-Mar-10 \$ 000s	Loans and receivables Year ended 31-Mar-10 \$ 000s	Other amortised costs Year ended 31-Mar-10 \$ 000s	Total carrying amount / Fair value Year ended 31-Mar-10 \$ 000s
<b>Assets</b>					
Investment portfolio	-	318,061	-	-	318,061
Receivables	-	-	1,774	-	1,774
Cash and cash equivalents	-	-	14,012	-	14,012
Derivatives held for trading	1,123	-	-	-	1,123
Tax credits receivable	-	-	-	-	-
<b>Total assets</b>	<b>1,123</b>	<b>318,061</b>	<b>15,786</b>	<b>-</b>	<b>334,970</b>
<b>Liabilities</b>					
Investments payable	-	-	-	-	-
Management fees payable	-	-	-	(317)	(317)
Members' PIE tax payable	-	-	-	(278)	(278)
Derivatives held for trading	-	-	-	-	-
Liability for Members' funds	-	(334,375)	-	-	(334,375)
<b>Total liabilities</b>	<b>-</b>	<b>(334,375)</b>	<b>-</b>	<b>(595)</b>	<b>(334,970)</b>

Total Scheme 2009	Held for trading Year ended 31-Mar-09 \$ 000s	Designated at fair value Year ended 31-Mar-09 \$ 000s	Loans and receivables Year ended 31-Mar-09 \$ 000s	Other amortised costs Year ended 31-Mar-09 \$ 000s	Total carrying amount / Fair value Year ended 31-Mar-09 \$ 000s
<b>Assets</b>					
Investments	-	129,622	-	-	129,622
Receivables	-	-	566	-	566
Cash and cash equivalents	-	-	12,016	-	12,016
Derivatives held for trading	-	-	-	-	-
Tax credits receivable	-	-	155	-	155
<b>Total assets</b>	<b>-</b>	<b>129,622</b>	<b>12,737</b>	<b>-</b>	<b>142,359</b>
<b>Liabilities</b>					
Investments payable	-	(23)	-	-	(23)
Management fees payable	-	-	-	(166)	(166)
Members' PIE tax payable	-	-	-	(12)	(12)
Derivatives held for trading	-	-	-	-	-
Liability for Members' funds	-	(142,158)	-	-	(142,158)
<b>Total liabilities</b>	<b>-</b>	<b>(142,181)</b>	<b>-</b>	<b>(177)</b>	<b>(142,359)</b>

The financial instruments not accounted for at fair value through profit or loss are short-term financial assets and liabilities whose carrying amounts approximate fair value. The carrying amount for financial instruments held at amortised cost closely approximates fair value.

### 13 Investments

The funds of the Scheme are invested in a range of investments that are not related in any way to the Manager, Trustee or Investment Manager. A summary of the main asset classes held as at 31 March are:

	Total Scheme - as at	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Cash and Cash Equivalents	40,850	48,273
Fixed Interest	87,944	34,923
Income Equities	22,463	1,290
Growth Equities	166,804	45,136
<b>Total investments</b>	<b>318,061</b>	<b>129,622</b>

All investments are classified as fair value through profit or loss. The underlying investments that exceed 5% of net assets held by the Scheme are listed below.

Investment securities that exceed 5% of Scheme Assets	Fair Value 31-Mar-10 \$ 000s	% of Scheme	Asset Class	% of Asset Class
Platinum International	29,061	8.7%	Core Equities	40.1%
Blackrock World ex-Australia Equity Index Fund	23,121	6.9%	Core Equities	31.9%

### 14 Related Party Transactions

Gareth Morgan KiwiSaver Limited is the Sponsor and Manager of the Scheme. Fees paid during the period and payable at the period end to Gareth Morgan KiwiSaver Limited are detailed below.

The Administration Fee paid to Gareth Morgan KiwiSaver Limited is inclusive of Trustee Fees and Audit Fees. It also covers fees on-charged from Gareth Morgan Investments Limited Partnership, the Scheme's Investment Manager. No Trustee Fees, Audit Fees, or Investment Management Fees are charged directly to the Scheme.

	Total Scheme - Year ended	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Balance Due at the beginning of the period	166	79
Current year Management fee	2,958	1,511
Actual payment made during the year	(2,807)	(1,424)
<b>Balance due at the end of the period</b>	<b>317</b>	<b>166</b>

During the 2009 financial year the Scheme's investment manager Gareth Morgan Investments Limited (GMIL) was restructured and became a limited partnership (Gareth Morgan Investments Limited Partnership, or GMILP). GMILP assumed the role of investment manager of the Scheme from GMIL. Investment management fees are invoiced by the investment manager to, and paid by, Gareth Morgan KiwiSaver Limited (GMKL).

No investment management fees are charged directly to the Scheme. The controlling interest of both GMKL and GMILP is GMI General Partner Limited. The total amount of investment management fees charged by both GMIL and GMILP during the 2009 year is represented in the table below.

	GMKL - Year ended	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Fees Paid to Gareth Morgan Investments Limited	-	201
Balance due to Gareth Morgan Investments Limited	-	-
Fees Paid to Gareth Morgan Investments Limited Partnership	897	168
Balance due to Gareth Morgan Investments Limited Partnership	110	45

Gareth Morgan Investments Limited Partnership and Gareth Morgan KiwiSaver Limited share key personnel and the costs for these personnel are attributed to both companies on a pro rata basis.

### 15 Cash and Cash Equivalents

	Total Scheme - as at	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
New Zealand dollar bank account balance	14,012	12,011
Pound sterling bank account balance	-	5
<b>Total investments</b>	<b>14,012</b>	<b>12,016</b>

### 16 Receivables

	Total Scheme - as at	
	31-Mar-10 \$ 000s	31-Mar-09 \$ 000s
Accrued Interest	1,265	411
Accrued Dividends	457	155
Accrued Cash Flows from closed out forward currency contracts	52	-
<b>Total investments</b>	<b>1,774</b>	<b>566</b>

Receivables denominated in currencies other than the New Zealand dollar comprise US\$46,465 of trade receivables denominated in U.S. dollars (2009: US\$3,883), £28,499 in Pounds sterling (2009: £2,944), ¥490,534 in Japanese yen (2009: none), AU\$31,662 in Australian dollars (2009: none) and CAD\$7,880 in Canadian dollars (2009: none).

### 17 Contingent Liabilities

As at 31 March 2010, the Scheme has no known outstanding contingent liabilities or commitments (2009: nil).

**Appendix 1***Underlying Portfolio Performance:*

The performance is reported net of fees and tax (based on a 30% PIR), and is compared against the relevant portfolio benchmark. The benchmarks used for each portfolio are:

**Conservative:** 40% NZ 90 day bank bill index, 40% NZ Bond index, 5% NZX index, 15% MSCI\* index in NZD terms

**Balanced:** 20% NZ 90 day bank bill index, 20% NZ Bond index, 10% NZX index, 50% MSCI\* index in NZD terms

**Growth:** 100% MSCI\* in NZD terms

\*Morgan Stanley Capital International (MSCI).

This performance data was not included in the 2010 financial audit of the Scheme.

	Return for the year ended 31-Mar-10	Benchmark	Difference
Conservative portfolio	4.6%	5.6%	-1.0%
Balanced portfolio	7.1%	12.8%	-5.7%
Growth portfolio	8.7%	19.8%	-11.1%



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Adviser disclosure statements and an Investment Statement for the Gareth Morgan KiwiSaver Scheme are available at [www.gmk.co.nz](http://www.gmk.co.nz) or phone 0800 GARETH (0800 427 384)