

ANNUAL CREDITING RATE POLICY

1. PURPOSE OF THE ANNUAL CREDITING RATE POLICY

1.1 The purpose of this policy is to provide a framework for the Trustee Board when determining the Annual 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 Crediting Rates, the Superannuation Prudential Standard 1/2014 Authorised Superannuation Fund Investments (PS 1/2014) refers. Paragraph 18 (a – c) and Paragraph 19 (a – f) refer in detail.

3. WHAT IS A CREDITING RATE?

3.1 At NASFUND, members' superannuation investment return is determined by an Annual Crediting Rate.

3.2 An Annual Crediting Rate is defined as the investment earnings applied to member account balances after a particular period. Ideally the members' earning rate is equal to the gross investment earnings of the Fund for that period (expressed as a percentage) less the investment management expenses, administration expenses, taxes and after allowing for any reserves (if applicable) applicable during the same period. This is hereafter referred to as Net Surplus Available to Members. If reserves are funded by NASFUND, they represent small reductions in the Annual Crediting Rate. See the Fund's Reserving Management Policy for details.

3.3 NASFUND determines an Annual Crediting Rate early each calendar year which is applied to member account balances retrospectively for the period from 1st January to 31st December of the previous year (the financial year).

3.4 NASFUND also determines an Interim Crediting Rate which will apply in the event that a member exits the Fund, such that the member's final entitlement includes an earnings rate for the period from the most recent Annual Crediting Rate till the date of exit. (refer to the Interim Crediting Rate Policy for more detail).

3.5 Annual Crediting Rates can be either negative or positive, as they primarily depend on investment performance.

4. ANNUAL CREDITING RATE POLICY

4.1 Net Surplus Available: The Trustee Board, in consultation with the Licensed Investment Manager, determines an Annual Crediting Rate once per annum, after the close of the financial accounts for the year. Only after Net Surplus Available to Members has been calculated can the Annual Crediting Rate be determined and returns credited to member accounts. Determining Net Surplus Available to Members usually occurs early each calendar year, for the Financial Year ending the previous 31st December.

4.2 In determining the Annual Crediting Rate, the assets of the Fund are valued in line with international standards, using a hierarchy of valuation methods. (See the Fund's Unlisted Asset Valuation Policy for details). Such valuations are used to determine Net Surplus Available to Members before arriving at the Annual Crediting Rate.

4.3 The financial records maintained by the Fund are reconciled to the member records maintained by the Licensed Fund Administrator to ensure Fund assets are properly attributed to members' accounts.

4.4 In line with international practice, the Licensed Fund Administrator applies the Annual Crediting Rate using a time weighted rate of return basis. (For a worked example of how this is done, see Appendix 1).

5. ANNUAL REVIEW OF MEMBER ACCOUNTS

5.1 Crediting of member accounts: cannot happen until the annual review of member accounts takes place (as per para 19 (a) "The Trustee Board must ensure that the Annual Review of member records in the ASF is completed before applying the Annual Crediting Rate.")

5.2 This process is done together with the administration system maintained by the Licensed Fund Administrator.

5.3 Refer to the Annual Review Policy (of member accounts) for more details.

6. WHAT HAPPENS IF AN ERROR HAS BEEN MADE IN DETERMINING AN ANNUAL CREDITING RATE?

6.1 Every effort is made to ensure accuracy in the Annual Crediting Rates.

6.2 In the event a minor error is discovered after the Annual Crediting Rate has been applied, then the relevant reserve account is adjusted to correct the minor error. (See the Fund's Reserving Management Policy for details).

6.3 If an error has been made of a more than minor nature, the Trustee Board reserves the right to retrospectively adjust member balances.

ANNUAL CREDITING RATE POLICY

6.4 If such a retrospective action is contemplated, the Trustee Board applies a materiality threshold (below which any error to the Annual Crediting Rate is not adjusted retrospectively), and/or a minimum threshold amount (below which no adjustment would be made to a member's account).

6.5 Materiality Threshold: If the Annual Crediting Rate is determined to have been incorrectly calculated by 1% point or more, the Trustee Board will retrospectively adjust member balances. If an error has been made which is less than the Materiality Threshold then any required adjustment is made to the relevant reserves account, or reflected in the Annual Crediting Rate for the following period. (See the Fund's Reserving Management Policy for details).

6.6 Minimum Threshold: Should the Annual Crediting Rate be retrospectively adjusted, the Licensed Fund Administrator will advise the Trustee Board of the new end-of-period member account balances. If retrospective adjustment of a member's account balance would result in an adjustment of K100 or less, then the Trustee Board would instruct the Licensed Fund Administrator to not adjust those member accounts. The net adjustment the total of member accounts below the Minimum Threshold will be made to the relevant reserves account, or reflected in the Annual Crediting Rate for the following period. (See the Fund's Reserving Management Policy for details).

6.7 See the following section for a Fund policy if the Interim Crediting Rate used during the year to calculate exiting members' full entitlements is found to be higher than the subsequently determined Annual Crediting Rate.

7. MEMBER EQUITY AND FAIRNESS

7.1 Fairness to all members: The Trustee Board recognizes that any Crediting Rate must be fair to all members of the Fund, including current, exiting and prospective members.

7.2 Estimations: The Trustee Board believes that estimating current period Net Surplus Available to Members as the basis for that period's Annual Crediting Rate is the best way to ensure member equity and fairness.

7.3 Frequency of Valuation: The Trustee Board seeks to value the assets of the Fund as often as practical, in order to estimate current period Net Surplus Available to Members in the most timely manner.

7.4 Effect of Unlisted Asset Valuations: 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).

7.5 Exiting members: The Trustee Board is conscious that exiting members might be unfairly advantaged if the Interim Crediting Rate applied to the exiting member's account turns out to be higher than the Annual Crediting Rate applied for the full year. Accordingly, the Interim Crediting Rate will be estimated conservatively to avoid exiting members gaining an unfair advantage.

7.6 Members' best interests: The Trustee Board recognizes that due to this conservative estimate that it will be generally in the interests of members to wait till after the Annual Crediting Rate has been determined and applied, rather than exiting earlier based on the Interim Crediting Rate. At the time of writing member behaviour indicates members understand this also, with member exits typically being higher than average just after the Annual Crediting Rate has been applied.

8. ANNUAL REVIEW OF CREDITING RATE POLICIES AND PROCEDURES

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

ANNUAL CREDITING RATE POLICY

APPENDIX 1: EXAMPLE OF TIME WEIGHTED RATE OF RETURN CALCULATION

INTEREST ON OPENING BALANCE

A. (Opening Balance * Interest Rate)

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

This is the Year One Closing Balance

ADD

B. CONTRIBUTIONS AND INTEREST RECEIVED DURING THE YEAR

Individual Contributions * No. of days Left/365 *

Interest Rate

These are the monthly contributions for year two (You have to work out each month's contribution)

	Month	Date Paid	Days Left	Member	Employer	Total	Interest Earned Per Month
1	January	31 January	334	K60.00	K84.00	K144.00	K11.20
2	February	28 February	306	K60.00	K84.00	K144.00	K10.26
3	March	31 March	275	K60.00	K84.00	K144.00	K9.22
4	April	30 April	245	K60.00	K84.00	K144.00	K8.22
5	May	31 May	214	K60.00	K84.00	K144.00	K7.18
6	June	30 June	184	K60.00	K84.00	K144.00	K6.17
7	July	31 July	153	K60.00	K84.00	K144.00	K5.13
8	August	31 August	122	K60.00	K84.00	K144.00	K4.09
9	September	30 September	92	K60.00	K84.00	K144.00	K3.09
10	October	31 October	61	K60.00	K84.00	K144.00	K2.05
11	November	30 November	31	K60.00	K84.00	K144.00	K1.04
12	December	31 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>Year two Closing Balance after crediting of interest:</i>	K9,195.85
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