



NATIONAL SUPERANNUATION FUND

INTERIM CREDITING RATE POLICY

2019

This is Version 5.0

To be reviewed on June 2020

DOCUMENT CONTROL

Document Owner

Name	Position
David Brown	Chief Investment Officer

Change Record

Version	Author	Date	Change
1.0	Dominic Beange	23-Jul-15	Create Policy
2.0	David Brown	25-Oct-16	Update Policy
3.0	David Brown	28-Aug-17	Update Policy
4.0	David Brown	Feb 18	Update Policy
5.0	David Brown	June 2019	Update Policy

Approval

Name	Evidence
Investment Committee Meeting No. 48	Minutes of Committee Meeting of 26-Jun-19
Board Meeting No. 119	Minutes of Board Meeting 11-Jul-19

Publication

Site	Evidence
Annual Report	Included in Annual Report for 2017
Public section of NASFUND web site	Uploaded to web site on July 2019

Submission of Interim Crediting Rate to BPNG

Version:	Date submitted:
Not required to be submitted	10-Apr-17
Submitted	24-Jul-19

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PURPOSE OF THE INTERIM CREDITING RATE POLICY

1.1 The purpose of this policy is to provide a framework for the Trustee Directors and Fund executives when determining the Interim Crediting Rate.

2. LEGISLATIVE REQUIREMENTS

2.1 The primary legislative document governing the superannuation industry is the Superannuation (*General Provisions*) Act 2000 (as amended).

2.2 The Trustee Board is also required to adhere to various Prudential Standards and in relation to Interim Crediting Rates, the *Superannuation Prudential Standard 1/2014* Authorised Superannuation Fund Investments (PS 1/2014) refers. Paragraph 17 (a – d) refers in detail.

2.2.1 PS 1/2014 Paragraph 17 (a) states that “Trustee Board must develop and document an Interim Crediting Rate Policy, in consultation with the Licensed Investment Manager, for the members who exit the ASF before the final crediting rate has been approved, must be included in the Investment Framework.”

2.2.2 PS 1/2014 Paragraph 17 (b) states that “The Interim Crediting Rate must be fair and equitable for all the members of the ASF, including the exiting, current and prospective members.”

2.2.3 PS 1/2014 Paragraph 17 (c) states that “The Interim Crediting Rate must be reviewed on a regular basis (at least annually).”

2.2.4 PS 1/2014 Paragraph 17 (d) states that “The Interim Crediting Rate Policy must be published in the Annual Report to members and the public section of each ASF’s web site.”

3. WHAT IS A CREDITING RATE?

- 3.1 At NASFUND, members' superannuation investment return is determined by a crediting rate.
- 3.2 The crediting rate is equal to the investment earnings of the Fund (expressed as a percentage), less estimated tax, investment management and administration expenses, and after allowing for any reserves. (Reserves are funded by small reductions in the Annual Crediting Rate. See the Fund's *Reserving Management Policy* for details).
- 3.3 The Fund applies an Annual Crediting Rate once per annum, after the close of the financial accounts for the year. This usually occurs in February or March each year, for the Financial Year ending the previous 31st December.
- 3.4 The Annual Crediting Rate applies to all members who remained with the fund for the full (past) financial year.

4. WHAT IS AN INTERIM CREDITING RATE?

- 4.1 The Trustee Board recognizes that some members join or leave the Fund during the year and that earnings accrue at varying rates through the year due to investment market moves.
- 4.2 Accordingly, the Trustee Board estimates an Interim Crediting Rate from time to time throughout the year. The Interim Crediting Rate is a notional return that can be applied to member accounts during the current financial year period.
- 4.2.1 This Interim Crediting Rate is applied and paid only to member accounts of those members leaving and joining the fund.
- 4.2.2 While this can be applied at any time should market moves be of sufficient magnitude to require the fund to restate its Annual Crediting Rate.
- 4.2.3 The Trustee Board formally requires the Investment Committee at each of its scheduled meetings throughout the year to consider any requirement to change the Interim Crediting Rate.

5. HOW IS THE INTERIM CREDITING RATE DETERMINED?

- 5.1 The Trustee Board seeks to value the assets of the Fund as often as practical, in order to reflect fair values to member balances. However, the nature of unlisted assets means that valuation changes are usually not reflected in asset values until the end of the year.
- 5.2 In determining the Interim Crediting Rate, the trustee considers the potential estimates of how returns are performing for the year and each Investment Committee considers the CFO and CIO's forecast Annual Crediting Rate:
- 5.2.1 If the returns for the year are potentially favourable – ie >4% (forecast Annual Crediting Rate), the Interim Crediting rate will be set at 1.5% or more (at the discretion of the Trustee)
- 5.2.2 If the returns for the year are not tracking as well = ie <4% (forecast Annual Crediting Rate), the Interim Crediting Rate will be set at 1% or less (at the discretion of the Trustee)
- 5.2.3 If there is a change from the previous period, the Licensed Fund Administrator is then advised of the Interim Crediting Rate to be applied to member accounts of members leaving.
- 5.3 In line with international practice, the Licensed Fund Administrator applies the Interim Crediting Rate using a time weighted rate of return basis. (For a worked example of how this is done, see Appendix 1).
- 5.4 Members leaving the Fund after the Annual Crediting Rate has been applied and before the Interim Crediting Rate has been applied, will receive their balance as at 31 December, plus net contributions to the date of exit.
- 5.5 Members leaving the Fund after the Interim Crediting Rate has been applied and before the Annual Crediting Rate has been applied, will receive their balance as at 30 June, plus net contributions to the date of exit.
- 5.6 The Trustee Board reserves the right to determine an Interim Crediting Rate more than once a year, in the event of significant market movements or other events deemed

appropriate to preserve member equity. In practice this represents a material market movement or significant asset devaluation or possibly revaluation so as to materially alter the prevailing value of the Fund's assets.

6. MEMBER EQUITY AND FAIRNESS

6.1 The Trustee Board recognizes that any Interim Crediting Rate must be fair to all members of the fund, including current, exiting and prospective members.

6.2 Estimation. The Trustee Board believes that estimating current period returns as the basis for that period's crediting rate is the best way to ensure member equity and fairness.

6.3 Frequency. The Trustee Board recognizes more frequent crediting rates improve member equity and fairness, and seek to balance the costs of more frequent valuations against the benefits of more frequent crediting rates.

6.4 The Trustee seeks advice from the Investment Committee which has as a standing agenda item, a formal assessment of whether the investment returns have moved sufficiently to warrant a new interim crediting rate, and seek input of forecast returns from the CFO and CIO.

6.5 Unlisted Assets. The Trustee Board recognizes that Unlisted Assets have potential to distort returns at the risk of member equity. (See *Unlisted Asset Valuation Policy* for more detail).

7. REVIEW OF THIS POLICY

7.1 This Interim Crediting Rate Policy will be reviewed regularly and such a review will be done at least annually.

8. APPENDIX 1: EXAMPLE OF TIME WEIGHTED RATE OF RETURN CALCULATION

A. INTEREST ON OPENING BALANCE (Opening Balance * Interest Rate)

Interest Rate	8.50%
Opening Balance	K6,820.16
Interest on Opening Balance	K579.71

This is the 2013 Closing Balance

ADD

B. CONTRIBUTIONS RECEIVED DURING THE YEAR

Individual Contributions * No. of days Left/365 * Interest Rate

These are the monthly contributions for 2014

(You have to work out each month's contribution)

	Month	Days Left	Member	Employer	Total	Interest Earned Per Month
1	January	334	K60.00	K84.00	K144.00	K11.20
2	February	306	K60.00	K84.00	K144.00	K10.26
3	March	275	K60.00	K84.00	K144.00	K9.22
4	April	245	K60.00	K84.00	K144.00	K8.22
5	May	214	K60.00	K84.00	K144.00	K7.18
6	June	184	K60.00	K84.00	K144.00	K6.17
7	July	153	K60.00	K84.00	K144.00	K5.13
8	August	122	K60.00	K84.00	K144.00	K4.09
9	September	92	K60.00	K84.00	K144.00	K3.09
10	October	61	K60.00	K84.00	K144.00	K2.05
11	November	31	K60.00	K84.00	K144.00	K1.04
12	December	10	K60.00	K84.00	K144.00	K0.34
		Total Interest Earned on Monthly Contributions over 2014			K1,728.00	K67.97

A + B

Overall Interest Earned from the 8.5%	A = K 579.71 B = K 67.97	K647.69		<i>New (2014 yr end) Balance after crediting of interest:</i>	K9,195.85
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