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GOVERNMENT SUPERANNUATION FUND AUTHORITY

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

Reports and Financial Statements

for the year ended 30 JUNE 2023

AR 23

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Reports presented to the House of Representatives pursuant to Section 150(3) of the Crown Entities Act 2004.

GOVERNMENT
SUPERANNUATION FUND
AUTHORITY

Chair’s Report

Tenā koutou katoa

On behalf of the Government Superannuation Fund Authority Board (**the Board**), I am pleased to present the annual reports on the activities of the Government Superannuation Fund Authority (**the Authority**, **our** or **we**) and the Government Superannuation Fund (**GSF** or **the Fund**) for the year ended 30 June 2023.

The Authority was established in October 2001 as a Crown entity by section 15A of the Government Superannuation Fund Act 1956 (**GSF Act**) and became an autonomous Crown entity under the Crown Entities Act 2004 (**Crown Entities Act**) in January 2005.

Our mission is to use best practice to manage the Fund and administer the GSF Schemes, in accordance with the GSF Act, with the prime objectives of enabling:

- returns to be maximised without undue risk;
- the Crown’s contribution to the GSF to be minimised; and
- the needs and reasonable expectations of stakeholders to be met.

We are responsible for interpreting the provisions of the GSF Act relating to the GSF Schemes and exercising discretionary provisions. Management employed by Annuitas Management Limited carry out these functions under delegation from the Board.

Overview

The year to 30 June 2023 continued the volatility of recent years.

Despite global central banks maintaining a rapid tightening phase for monetary policy, and interest rates rapidly rising, equity markets generally achieved a reasonably strong return. Like 2022 this was a year of two halves, with the first half characterised by fears of recession amidst tightening monetary policy and markets falling. From October, however, markets began a strong recovery, even though inflation remains too high around the world. Market concerns about a recession triggered by elevated interest rates have not materialised thus far. Inflation has been showing a downward trend in many parts of the world (though not as much in New Zealand) and global employment and GDP indicators are holding up well. As a result, markets overcame their anxieties and continued to rise steadily in the latter half of the year.

We continue to operate with full functionality and fulfil all our obligations. All authorised annuities have been paid accurately and on time.

Investments

Global share markets have rallied significantly since October 2022 as recession fears overseas have abated somewhat. The rally has been particularly marked in the USA where the latest fad is for stocks perceived to benefit from developments in artificial intelligence (**AI**) – the rally in the USA is quite concentrated in a few AI related names. Global interest rates have stabilised in recent months as central banks have slowed the pace of monetary tightening.

The Fund returned 10.0% in the year to June 2023, net of investment management fees and before tax. This is a strong outcome relative to the -0.8% return for New Zealand Government Bonds but lagged behind the 12.2% return for the Fund's benchmark Reference Portfolio. The Reference Portfolio comprises 70% global equities, 10% New Zealand equities and 20% global fixed income securities.

Active managers of global listed equities and bonds contributed positively to this outcome, handily outperforming their benchmarks. However, the Fund's private equity investments detracted material value relative to the Reference Portfolio. In large part this is due to the time lag in relation to the revaluation of private equity investments. The Fund's investment in alternative assets, such as insurance-linked securities, did not materially impact on added value.

Despite the relative performance in this financial year, the Fund's returns are comfortably ahead of the Reference Portfolio over the last 3 years. We aim to add 0.8% p.a. on average over ten-year periods from alternative return sources, active managers and the strategic tilting programme. Added value in the last ten years was 0.2% p.a. over the Reference Portfolio (refer Table 1, page 9) so fell someway short of our long-term target. Somewhat compensating for this is the fact that the Fund's risk (as measured by annualised volatility) was about 1% p.a. lower than that of the Reference Portfolio. That means that the Fund's return per unit of risk taken has handily outperformed the Reference Portfolio.

The assets of the Fund now total $5.1 billion. During the year, the Fund slightly increased its private equity investments while reducing its global equities exposures by an equivalent amount.

We manage the Fund to have a similar risk profile to the Reference Portfolio with more diversification. When global equities rise strongly, the Fund may underperform the Reference Portfolio but is more likely to outperform New Zealand Government Bonds, which is the primary goal. The Reference Portfolio is expected to outperform New Zealand Government Bonds by 2.3% pa over the next ten years. This compares with 6.5% pa over the last decade and 2.8% pa since the Fund's inception.

The Board is satisfied the overall risk level remains acceptable as the probability of the Fund underperforming New Zealand Government Bonds by more than 10% over ten years is currently estimated at 15%.

The investment assets of the Fund are reviewed regularly to confirm they remain fit for purpose. We also regularly review our investment managers to confirm they are performing in line with expectations.

Climate Change

As well as maximising returns without undue risk, we are required to avoid prejudice to New Zealand's reputation as a responsible member of the global community. That is addressed through our Responsible Investment Policy, which encompasses investments excluded for various reasons and how our investment managers embed environmental, social and governance issues in their investment decisions.

Climate-related risks and opportunities have become a major focus for the Authority. Together with the other Crown Financial Institutions (the Guardians of New Zealand Superannuation and the

Accident Compensation Corporation) and the National Provident Fund, we committed to the Crown Responsible Investment Framework in October 2021. Those commitments include:

- reporting on how we manage climate-related risks and opportunities in accordance with global best practice
- measuring and reducing the carbon intensity of our public equities portfolio by 50% by 2025 and committing to achieve net zero before 2050
- actively seeking to invest in climate solutions
- using our ownership to engage with companies and encourage them to develop and disclose their plans to adapt to a low carbon future.

Our investment manager selection process takes into account the ability of investment managers to assess the impact of material climate-related risks and opportunities facing companies and the broader ‘sustainability’ of their business models when making portfolio decisions. Our investment managers invest on behalf of many investors and accordingly have more influence than the Authority alone when engaging with companies on these matters.

We have reduced the Fund’s carbon exposure in the global equities portfolio by about 33% since 2019, based on independent estimates of scope 1 and scope 2 emissions of the companies the Fund invests in, together with the scope 3 emissions of any fossil fuel producers held. This puts us on track to achieve a reduction of 50% by 2025 while limiting any impact on the Fund’s investment returns.

Our climate-related exposures and actions are disclosed in a separate Climate-Related Disclosures report published on our website in accordance with the framework recommended by the Task Force on Climate-Related Financial Disclosures. Looking ahead we will be aligning our disclosures with newly introduced reporting standards in this area.

Working with our stakeholders

Communication is important to the Board in achieving our strategic and operational goals and we maintain focus on continually improving the way we communicate with all our key stakeholders, including Parliament, Government, scheme members, and the investment community.

Our website - *www.gsfa.govt.nz* – is an important part of our communications strategy and contains comprehensive information on the Authority and the GSF Schemes. It explains how we operate and gives all stakeholders access to the published information, including our Statement of Intent, Statement of Performance Expectations, Annual Report and Statement of Investment Policies, Standards and Procedures, GSF Schemes booklets and member forms.

Schemes

Key outputs for the 2023 year include:

- entitlements of $958 million paid to over 42,000 GSF pensioners
- an average of 541 telephone enquiries responded to each month
- information received and processed for around 149 payrolls

The business system, used to administer the GSF Schemes, continued to perform well and provide stability and efficiency for the schemes administration area.

A breakdown of the scheme membership is provided on pages 30 and 31 of this report.

The GSF Schemes have been closed to new members since 1992. As expected, the number of contributors continues to decline as members elect to receive their entitlements. As at 30 June 2023, there were 3,273 contributors (June 2022: 3,610 contributors). The age of contributors in the GSF Schemes ranges from 52 years to 78 years.

The number of annuitants also continues to decline. As at 30 June 2023, there were 41,710 annuitants and 2,057 deferred annuitants (2022: 42,688 annuitants and 2,330 deferred annuitants).

The Board encourages contributors over age 65 and non-active contributors to carefully consider their options, including when they wish to start receiving their entitlements. The scheme administrator, Datacom, is available on 0800 654 731 to answer any questions and provide additional information.

Governance

The Board is made up of members appointed by the Minister of Finance. The Board manages the GSF schemes and the investment assets of the Fund, on behalf of members and the Crown. The Board's responsibilities include ensuring GSFA operates efficiently and in line with legislation.

I am fortunate to work with experienced professionals on the Board, who possess knowledge and skills in a broad range of subject areas and who have diverse perspectives.

This year saw the retirement from the Board of Dr Alison O'Connell. Alison made a very important contribution to the Authority during her six years of service on the Board. To replace her, the Minister appointed Hugh Stevens. Hugh is an experienced senior executive with over 20 years of financial services experience, including most recently as the CEO of Smartshares Limited. On behalf of all the Board I would like to thank Alison for her service and to welcome Hugh to the team.

The Board formally meets seven times per year for full Board meetings. It meets outside the fixed schedule on an as required basis.

The Board has two permanent committees – an Investment Committee and an Audit and Risk Review Committee. The Investment Committee forms an important part of the investment strategy as it works closely with Management to provide comfort to the Board that due process is documented and implemented by Management prior to bringing a recommendation to the Board. The Board members on the Investment Committee are Murray Brown (Chair), Sarah Vrede and Hugh Stevens.

The Audit and Risk Review Committee's purpose is to assist the Authority in fulfilling its responsibilities for managing and administering the Fund and the Schemes pursuant to the GSF Act. This committee is chaired by Michael Sang and the other Board member on this subcommittee is Angela Foulkes.

The Board Chair is an ex officio member of both committees.

Executive services to the Authority are provided by Annuitas Management Limited, a joint venture between the Authority and the Board of Trustees of the National Provident Fund (**NPF**). During the year, Annuitas said goodbye to a few long-serving staff members, including Chief Executive Simon Tyler and General Manager Investments, Paul Bevin. On behalf of the Board, I'd like to thank those staff for their service and to welcome Annuitas' new Chief Executive, Tim Mitchell.

Thanks

The Board thanks the Minister of Finance and Government officials for their support, along with the Management team and staff at Annuitas Management for their hard work and commitment to meeting our objectives. I also express my thanks to my fellow Board members for their expertise and the commitment they bring to the Board.

Despite the challenges of the year and the changes at both Board and Management level, we remain well positioned to meet the standards of accountability and continuous improvement that are demanded of Crown entity directors today. We remain committed to providing all stakeholders with a seamless and high level of service.

Ngā mihi

Anne Blackburn
Chair,
Government Superannuation Fund Authority Board

6 September 2023

Investment Commentary

Investment Strategy

The Authority is required to invest the Fund on a prudent and commercial basis. In so doing, its investment objective is to maximise returns without undue risk to the Fund as a whole, while managing and administering the Fund in a manner consistent with best practice portfolio management.

We define this objective as being to maximise the Fund's returns over and above New Zealand Government Bonds (before New Zealand tax), while limiting the chance of under-performing New Zealand Government Bonds over rolling ten-year periods.

The Fund relies largely on equities to achieve returns greater than New Zealand Government Bonds because, economically and historically, equities are the most reliable source of excess returns over longer time horizons.

We use a notional Reference Portfolio to measure the additional risk and to benchmark the Fund's performance over interim periods. The Reference Portfolio is a simple, globally diversified portfolio that is expected to meet the long-term investment objective by investing passively in liquid public equity and bond markets at low cost. Additional information can be found in the Board's Statement of Performance Expectations which can be found at *www.gsfa.govt.nz/publications*.

About 90% of the Fund is invested internationally to avoid concentration of risk in New Zealand assets. The foreign currency exposure is 20% of the Fund on average over time.

To add value, as measured against the Reference Portfolio, without increasing overall risk, the Fund invests in private equities and insurance-linked assets that offer a diversified return source. We seek additional returns through active management of most asset classes. The Fund also tilts dynamically towards cheaper asset classes and away from more expensive ones, because we believe this pays off over longer periods.

All investment decisions are benchmarked against the Reference Portfolio to assess whether they add value in terms of higher returns for equivalent risk, net of investment management fees.

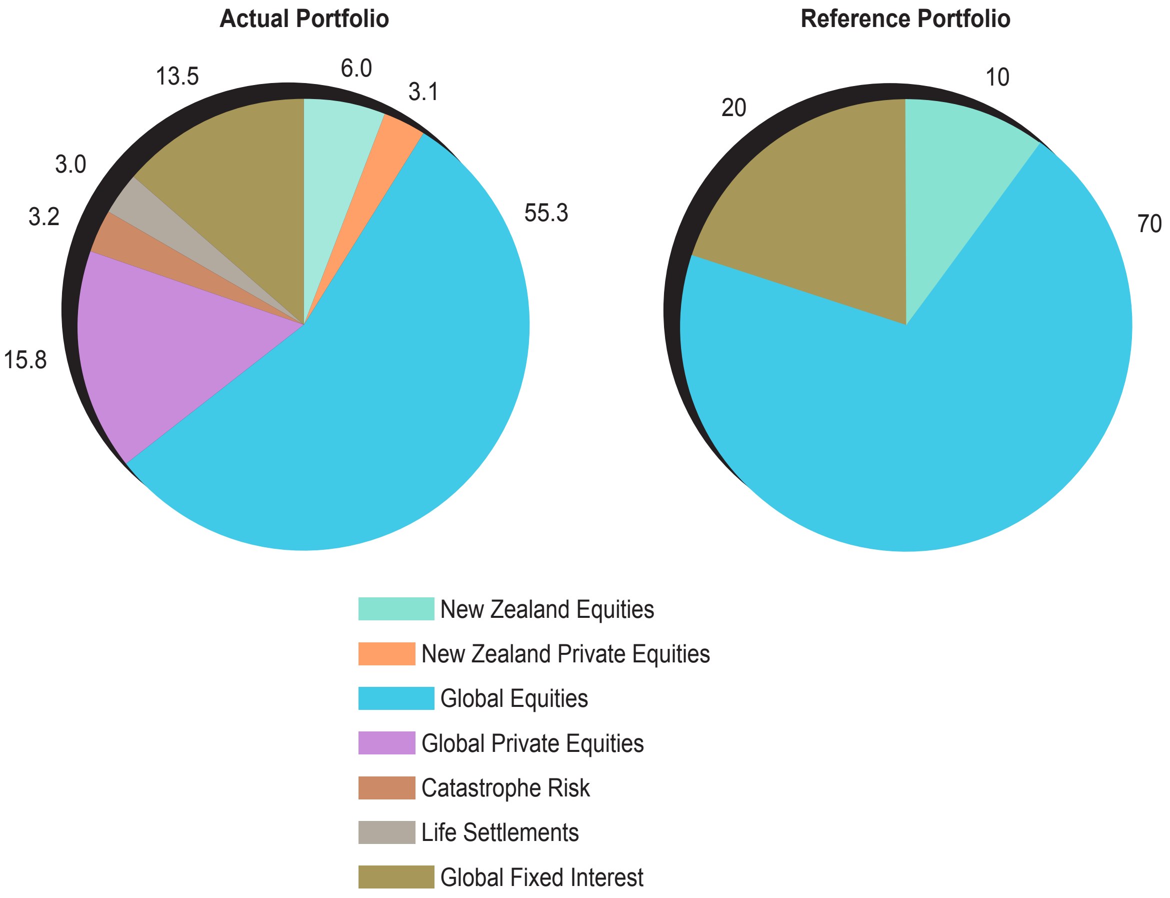
The Fund is managed to have similar risk to the Reference Portfolio but is more diversified. When global equities rise strongly, the Fund may underperform the Reference Portfolio but is more likely to outperform bonds, which is the primary goal.

The Reference Portfolio is expected to outperform New Zealand Government Bonds by 2.3% pa over the next ten years. That compares with 2.8% pa since the Fund's inception and 6.5% pa over the last decade.

The Board is satisfied the overall risk level remains acceptable, as the probability of the Fund underperforming bonds by more than 10% over ten years is currently estimated at 15%. The added value over New Zealand Government Bonds over the last 10 years was 6.7% pa. The alternative assets and active managers are estimated to contribute moderate performance risk relative to the Reference Portfolio.

Chart 1 sets out the Fund's asset allocation at 30 June 2023, compared with the Reference Portfolio.

Chart 1: Asset Allocation as at 30 June 2023



Investment Returns

Global share markets have rallied significantly since October 2022 as recession fears overseas have abated somewhat. The rally has been particularly marked in the USA where the latest fad is for stocks perceived to benefit from developments in artificial intelligence (**AI**) – the rally in the USA is quite concentrated in a few AI related names. Global interest rates have stabilised in recent months as central banks have slowed the pace of monetary tightening.

The Fund returned 10.0% in the year to 30 June 2023, net of investment management fees and before tax, still far in excess of the (negative) -0.8% return of New Zealand Government Bonds. Since inception, the Fund's return is 2.9% pa above New Zealand Government Bonds, as shown in Table 1 below.

Table 1: Total Fund Return – Summary

Return to 30 June 2023	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund Net of Fees	10.0	10.9	6.8	8.8	7.3
Reference Portfolio	12.2	7.4	6.9	8.6	7.2
NZ Government Bonds	-0.8	-5.0	-0.4	2.1	4.4
CPI	6.0	5.5	3.9	2.5	2.5

Return comprises gross of fees returns prior to 30 June 2009 and net of fees thereafter.

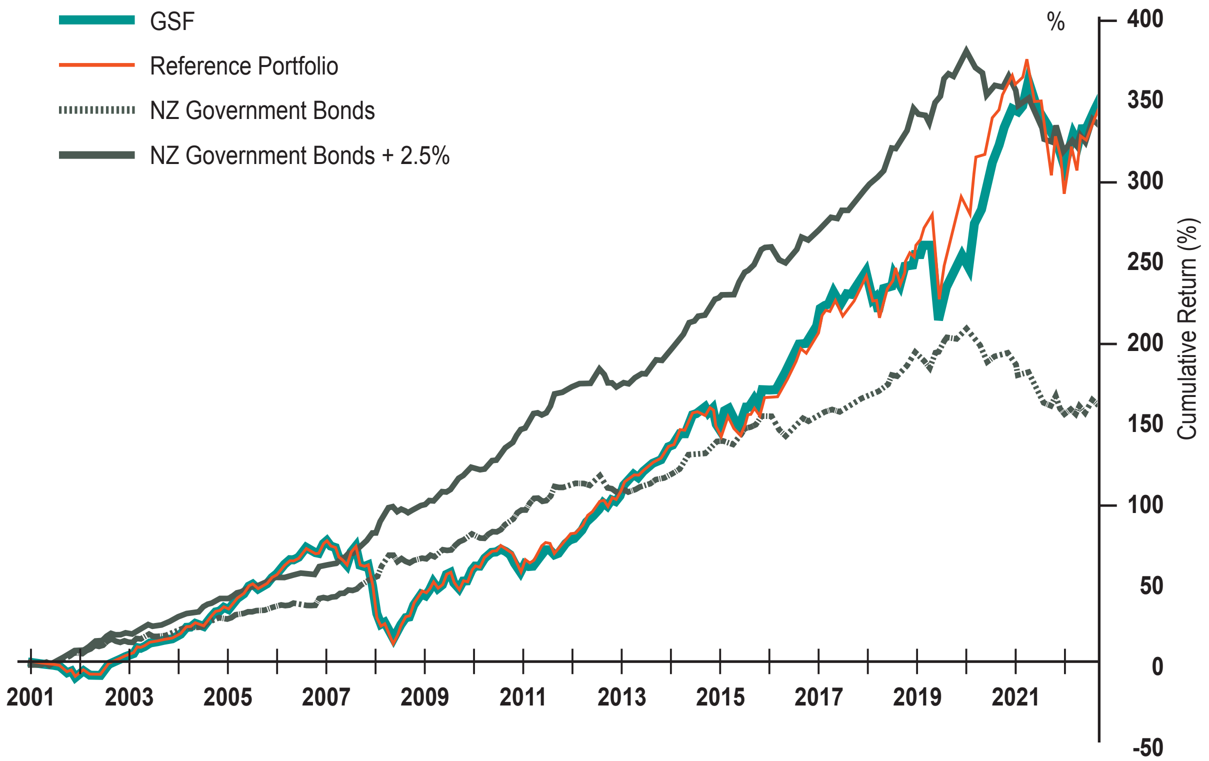
The Fund's 2023 return of 10.0% was 2.2% behind the Reference Portfolio.

Active managers of global listed equities and bonds contributed positively to this outcome, handily outperforming their benchmarks. However, the Fund's private equity investments detracted material value relative to the Reference Portfolio. In large part this is due to the time lag in relation to the revaluation of private equity investments. The Fund's investment in alternative assets, such as insurance-linked securities did not materially impact on added value (refer Table 2, page 11).

Total returns over 5 year and greater time horizons were broadly in line with the Reference Portfolio. We aim to add 0.8% pa on average over ten-year periods from alternative return sources, active managers and strategic tilting programme. Added value in the last ten years was 0.2% so this is some way behind where we would like to be. More positively, we have achieved these Reference Portfolio matching returns at a lower level of risk (8.0% vs 9.0%) so the difference in return per unit of risk taken is consistent with our expectations.

Chart 2: Cumulative Return since October 2001

Chart 2 below shows the cumulative return for the Fund since inception in October 2001. The Fund's long-term return has climbed back from its 2008 trough and is now at its long term expected level relative to New Zealand Government Bonds.



Returns by Asset Class

Table 2 shows the investment returns by major asset class compared to the relevant asset class benchmark. All returns are annualised, in New Zealand dollars (**NZD**) before New Zealand tax and after investment management fees.

Table 2: Returns by Asset Class to 30 June 2023

Asset Class	1 Year Actual	1 Year Benchmark	3 Year Actual	3 Year Benchmark	5 Year Actual	5 Year Benchmark
Total Fund[1]	10.0	12.2[2]	10.9	7.4	6.8	6.9
Global Bonds (100% hedged)	0.3	-0.4	-1.7	-3.2	1.0	0.5
Global Equities	19.7	18.0	13.8	12.6	9.7	10.1
Global Private Equities	-1.7	20.0	24.8	15.4	17.9	13.1
New Zealand Equities	10.1	10.4	3.3	1.9	7.1	6.6
New Zealand Private Equities	1.6	12.3	17.4	4.8	14.0	9.7
Catastrophe Insurance	5.3	8.7	3.9	6.0	3.0	5.1
Life Settlements	8.9	7.7	6.1	6.7	3.1	3.1
Currency Overlay	-1.2	-2.0	-1.1	-1.7	-1.6	-1.8

[1] *The Total Fund return includes currency hedging to the NZD. Returns for global bonds, catastrophe insurance, life settlements are fully hedged. Returns for global equities and global private equities are unhedged.*

[2] *The benchmark for the Total Fund is the Reference Portfolio.*

[3] *The benchmarks for global private equities and New Zealand private equities are the same as for global equities and New Zealand equities respectively plus 3% pa.*

Outlook

Global economic activity is easing as the recent coordinated tightening of monetary policy begins to impact the real economy. Bank lending in the Eurozone has decreased, and China's economic growth is slowing down. Jobs growth and household spending are gradually decelerating as well. Persistent inflation is compelling the Bank of England to continue tightening monetary policy, despite lacklustre economic activity.

Inflation remains uncomfortably above policy targets worldwide, employment statistics are still acceptable, and consensus GDP forecasts are positive, although not exceptionally strong. Market pricing suggests that central banks may lower interest rates next year, but economic data does not yet support this idea.

The US economy, in particular, has defied forecasters by remaining resilient for an extended period, bolstered by significant excess household savings resulting from the distortions caused by the Covid era. At the current pace, these excess savings should largely dissipate by the end of 2023.

Bond yields have returned to what we consider 'normal' levels after an extended period of being very low. However, global interest rates for longer dated bonds imply a high probability of recession. If that fails to materialise, longer-term yields may rise further, but any increase should be relatively muted.

The sharp rise in equities markets in recent months follows falls prior to that, consistent with an uncertain economic and interest rate environment. While we do not regard equities as especially overpriced, they are no longer cheap. Within markets though there are pockets of expensive stocks – the recent fad for perceived AI beneficiaries has made parts of the tech sector expensive, while other sectors still offer good value. The Fund's active managers look to exploit these opportunities.

We expect the Fund's Reference Portfolio to return around 6.9% pa on average over the next ten years, 2.3% ahead of New Zealand Government Bonds. We aim to add an average of about 0.8% pa through alternatives, active management, private equities and strategic tilting across asset classes.

Responsible Investment

The GSF Act requires us to manage and administer the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community. It also requires us to have an ethical investment policy. We address these matters through our Responsible Investment (**RI**) Policies, which cover the exercise of voting rights, criteria for excluding certain investments and environmental, social, and governance (**ESG**) considerations, notably climate-related risks and opportunities.

ESG factors affect the performance of companies, securities, and investment portfolios and financial markets are reflecting these factors in the prices of market securities when they are material to their value. They have become a focus for investors and regulators, seen through an increase in demand for disclosures and targets across many ESG and climate indicators.

We engage investment managers to invest the Fund actively on our behalf to maximise performance. They continually assess the impact of material ESG factors, in their valuations and portfolio decisions, and we include the way they do this as a criterion for selecting and retaining them. We complete a formal analysis of our investment managers' integration of ESG factors annually.

Averting global warming requires the companies we invest in to reduce greenhouse gas emissions. We aim to reduce the portfolio's carbon intensity through engagement with high-emitting companies to influence change rather than simply excluding them. We engage through our active investment managers and collaboratively with peer funds through the Principles for Responsible Investment (**PRI**) and an external service provider representing many institutional investors.

We share research resources and collaborates with the other two Crown Financial Institutions (**CFIs**) (Guardians of New Zealand Superannuation (**GNZS**) and ACC) on Responsible Investment matters. We partner with them by:

- sharing the cost of research to identify and monitor companies and industries with significant Responsible Investment issues and agreeing on exclusions when necessary
- excluding investments that infringe our shared Responsible Investment criteria
- meeting regularly to share information on best practice. This allows us, for example, to benefit from GNZS's membership of various international groups that encourage companies to mitigate climate risks and opportunities
- using an independent firm, Columbia Threadneedle (formerly BMO Global Asset Management), to advise us on global ESG issues and engage with companies on our joint behalf
- jointly considering participation in global initiatives, such as those that seek to promote disclosure of emissions by companies
- participating in the annual PRI survey as a way of benchmarking our approach against other funds.

New Zealand has committed to the Paris Agreement and aims to become a net zero society by 2050, as per the Climate Change Response (**Zero Carbon**) Amendment Act 2019. The Authority is a signatory of the PRI and the Net Zero Asset Owners Alliance, which is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement.

The Authority and other CFIs have committed jointly to the Crown Responsible Investment Framework to measure and reduce the Fund's carbon intensity and influence companies to address climate risks and opportunities.

Specifically, we have:

- committed to a net zero carbon investment portfolio by 2050
- measured the Fund's overall exposures to carbon emissions and fossil fuels to ensure they are consistent with Government policy
- reduced the carbon intensity (emissions to sales) of the public equities portfolio by about 33% since 2019. We are committed to lowering it by 50% by 2025. We believe we can achieve this without jeopardising our investment returns
- committed to measuring and reporting progress annually
- encouraged our investment managers to engage with companies on the disclosure and management of climate change risks and opportunities
- exercised our global voting obligations through our investment managers to influence change.

Our second TCFD-aligned climate disclosure report is published on our website concurrently with this report. From next year, our reporting will align with the standards recently introduced by the External Reporting Board (**XRB**).

Schemes Commentary

GSF Schemes - Administration

Datacom Connect Limited (**Datacom**) continues as the administrator of the GSF Schemes and has met the performance standards that have applied since 1 July 2009. These performance standards are specific in terms of required response times. Management works closely with Datacom and continues to encourage best practice in schemes administration.

The GSF business system has enabled increased efficiency and provides higher reliability. Annually the administrator pays approximately $958 million to members and receives around 6,500 telephone calls per year. Datacom corresponds with all members annually and, combined with enquiries, this results in around 21,000 pieces of correspondence.

Privacy and Security

The Board is very aware of the need to respect members' privacy. We are required to hold personal information about members for the purposes of ongoing management and administration of the GSF≈Schemes. Personal information is data about an identifiable individual or information that could be used to identify a member, such as a name and contact details.

We are bound by, and adhere to, the privacy provisions set out in the Privacy Act 2020, and we have complied with the Act since its inception.

With this in mind, we have ensured that the Schemes Administrator, Datacom, will never send a generic email asking a member for personal information (for example, bank account number or date of birth) or ask a member to provide their bank account details over the telephone.

The Board and Datacom will also never ask a member:

- for banking PINs or passwords;
- to download any software onto a computer;
- to give remote access to a computer; or
- send a member a link to a GSF website login page.

If at any time a member has any concerns about requests received, we urge them to call Datacom on 0800 654 731.

Cyber Security

Cyber security attacks on businesses are becoming more and more common over time, with businesses of all sizes at risk. We are very aware of the need to protect our data, including our network and member information.

We protect our data by regularly installing the latest software updates and having automated backups in place. Data is held in secure cloud environments with virtual private networks (**VPNs**) that use two-factor authentication to remotely access the data via our network.

Statement of Governance and Accountability

The Authority was established in October 2001 as a Crown entity under section 15A of the GSF Act and became an autonomous Crown entity under the Crown Entities Act in January 2005. The business of the Authority is to manage the assets and administer the GSF Schemes and the Fund in accordance with the GSF Act.

Section 15G of the GSF Act specifies the Board is responsible for the business of the Authority.

Government Superannuation Fund Authority Board – as at 6 September 2023

The Minister of Finance has appointed the following six members to the Board:

Anne Blackburn – Chair. Appointed as a Board member on 1 July 2018 and as Chair of the Board on 1 July 2019. Ms Blackburn is a director Fisher Funds Management Limited, Kiwi Wealth Management Limited, Trust Investments Management Limited, Ponga Silva Limited, Otway Silva Limited, Beehive Demetra Limited, Portfolio Custodial Nominees Limited and Annuitas Management Limited. Ms≈Blackburn is also a director and Chair of Resolution Life NZ Limited and Trustee on Te Taumata Toi-a-Iwi. Ms Blackburn has a background in banking, governance and strategic advice, and returned to New Zealand in the mid-1990s after 15 years working for international investment banks in New York and London.

Hugh Stevens – Deputy Chair. Appointed as a Board member and Deputy Chair on 26 May 2023. Mr Stevens is also a director of Annuitas Management Limited. Mr Stevens is a director and Chair of Fundrock NZ Limited. Mr Stevens is an experienced senior executive with over 20 years of financial services experience, including most recently as the Chief Executive Officer of Smartshares Limited.

Murray Brown - Chair of the Investment Committee. Appointed as a Board member 1 July 2018. Mr Brown is also a board member of Yachting New Zealand, a director and shareholder of Harbour Asset Management Limited and a Chartered Member of the Institute of Directors. He previously held senior management positions at Fisher Funds Management and First NZ Capital.

Angela Foulkes - Appointed as a Board member 1 November 2018. Ms Foulkes has extensive public and private sector consultancy experience and has served on a range of government sector advisory and regulatory bodies, including on state sector standards, educational qualifications and government sector structure.

Michael Sang – Chair of the Audit and Risk Review Committee. Appointed as a Board member 1 August 2020. Mr Sang has held various governance roles and has a background in finance including previous executive roles as Chief Executive Officer of Ngai Tahu Holdings and Chief Financial Officer of PGG Wrightson. Mr Sang is a director of Orion New Zealand Limited and the Building Research Association of New Zealand Limited (BRANZ).

Sarah Vrede – Appointed as a Board member 1 August 2020. Ms Vrede is the Chief Executive of the NZ Financial Markets Association. She has recently held roles as the Director of Capital Markets with the Financial Markets Authority and was the head of the New Zealand Debt Management Office within

Treasury. Ms Vrede is a director of New Plymouth PIF Guardians Limited. Ms Vrede was appointed a Fellow of the Institute of Finance Professionals in 2019 in recognition of her significant contribution to New Zealand's capital markets.

Remuneration of Board Members

Remuneration of Board members is in accordance with the rates set by the Minister of Finance.

Responsibilities and Operations of the Board

The Board is responsible for all decisions relating to the business of the Authority.

The Board has two permanent committees with specific responsibilities for Audit and Risk Review and Investments. The Board Chair is an ex officio member of both committees.

As required by the GSF Act, the Board does not delegate the following powers:

- power of delegation
- power to grant a power of attorney; and
- power to appoint the schemes administration manager, investment managers, other service providers and the custodian.

Auditor

The Auditor-General is the auditor of the Authority. The Auditor-General has appointed Silvio Bruinsma of Deloitte Limited to act on his behalf.

Our People

The Authority and the Board of Trustees of the National Provident Fund (**NPF**) have formed a joint venture company, Annuitas Management Limited (**Annuitas**). Each organisation has entered into a management services agreement (**MSA**) with Annuitas.

The main function of Annuitas is to provide staff (**Management**) who act in managerial and secretarial roles on behalf of the Authority and NPF. The MSA between Annuitas and the Authority contains delegations of authority to enable Management to carry out the day-to-day management of the Authority's investment, custody and schemes management arrangements. In the case of schemes management, the delegation includes interpretation of the provisions of the GSF Schemes and exercise of discretionary powers in accordance with the Provisions, Policies and Procedures of the GSF.

At 30 June 2023, Annuitas had 12 staff (with 3 full-time equivalent vacancies, 2 of which were filled shortly after the financial year end). It strives to be a good equal employment opportunity employer. Annuitas has Health, Safety and Wellness Policies, and regular meetings are held with all staff to help achieve its aim of providing a healthy and safe workplace.

Workplace flexibility and investment in professional development are core to its employment offerings and hence staff participated in a range of educational development programmes during the year. These are monitored and reported on regularly.

Diversity of Annuitas staff

Ethnicity	New Zealand/ Other European 11	Asian 1	Māori 0
Gender	Male 7	Female 5	Other 0
Age	Under 35 4	35-55 5	Over 55 3

Taking into account the relationship and responsibility Annuitas has with the Authority, the Human Rights Commission gave GSFA a compliance rating of 100% for good employer reporting in its review of the annual reports of all Crown entities. The activities of Annuitas, across seven key elements, are summarised in the table below.

Key Element	Annuitas Activity
Leadership, accountability and culture	• Talent Management processes to review leadership effectiveness • Annual development cycle with regular feedback to staff undertaken.
Recruitment, selection and induction	• Consistent recruitment and selection process. • Induction for all staff.
Employee development, promotion and exit	• Professional development opportunities identified and sourced. • All staff encouraged to undertake personal development training. • Exit interview process.
Flexibility and work design	• Information technology systems give staff options of 'working from anywhere'. • Flexible Working Arrangements Policy. • Ergonomic Furniture and ICT Ergonomic Accessories Policy • A well-established process in place enabling working from home on a regular basis.
Remuneration, recognition and conditions	• Transparent, equitable and gender-neutral job evaluation practices. • Remuneration benchmarked against third-party New Zealand data. • Discretionary performance incentive scheme.
Harassment and bullying prevention	• Bullying, Harassment and Discrimination Policy. • Acceptable Conduct Policy. • 6 Monthly policy declaration signed by all staff.
Safe and healthy environment	• Robust Health, Safety and Wellness Policy. • Health and Safety Inductions. • Weekly meetings held and all aspects of Health, safety and wellbeing discussed. • Staff encouraged to participate in health and wellbeing activities.

All Annuitas policies are regularly reviewed and updated.

The Management team is:

- Tim Mitchell — Chief Executive and Acting General Manager, Investments
- Fiona Morgan — Chief Financial Officer
- Hadyn Hunt — Chief Risk Officer
- Philippa Drury — General Manager, Schemes

Indemnity

The Authority has:

- provided indemnities to each Board member under Deeds of Indemnity whereby the Authority agreed to indemnify each Board member (subject to certain exceptions) for certain costs and liabilities in respect of certain acts and omissions (being acts and omissions in good faith and in performance or intended performance of the Authority's functions) to the maximum extent permitted by the Crown Entities Act; and
- entered into Deeds of Indemnity with members of Management, who exercise delegations on behalf of the Board in terms of the MSA, whereby it agreed to indemnify the members of Management (subject to certain exceptions) for certain costs and liabilities in respect of certain acts and omissions (being acts and omissions in good faith and in performance or intended performance of the Authority's functions) to the maximum extent permitted by the Crown Entities Act.

The indemnities provided by the Authority to Board members and members of Management do not protect Board members, or members of Management, against any liability, claim or proceeding of any kind for any dishonesty or fraud or anything else that either:

- as a matter of public policy cannot be indemnified at law; or
- is criminal liability that the Authority has determined, in its absolute discretion, should be excluded from the indemnity.

The Authority has determined all criminal liability, other than strict liability offences, should be excluded from the scope of the indemnities. Broadly speaking, strict liability offences are those for which no intent needs to be established.

Insurance

During the financial year, the Authority continued directors' and officers' insurance cover for Board members and members of Management in respect of potential liabilities and costs incurred through acts and omissions made in the performance, or intended performance, of the functions of the Authority. Insurance is not provided for an act or omission that is in bad faith.

We also continued company reimbursement insurance cover in respect of any claims made by Board members, or members of Management, under the indemnities described above.

The scope of the directors' and officers' insurance cover and the company reimbursement insurance cover is consistent with the limitations imposed by the Crown Entities Act.

Statement of Service Performance

The Authority is responsible for the overall management of the Fund. Outputs support the management of the investment assets of the Fund to minimise the Crown's contributions, and the management of the GSF Schemes.

This Statement of Service Performance measures our progress against objectives and measures, including those set out in our 2020-2024 Statement of Intent and 2022 Statement of Performance Expectations.

Investment Management

Best Practice

Measure	Expected Performance	Actual Performance
Independent Statutory Review every 5 years.	Review finds that GSFA meets its statutory obligations.	**Not Tested.** The most recent statutory review was completed in 2021 and concluded, among other things, the Authority is effectively and efficiently meeting its statutory obligations. The review made several recommendations to improve governance and investment management processes and documentation to which the Board has responded. *(2022: Achieved)*
Independent review of Statement of Investment Policies, Standards and Procedures (**SIPSP**) against best practice and compliance annually.	Review finds that the SIPSP meets best practice and is compliant with relevant regulations.	**Achieved.** The SIPSP was rewritten and approved in 2022 with assistance from an independent adviser. This reflects recommendations of the statutory reviewer so that it meets best practice and is compliant with relevant regulations. *(2022: Achieved)*
Independent benchmarking of investment costs versus peers annually.	Benchmarking finds costs to be competitive measured like for like in terms of size and risk.	**Partially Achieved.** Independent benchmarking, through CEM Benchmarking, occurs annually against a global peer group of similar sized funds. The latest report was received in August 2023 based on data for the 2022 calendar year. To adjust for differences in asset allocation and fund size, CEM calculates a benchmark cost for the Fund. They found that GSFA costs in 2022 were above benchmark (1.045% vs 0.740%). 2021 was also slightly above benchmark (0.886% vs 0.755%). This was predominantly due to performance fees paid to global equity managers who significantly outperformed their benchmark. Also, the Fund has a larger % of its public equity portfolio actively managed and a larger % allocated to fund of fund mandates within global private equity relative to peer funds. *(2022: Achieved)*

Measure	Expected Performance	Actual Performance
Custodian's performance against key performance indicators quarterly.	Custodian meets agreed service standards.	**Partially achieved.** Quarterly reviews of performance against KPIs found custodian had met the majority of their agreed standards. *(2022: Achieved)*
Investment manager contractual compliance.	Compliance breaches are avoided where possible and action is taken where necessary.	**Not Applicable.** There were no material breaches of investment management agreements by external managers that required further action. *(2022: Achieved)*
Collaboration and engagement reported to the Board.	Collaborate and engage with CFIs, peer funds and experts to share knowledge.	**Achieved.** The Authority has ongoing collaboration with the Board of Trustees of the National Provident Fund through the two organisations' joint venture company, Annuitas Management Limited (AML). It also works closely with the Accident Compensation Corporation and the Guardians of New Zealand Superannuation, most notably on responsible investment matters. At the end of the financial year, AML joined two global peer networks, the Thinking Ahead Institute and the International Centre for Pension Management. *(2022: Not reported on but similar except for final comment re global peer networks)*

Return and Risk

<table>
<tr><th rowspan="2">Measure</th><th rowspan="2">Expected Performance</th><th colspan="6">Actual Performance (% pa)</th><th rowspan="2">Comment</th></tr>
<tr><th></th><th>1 year</th><th>3 years</th><th>5 years</th><th>10 years</th><th>SI[1]</th></tr>
<tr><td rowspan="4">Return and risk of Reference Portfolio (RP) vs NZ Government Bonds (NZGB).</td><td rowspan="4">The RP achieves better returns without undue risk compared to NZGB over 10 years and since inception.</td><td>RP 2023:</td><td>12.2</td><td>7.4</td><td>6.9</td><td>8.6</td><td>7.2</td><td rowspan="4">Achieved.
The RP return is substantially ahead of NZGB over all periods.
(2022: Achieved)</td></tr>
<tr><td>2022:</td><td>-10.8</td><td>4.9</td><td>6.7</td><td>8.9</td><td>7.0</td></tr>
<tr><td>NZGB 2023:</td><td>-0.8</td><td>-5.0</td><td>-0.4</td><td>2.1</td><td>4.4</td></tr>
<tr><td>2022:</td><td>-10.3</td><td>-2.9</td><td>0.6</td><td>2.2</td><td>4.7</td></tr>
<tr><td rowspan="4">Risk of Actual Portfolio (AP) vs RP over 1, 3, 5 and 10-year periods.</td><td rowspan="4">Risk of AP is kept lower than the RP over 1, 3, 5 and 10-year periods.</td><td>AP 2023:</td><td>N/A</td><td>9.0</td><td>9.7</td><td>7.8</td><td>8.1</td><td rowspan="4">Achieved.
AP risk, measured by volatility and other metrics, was lower than the RP throughout all periods.
(2022: Achieved)</td></tr>
<tr><td>2022:</td><td>N/A</td><td>10.0</td><td>8.9</td><td>7.2</td><td>8.0</td></tr>
<tr><td>RP 2023:</td><td>N/A</td><td>10.9</td><td>11.5</td><td>9.0</td><td>9.0</td></tr>
<tr><td>2022:</td><td>N/A</td><td>11.6</td><td>10.2</td><td>8.3</td><td>8.8</td></tr>
<tr><td rowspan="6">Return of Actual Portfolio (AP) vs NZGB and RP.</td><td rowspan="6">The AP achieves better returns than NZGB and the RP over 1, 3, 5 and 10-year periods.</td><td>AP 2023:</td><td>10.0</td><td>10.9</td><td>6.8</td><td>8.8</td><td>7.3</td><td rowspan="6">Partially achieved.
The AP return is ahead of NZGB over all periods. Against the RP, it is just ahead over longer horizons. Because the AP has been run at lower risk than the RP, the return per unit of risk is well ahead over those periods.
(2022: Achieved)</td></tr>
<tr><td>2022:</td><td>-3.7</td><td>6.9</td><td>6.9</td><td>9.5</td><td>7.1</td></tr>
<tr><td>NZGB 2023:</td><td>-0.8</td><td>-5.0</td><td>-0.4</td><td>2.1</td><td>4.4</td></tr>
<tr><td>2022:</td><td>-10.3</td><td>-2.9</td><td>0.6</td><td>2.2</td><td>4.7</td></tr>
<tr><td>RP 2023:</td><td>12.2</td><td>7.4</td><td>6.9</td><td>8.6</td><td>7.2</td></tr>
<tr><td>2022:</td><td>-10.8</td><td>4.9</td><td>6.7</td><td>8.9</td><td>7.0</td></tr>
<tr><td>Returns v benchmarks of asset classes and individual managers.</td><td>Asset classes and managers achieve better returns than their individual benchmarks over periods 3 years and longer.</td><td colspan="6">Refer Table 2 of the Annual Report on page 11.</td><td>Partially achieved.
Most actively managed asset classes outperformed their benchmarks over most periods. Quarterly reporting is also provided to the Board.
(2022: Partially Achieved)</td></tr>
</table>

[1] *Since Inception*

<table>
<tr><th rowspan="2">Measure</th><th rowspan="2">Expected Performance</th><th colspan="6">Actual Performance (% pa)</th><th rowspan="2">Comment</th></tr>
<tr><th></th><th>1 year</th><th>3 years</th><th>5 years</th><th>10 years</th><th>SI[1]</th></tr>
<tr><td>Risk of underperforming NZ Government Bonds.</td><td>The portfolio's risk of underperforming NZ Government Bonds over a 10-year period by more than 10% is kept below 16%.</td><td colspan="6"></td><td>Achieved.
The probability of the Fund underperforming New Zealand Government Bonds by more than 10% over ten years is currently estimated at 15%.
(2022: Achieved, 15%)</td></tr>
<tr><td rowspan="9">Contribution to risk-adjusted returns of incremental exposures, strategies and managers.</td><td>A positive contribution to risk-adjusted returns resulting from incremental exposures, strategies, and managers over longer periods.</td><td colspan="6"></td><td>Partially achieved.
Active management detracted value in the last year but added significant value over a 3-year horizon. Timing of private equity valuations remains a critical swing factor year to year.
(2022: Achieved)</td></tr>
<tr><td rowspan="2">Total</td><td>2023:</td><td>-2.2</td><td>3.5</td><td>-0.1</td><td>0.1</td><td>0.1</td><td rowspan="8"></td></tr>
<tr><td>2022:</td><td>7.1</td><td>2.0</td><td>0.3</td><td>0.6</td><td>0.1</td></tr>
<tr><td rowspan="2">Active management[2]</td><td>2023:</td><td>-0.5</td><td>3.6</td><td>0.5</td><td>–</td><td>–</td></tr>
<tr><td>2022:</td><td>6.8</td><td>2.0</td><td>1.2</td><td>–</td><td>–</td></tr>
<tr><td rowspan="2">Alternative risk premia</td><td>2023:</td><td>-2.3</td><td>-0.9</td><td>-1.0</td><td>N/A</td><td>N/A</td></tr>
<tr><td>2022:</td><td>0.7</td><td>-0.7</td><td>-1.3</td><td>N/A</td><td>N/A</td></tr>
<tr><td rowspan="2">Dynamic Asset Allocation[2]</td><td>2023:</td><td>0.6</td><td>0.8</td><td>0.4</td><td>1</td><td>–</td></tr>
<tr><td>2022:</td><td>-0.4</td><td>0.7</td><td>0.4</td><td>–</td><td>–</td></tr>
<tr><td rowspan="4">Fund volatility.</td><td rowspan="4">Fund volatility is aligned with the Reference Portfolio (RP) over all periods.</td><td>Fund 2023:</td><td>10.2</td><td>9.0</td><td>9.7</td><td>7.8</td><td>8.1</td><td rowspan="4">Achieved.
(2022: Not reported)</td></tr>
<tr><td>2022:</td><td>8.0</td><td>10.0</td><td>8.9</td><td>7.2</td><td>8.0</td></tr>
<tr><td>RP 2023:</td><td>12.9</td><td>10.9</td><td>11.5</td><td>9.0</td><td>9.0</td></tr>
<tr><td>2022:</td><td>9.6</td><td>11.6</td><td>10.2</td><td>8.3</td><td>8.8</td></tr>
<tr><td>Fund ex-ante active risk.</td><td>Fund ex-ante active risk is kept below 3%.</td><td colspan="6"></td><td>Achieved.
Fund ex-ante active risk was kept below 3%.
(2022: Not reported)</td></tr>
</table>

[1] *Since Inception*

[2] *Data for 10 years and SI is not available.*

Avoiding Prejudice

Measure	Expected Performance	Actual Performance
Alignment of Fund's investments with relevant law, international agreements and Government policies.	Fund's investments align with relevant law, international agreements and Government policies.	**Achieved.** GSF excludes investments in activities that are illegal or contrary to NZ's international agreements. It also excludes tobacco investments. GSFA has committed with other CFIs and the Board of Trustees of the National Provident Fund (**NPF**) to the Crown Responsible Investment Framework governing its response to climate-related risks and opportunities. We have committed to halve the Fund's public equities portfolio emissions (relative to a June 2019 baseline) by 2025 and achieve net zero emissions from investments before 2050. *(2022: Achieved. Note that the wording of the measure was altered for clarity in the 2022 Statement of Performance Expectations (**SPE**))*
Carbon intensity of portfolio.	On path to achieve 50% reduction in equity portfolio's carbon intensity by 2025.	**Achieved.** Carbon intensity within the public equity portfolios is trending downwards and is on track with the degree of intensity reduction expected at 30 June 2023. *(2022: N/A. This is a new measure introduced in the 2022 SPE)*
Requirements of the Task Force on Climate-related Financial Disclosures (**TCFD**).	Reporting in line with TCFD requirements.	**Achieved.** We published our first TCFD report, relating to the year ended 30 June 2022 early in 2023. We will publish our 2023 TCFD report, immediately after publication of this Annual report. From 2024, we will align our reporting to the requirements of the XRB Climate-Related Disclosures regime. *(2022: N/A. This is a new measure introduced in the 2022 SPE)*
Success of engagements with entities that breach the Authority's standards.	Any entities that breach the Authority's standards are engaged with. Any entities that fail to respond adequately to the Authority's engagements are excluded and disclosed.	**Achieved.** GSFA collaborates with the Guardians of New Zealand Superannuation and ACC to engage with companies breaching (or suspected of breaching) our standards. Most engagements are undertaken through a contracted global engagement service. Exclusion is a last resort when companies fail to respond adequately to engagements. *(2022: Achieved)*
Advice to investment managers on policies and excluded investments.	Advice provided at least annually to investment managers on policies and excluded investments.	**Achieved.** Managers were advised on both policies and exclusions. *(2022: Achieved)*
Voting records of contracted managers.	Voting records of contracted managers published every six months.	**Achieved.** Records are published on the website. *(2022: Achieved)*
Principles for Responsible Investment (**PRI**) annual assessment survey.	Achieve at least an A Rating in the PRI annual assessment survey.	**Not Tested.** A-ratings were achieved in the latest PRI survey in 2020. The PRI intends to resume surveys in 2023. *(2022: Not tested)*
Reputational threats to the New Zealand Government or the Board	No negative publicity regarding the Government or the Board arising from portfolio investments.	**Achieved.** *(2022: Achieved)*

Schemes

Pay Entitlements

Measure	Expected Performance	Actual Performance
Payment of annuities.	100% of all annuities paid correctly and on time.	**Achieved.** 100% of annuities were paid accurately and on time. *(2022: Achieved)*
Contribution handling.	All contributions banked on receipt and allocated as soon as verified as being correct.	**Achieved.** All contributions were banked on receipt and allocated as soon as verified as being correct. *(2022: Achieved)*
Correspondence.	All routine correspondence responded to within 5 working days.	**Not Achieved.** 97% of all routine correspondence was responded to within 5 working days. *(2022: Partially Achieved)*

Systems and Technology

Measure	Expected Performance	Actual Performance
Maintain relevant business systems and business continuity plans.	No permanent loss or corruption of data. Business system is available 98% of the time in any given month. No business system request deemed critical by GSFA outstanding for more than 3 months without appropriate remedial action in place. Business continuity plans in place.	**Achieved.** The business system remains relevant and meets the requirements of the schemes. There was no permanent loss or corruption of data. Required data can be accessed from the business system. The business system was available more than 98% of the time in any given month. There were no business system requests deemed critical by GSFA outstanding for more than 3 months without appropriate remedial action in place. Business continuity plans are in place. *(2022: Achieved)*

Interpretation of the Act and Exercise of Discretionary Powers

Measure	Expected Performance	Actual Performance
Interpretation of the provisions of the GSF Act and exercise of discretionary powers (set out in the Act).	Interpretation of the provisions and exercise of discretionary powers comply with legislative requirements.	**Achieved.** Interpretations were provided of the provisions of the Act and discretionary powers exercised. There were no appeals to the GSF Appeals Board during the year. *(2022: Achieved)*
Timely response to all requests for information from stakeholders and meeting deadlines.	Service Level Agreements for requests for information in place and monitored.	**Achieved.** The timing for provision of information to stakeholders is clearly communicated. Service level agreements were met and information provided within required timeframes. *(2022: Partially achieved)*
Satisfaction and feedback.	Consistently good (60% and over) satisfaction scores in the major aspects of the biennial survey of members and employers.	**Achieved.** The most recent survey was undertaken in 2023 and showed consistently good satisfaction scores. *(2022: Achieved)*

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

GOVERNMENT SUPERANNUATION FUND

Authority's Report

On behalf of the Authority, I am pleased to present this report on the Fund for the year ended 30 June 2023. The report is made in accordance with section 93B of the GSF Act.

The Fund dates back to 1948 when it was established to provide a way for state sector employees to save for their retirement. Contributors make regular payments to the Fund and in return, on retirement, receive a defined level of income. Employers, who are not funded directly by the Government, pay contributions as set by the Actuary, at the amount necessary to fund the balance of their employees' entitlements. The Government meets the balance of the costs of the employees' entitlements as they become payable. The Fund was largely closed to new members in 1992.

In 2001, the Authority was established under the Act to manage the Fund's assets and administer the GSF Schemes.

The Act provides for interest to be paid into or out of the Fund in respect of members' contributions or benefits. In respect of interest charged by the Fund, the rate is equivalent to the gross return on the Fund for the year. For the year ended 30 June 2023, the gross return was 10.5% before tax and expenses (2022: -2.3%; 2021: 30.5%).

This annual report includes information on membership, and other matters required by the GSF Act. Commentary on the investment performance of the Fund starts on page 8 of our Annual Report.

Information on the Authority can be found commencing on page 3.

Membership

Although the GSF Schemes were closed to new members in July 1992, and the Pacific Island sub-schemes closed on 22 October 1995, the GSF Schemes will continue to have a very substantial membership for many years.

Details of the membership of the GSF Schemes are set out on page 30.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

6 September 2023

Regulatory Statement

In accordance with the Financial Markets Conduct Act 2013 the Authority states that, to the best of its knowledge and belief, for the financial year ended 30 June 2023:

- on the basis of evidence available, all contributions required to be made to the Fund, in accordance with the GSF Act, have been made or accrued;
- all benefits required to be paid from the Fund under the GSF Act have been paid; and
- due to the partially funded nature of the GSF Schemes, the market value of assets fell short of the accrued benefit liability of the Fund by $7.498 billion (2022: $7.297 billion). The deficiency is covered by Section 95 of the GSF Act, which requires the Minister of Finance to appropriate funds from public money to meet the annual deficiency in payments from the Fund.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

6 September 2023

Membership Commentary

Movement in contributors during the past five years

Year ended 30 June	Total Contributors	Change in Contributors	Change
2019	7,136	-1,220	-14.60%
2020	4,512	-2,624	-36.77%
2021	4,032	-480	-10.64%
2022	3,610	-422	-10.47%
2023	**3,273**	**-337**	**-9.34%**

Number of contributors, by scheme

GSF Scheme	2023	% of 2023 Total	2022
General Scheme	**3,100**	**94.70%**	3,421
Armed Forces	**48**	**1.47%**	48
Police	**111**	**3.40%**	124
Prisons Service	**14**	**0.43%**	17
Judges and Solicitor-General	**–**	**–**	–
Parliamentary	**–**	**–**	–
Total contributors at end of year	**3,273**	**100.00%**	**3,610**

Movement in the number of contributors during the year

	2023	2022
Contributors at beginning of year	**3,610**	4,032
Cessation of employment before retirement	**-9**	-7
Death before retirement	**-11**	-144
Retirements	**-313**	-399
Transfer to other schemes	**-4**	-1
Withdrawals	**-0**	-0
Re-enrolments	**0**	-1
Total contributors at end of year	**3,273**	3,610

** 2020 – Cessation of employment before retirement - the reduction in contributor numbers includes results of research into inactive members with no contribution history – 2,178 contributors were exited as a result of the research.*

Movement in the number of annuitants during the past five years

Year ended 30 June	Total Annuitants	Change in Annuitants	Change
2019	44,417	-417	-0.93%
2020	43,894	-523	-1.18%
2021	43,413	-481	-1.10%
2022	42,688	-725	-1.67%
2023	**41,710**	**-979**	**-2.29%**

Movement in number of annuitants during the year

	2023	2022
Annuitants at beginning of year	**42,688**	43,413
New retiring allowances	**313**	399
New allowances to spouses	**766**	556
Deferred pensions now in payment	**274**	299
Discontinued allowances	**-2,331**	-1,979
Total annuitants at end of year	**41,710**	42,688

There were 2,057 deferred pensions at 30 June 2023 (2022: 2,330).

Movement in total number of members during the past five years

Year ended 30 June	Total Contributors	Total Annuitants	Total Deferred Pensions	Total Members	Decrease During Year
2019	7,136	44,417	3,323	54,876	-1,440
2020	4,512	43,894	2,941	51,347	-3,529
2021	4,032	43,413	2,629	50,074	-1,273
2022	3,610	42,688	2,330	48,628	-1,446
2023	**3,273**	**41,710**	**2,057**	**47,040**	**-1,588**

Since 1996, the number of annuitants has exceeded the number of contributors. The present ratios are:

	2023	%	2022	%
Contributors	**3,273**	**7%**	3,610	7%
Deferred pensions	**2,057**	**4%**	2,330	5%
Annuitants	**41,710**	**89%**	42,688	88%
Total	**47,040**	**100%**	48,628	100%

Granting a charge over contributions

In the year to 30 June 2023, 2 charges (2022: 0) were registered by the Fund in favour of charge holders as security over individual contributor’s contributions.

B.20

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

Reports and Financial Statements

for the year ended 30 JUNE 2023

Statement of Responsibility

The Financial Statements of the Fund for the year ended 30 June 2023 have been prepared in accordance with Section 93 of the GSF Act.

The Authority is responsible for the preparation of the Financial Statements and the judgements made in the process of producing those statements.

The Authority confirms that:

- internal control systems have been established and maintained during the year to assure reasonable reliability and integrity of these Financial Statements; and
- the investment policies, standards, and procedures for the Fund, commencing on page 91, have been complied with.

In our opinion, the attached Financial Statements present a true and fair view of the net assets, as at 30 June 2023, and the changes in net assets and the cash flows of the Fund, for the year ended 30 June 2023.

Anne Blackburn
Chair,
Government Superannuation Fund Authority Board

Tim Mitchell
Chief Executive

6 September 2023

Statement of Changes in Net Assets

For the year ended 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Change in assets from investing activities				
Interest, dividends and other income	1	**122,141**	116,787	174,969
Changes in fair value of investment assets through profit or loss	2	**383,540**	233,573	(294,502)
		505,681	350,360	(119,533)
Operating activities				
Operating expenses	3			
Funding for the Authority	14	**(44,308)**	(47,830)	(73,592)
Surplus/(deficit) before tax and membership activities		**461,373**	302,530	(193,125)
Income tax (expense)/benefit	4	**(48,567)**	(70,145)	52,373
Surplus/(deficit) after tax and before membership activities		**412,806**	232,385	(140,752)
Membership activities				
Contributions				
Government	5	**706,278**	683,000	781,601
Members		**13,955**	11,000	15,113
Other employers		**8,830**	10,000	10,094
Total contributions		**729,063**	704,000	806,808
Benefits and refunds paid	6	**(957,909)**	(928,000)	(922,220)
Net membership activities		**(228,846)**	(224,000)	(115,412)
Net increase/(decrease) in net assets		**183,960**	8,385	(256,164)
Opening net assets available to pay benefits		**4,961,996**	5,288,237	5,218,160
Net assets available to pay benefits		**5,145,956**	5,296,622	4,961,996

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

GOVERNMENT SUPERANNUATION FUND

Statement of Net Assets

As at 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Current assets held at fair value through profit or loss				
Derivative assets	13.5	**34,249**	69,919	38,000
Current assets at amortised cost				
Cash and cash equivalents		**341,018**	196,380	471,757
Trade and other receivables	7	**174,528**	106,729	164,531
Total current assets at amortised cost		**515,546**	303,109	636,288
Other current assets				
Income tax receivable	4	**6,385**	–	17,525
Total current assets		**556,180**	373,028	691,813
Non-current assets held at fair value through profit or loss				
Investments				
Derivative assets	13.5	**7,675**	18,098	9,836
Equities – New Zealand		**433,796**	558,683	416,111
Equities – International		**2,651,591**	2,759,783	2,497,404
Global bonds		**561,022**	626,961	479,569
Global private equity		**803,957**	744,322	769,167
Insurance-linked assets		**322,043**	239,454	302,568
Other investments		**135,973**	194,522	114,897
Total investments	13.5	**4,916,057**	5,141,823	4,589,552
Other non-current assets				
Business System	8	**8,584**	8,585	11,160
Deferred tax asset	4	**6,910**	–	50,927
Total non-current assets		**4,931,551**	5,150,408	4,651,639
Total assets		**5,487,731**	5,523,436	5,343,452

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Net Assets *(continued)*

As at 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Less liabilities				
Current liabilities held at fair value through profit or loss				
Derivative liabilities	13.8	**61,406**	48,033	162,783
Current liabilities at amortised cost				
Trade and other payables	9	**268,801**	100,133	190,621
Other current liabilities				
Income tax payable		**–**	66,550	–
Total current liabilities		**330,207**	214,716	353,404
Non-current liabilities held at fair value through profit or loss				
Derivative liabilities	13.8	**11,568**	8,277	28,052
Other non-current Liabilities				
Deferred Tax Liability		**–**	3,821	–
Total non-current liabilities		**11,568**	12,098	28,052
Total liabilities		**341,775**	226,814	381,456
Net assets available to pay benefits		**5,145,956**	5,296,622	4,961,996
Promised retirement benefits				
Gross liability for promised retirement benefits	12	**12,643,000**	11,743,000	12,259,000
Deficit		**7,497,044**	6,446,378	7,297,004
Net assets available to pay benefits		**5,145,956**	5,296,622	4,961,996

The Financial Statements were approved by the Board on 6 September 2023.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

Michael Sang
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

6 September 2023

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Cash Flows

For the year ended 30 June 2023

	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Cash flows from operating activities[1]			
Cash was provided from:			
Government contributions - members	**668,624**	636,040	705,250
Government contributions - expenses	**44,528**	46,395	83,528
Members' contributions	**14,248**	11,000	15,422
Other employers' contributions - members	**7,672**	8,153	7,945
Other employers' contributions - expenses	**1,800**	1,847	1,800
Interest and dividends	**120,753**	115,786	173,017
Income tax	**10,000**	–	8,000
Cash was disbursed to:			
Benefit payments	**(958,521)**	(928,025)	(923,934)
Income tax	**(2,686)**	(13,594)	(121,066)
Operating expenses	**(41,592)**	(47,530)	(71,918)
Net cash outflows from operating activities	**(135,174)**	(169,928)	(121,956)
Cash flows from investing activities[2]			
Cash was provided from:			
Maturities and sales of investment assets	**4,588,224**	5,227,009	4,477,499
Cash was disbursed to:			
Purchase of investment assets	**(4,583,789)**	(5,102,982)	(4,153,180)
Net cash inflows from investing activities	**4,435**	124,027	324,319
Net (decrease)/increase in cash held	**(130,739)**	(45,901)	202,363
Opening cash and cash equivalents	**471,757**	242,281	269,394
Closing cash and cash equivalents[3]	**341,018**	196,380	471,757

[1] *Operating activities include any activities that are the result of normal business activities (excluding investing activities).*

[2] *Investing activities comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.*

[3] *Cash and cash equivalents comprise cash balances held with banks in New Zealand and overseas. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments. Only items that have a maturity of three months or less, from acquisition date, are classified as cash and cash equivalents.*

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Changes in Deficit

For the year ended 30 June 2023

	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Opening deficit at the beginning of the year	**(7,297,004)**	(6,768,763)	(7,142,840)
Change in liabilities amount	**(384,000)**	314,000	102,000
Change in Net Assets	**183,960**	8,385	(256,164)
Closing deficit at the end of the year	**(7,497,044)**	(6,446,378)	(7,297,004)

Note – Deficit

- *The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) – refer note 12 – is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered. The present value was calculated by the Authority's Actuary, as at 30 June 2023, under NZ IAS 26, using a net discount rate.*
- *The Deficit is the value of the Gross Liability less the value of the Net Assets of the Fund.*
- *There is no requirement on the Crown to fully fund the Deficit in relation to the GSF Schemes. The Crown meets its obligation to pay members' entitlements on an as required basis.*
- *Reliance is placed by the Authority on the provisions of section 95 of the Act which requires the Minister to appropriate funds from public money to ensure sufficient funds are available, or will be available, to pay entitlements as they fall due.*

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows

For the year ended 30 June 2023

	2023 $000	2022 $000
Net increase/(decrease) in net assets	**183,960**	(256,164)
Non–cash items		
Deferred tax expense	**44,017**	(54,748)
Amortisation of the Business System	**2,575**	2,575
Total non–cash items	**46,592**	(52,173)
Movements in working capital items		
Benefits payable	**12**	(211)
Government contributions received - benefits	**5,324**	(4,966)
Income tax	**11,140**	(111,602)
Investment payables	**73,801**	89,391
Investment receivables	**(13,386)**	(59,234)
Other employers’ contributions received in advance – benefits	**(1,282)**	(59)
Other employers’ contributions received in advance – expenses	**471**	(408)
Receivables and prepayments	**3,104**	11,353
Trade and other payables	**139**	(903)
Total movement in working capital items	**79,323**	(76,639)
Changes in items classified as investing activities		
Accrued interest portion of bonds	**(1,094)**	(1,325)
Change in fair value of investment assets	**(383,540)**	294,502
Investment settlement receivables	**13,386**	59,234
Investment settlement payables	**(73,801)**	(89,391)
Total movement in investing activities	**(445,049)**	263,020
Net cash out flows from operating activities	**(135,174)**	(121,956)

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Judges and Solicitor-General Superannuation

Statement of Changes in Net Assets

For the year ended 30 June 2023

	2023 $000	2022 $000
Income from operations[1]		
Government contributions	**14,986**	14,436
Total contributions	**14,986**	14,436
Expenditure*		
Benefits paid:		
Retirements	**11,790**	11,391
Spouses and children	**3,196**	3,045
Total Benefits paid	**14,986**	14,436
Net changes in net assets	**–**	–

[1]These figures are incorporated in the Government Superannuation Fund Statement of Changes in Net Assets.

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Parliamentary Superannuation

Statement of Changes in Net Assets

For the year ended 30 June 2023

	2023 $000	2022 $000
Income from operations[1]		
Government contributions	**4,657**	4,621
Total contributions	**4,657**	4,621
Expenditure*		
Benefits paid:		
Retirements	**3,833**	3,850
Spouses and children	**824**	771
Total Benefits paid	**4,657**	4,621
Net changes in net assets	**–**	–

[1]These figures are incorporated in the Government Superannuation Fund Statement of Changes in Net Assets.

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2023

1. Interest, dividends and other Income

	2023 $000	2022 $000
Equities – International	**40,162**	40,048
Equities – New Zealand	**19,993**	9,416
Global bonds	**19,053**	10,799
Global private equity	**15,430**	61,042
Insurance linked assets	**49**	216
Short term and call deposits	**1,029**	89
Other income	**26,425**	53,359
Total interest, dividends and other income	**122,141**	174,969

2. Changes in fair values of investment assets through profit or loss[1]

	2023 $000	2022 $000
Equities – International	**401,138**	(397,971)
Equities – New Zealand	**15,942**	(14,538)
Global bonds	**(12,944)**	(70,004)
Global private equity	**(28,401)**	166,625
Insurance-linked assets (net)	**15,605**	39,544
Style Premia Fund	**–**	20,231
Other investments	**(7,800)**	(38,389)
Total changes in fair values of investment assets through profit or loss	**383,540**	(294,502)

[1] *Includes changes resulting from hedging (where applicable).*

3. Operating expenses

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Both the Government and other employers reimburse the Fund under section 95 of the GSF Act for the Authority's expenses. In the reporting period (from 1 July 2022), as certified by the Actuary, the Government contributed 97% (from 1 July 2021: 97%) of the Authority's administrative expenses reimbursed by the Fund. Other employers contributed the balance of 3% (from 1 July 2021: 3%).

4. Income tax

	2023 $000	2022 $000
Reconciliation to statement of changes in net assets		
Surplus/(deficit) before tax and membership activities	**461,373**	(193,125)
Add imputation credits	**3,419**	2,788
Net taxable income/(loss)	**464,792**	(190,337)
Tax expense/(credit) at 28%	**130,142**	(53,294)
Tax effect:		
Non-taxable (gains) on equity investments	**(126,840)**	(51,861)
Foreign Investment Fund income	**46,232**	53,148
Prior period adjustment	**(194)**	(144)
Imputation credits	**(3,410)**	(2,788)
Withholding tax	**2,637**	2,566
Income tax expense/(benefit)	**48,567**	(52,373)
Income tax expense/(benefit) comprises:		
Current tax	**52,892**	2,519
Deferred tax	**(4,131)**	(54,748)
Prior period adjustment	**(194)**	(144)
Income tax expense/(benefit)	**48,567**	(52,373)
Movement in deferred taxation		
Opening balance	**50,927**	(3,821)
Prior period adjustment	**194**	–
Current year movement	**4,131**	54,748
Transfer to current tax	**(48,342)**	–
Deferred tax asset*	**6,910**	50,927

** The deferred tax asset includes $9.3 million relating to unused tax losses and tax credits and a deferred tax liability of $2.4 million on the Business System.*

	2023 $000	2022 $000
Movement in income tax receivable		
Opening balance	**17,525**	(94,077)
Current year movement	**(50,255)**	48
Prior period adjustment	**–**	144
Tax (refunds)/payments	**(9,951)**	110,500
Transfer from deferred tax	**48,342**	–
Withholding tax/Other	**724**	910
Income tax receivable	**6,385**	17,525

5. Government and employer contributions

	2023 $000	2022 $000
Government service superannuation contributions	**643,656**	691,160
Government Superannuation Fund Authority expenses	**42,979**	71,384
Judges and Solicitor-General superannuation contributions	**14,986**	14,436
Parliamentary superannuation contributions	**4,657**	4,621
Total Government contributions	**706,278**	781,601

Funding arrangements

There is no requirement on the Government to fully fund the GSF Schemes. The basis of funding to meet benefits is partly from contributors' contributions, and the surplus after-tax (when applicable), the balance being the contributions from the Government and non-departmental employers. Reliance is placed on the provisions in the GSF Act for the Government to ensure sufficient funds are available, or will be available, to pay benefits as they fall due.

GSF Schemes - Member contributions	% of salary
General Scheme (including Islands)	6.5
Armed Forces	7.6
Police	7.5
Prisons Service	8.5

GSF Schemes - Employer contributions***	1 July 2022 to 30 June 2023 % of salary	1 April 2021 to 30 June 2022 % of salary
General Scheme:		
- Non-funding employers*	16.4	16.2
- Funding except Islands (range)**	16.2 – 19.1	14.8 – 18.7
- Islands	17.3	16.5
Armed Forces	15.9	17.7
Police	15.0	15.9
Prisons Service	Nil	Nil

• *Non-funding employer contributions are paid by employers direct to the Crown.*

** *As the employer contribution rate is subject to age and gender of contributors, it is different from one employer to another and the range for the rates is provided.*

*** *Employer contribution rates are inclusive of ESCT, except for the Islands. The Crown receives contribution rates gross of ESCT. The Fund receives employer contributions net of ESCT.*

6. Benefits and refunds paid

	2023 $000	2022 $000
Benefits:		
Allowances capitalised	**14,256**	20,128
Pension entitlements	**799,082**	764,873
Spouses and children	**142,059**	135,146
Refunds:		
Cessation of membership	**371**	263
Death	**789**	1,293
Transfers to other schemes	**1,352**	517
Total benefits and refunds paid	**957,909**	922,220

7. Trade and other receivables

	2023 $000	2022 $000
Government contributions - expenses	**2,833**	4,382
Government contributions in arrears – benefits	**–**	248
Interest and dividends	**2,189**	2,758
Investment settlements receivable	**167,552**	154,166
Members' contributions	**247**	–
Other employers' contributions – benefits	**187**	–
Other employers' contributions – expenses	**192**	663
Past service contributions	**168**	397
Pension entitlements	**818**	831
Prepaid benefits	**342**	1,086
Total trade and other receivables	**174,528**	164,531

The Authority does not believe there are any financial assets past due at balance date and, therefore, there is no impairment.

8. Business system

The Business System is used for the administration of the GSF Schemes. It supports the core business functions of the GSF Schemes including contributions management, benefit calculation and payment, scheme administration, financial accounting and schemes reporting.

The Authority went live with the Business System in November 2016. Amortisation costs of $2.575 million are included within the operating expenses of the Fund (2022: $2.575 million). At year end the Business System was reviewed against NZ IAS 36: Impairment of Assets which resulted in no provision for impairment being made (2022: Nil).

9. Trade and other payables

	2023 $000	2022 $000
Benefits payable	**45**	33
Government contributions in advance – benefits	**5,076**	–
Government Superannuation Fund Authority	**3,189**	3,050
Investment settlements payable	**260,491**	186,690
Members' contributions	**–**	458
Other employers' contributions – benefits	**–**	390
Total trade and other payables	**268,801**	190,621

10. Actuarial valuations of the Fund

Statutory actuarial valuation

Section 94 of the GSF Act requires that the Authority must obtain a report from an actuary that examines the financial position of the Fund as at dates determined by the Minister of Finance, being dates that are no more than three years apart. On 22 August 1999, the Minister directed annual valuations be carried out.

The latest published statutory actuarial valuation was undertaken by the Authority's Actuary, Matthew Burgess, (FNZSA, FIAA), Towers Watson Australia Pty Ltd as at 30 June 2022.
The report was tabled in

Parliament on 21 March 2023. More information on the results of the valuation is provided in Note 11.

New Zealand International Accounting Standards NZ IAS 26 actuarial valuation

An actuarial valuation of the Fund was undertaken by the Authority's Actuary, Matthew Burgess, (FNZSA, FIAA), Towers Watson Australia Ltd as at 30 June 2023 to determine the value of the promised retirement benefits, in accordance with NZ IAS 26, for the Financial Statements of the Fund – refer Note 12.

11. Statutory actuarial valuation as at 30 June 2022

Details of the statutory actuarial valuation, as at 30 June 2022, are included for information only. The statutory actuarial valuation is used to determine the employer subsidy rates and to apportion entitlements between the Fund and Government.

Significant assumptions, used in the statutory valuation were:

- Discount rate/return on assets — 5.25% per annum (2021:5.0%)
- Consumer Price Index/pension increase (long term) — 2.0% per annum (2021:2.0%)
- Salary growth — 2.5% per annum (2021:2.5%)

Rates of mortality, morbidity and withdrawal are based on scheme experience, with that experience being used to adjust standard published tables where available.

11. Statistory actuarial valuation as at 30 June 2022 *(continued)*

The results of the 30 June 2022 statutory actuarial valuation are:

	2022 $ million	2021 $ million
Past service liabilities		
Armed Forces contributors	**4**	4
General Scheme contributors (excluding Islands)	**1,122**	1,341
General Scheme contributors (Islands only)	**59**	61
Police contributors	**125**	136
Prisons Service contributors	**8**	9
Judges and Solicitor-General, and Parliamentary	**–**	–
Pensioners	**10,380**	10,059
Deferred pensioners	**561**	604
Total past service liabilities*	**12,259**	12,214
Less value of Fund assets	**4,962**	5,218
Unfunded past service liability*	**7,297**	6,996

** Total may not add up due to rounding.*

Vested benefits are calculated as the amount payable in the event all contributors ceased membership as at the valuation date. The vested benefit values are shown in the following table, where contributors include the inactive members. The ratio of vested benefits to past service liabilities is also shown.

Schemes/Group **As a percentage of**	**2021** **$ million** **past service liability**	**2021** **$ million**	**2021**
Vested Benefits			
Contributors:			
Armed Forces	100%	4	4
General Scheme-excluding Islands	114%	1,281	1,490
General Scheme-Islands	108%	64	64
Police	100%	125	135
Prisons Service	100%	8	9
Judges and Solicitor-General and Parliamentary	-	-	-
Total Contributors	113%	1,483	1,702
Pensioners:			
Pensioners	100%	10,380	10,059
Deferred pensioners	100%	561	604
Total Pensioners	100%	10,941	10,664
Grand total	101%	12,424	12,366
Less net assets		4,962	5,218
Shortfall		7,462	7,148

** Total may not add up due to rounding.*

11. Statutory actuarial valuation as at 30 June 2022 *(continued)*

The Fund has been closed to new entrants since 1992. Members with 10 or more years' service are generally eligible to take an immediate or deferred retiring allowance on leaving the Fund. As a result, almost all members in the Fund can take either an immediate pension or a deferred retiring allowance.

The total value of these pensions for all members, as at the valuation date, is the vested benefits.

Members will retire at dates later than 30 June 2022. The pension they receive at their actual retirement date can be split into that part accrued at the valuation date and that which will accrue after the valuation date. The net asset value of the Fund was used as the actuarial value of the assets.

The valuation revealed the Fund was in deficit at the date of the valuation. The benefits payable from the Fund are underwritten by the Government. The Actuary determined that from 1 July 2023, the Government pays 67.4% of each benefit paid (2021 valuation, from 1 July 2022: 69.4%) less any amounts received from funding employers.

Employer contribution rates effective 1 April 2021, including employer superannuation contribution tax (**ESCT**) (if applicable), are as follows:

- for funding employers (employers of those contributors who are paid from money that is not public money) the employer contribution rate has been calculated on an employer by employer basis, based solely on the members employed by each employer;
- for employers that are the Public Services of the Cook Islands, Niue or Tokelau, the employer contribution rate is certified as 16.6% of contributor salaries; and
- for funding employers other than the Public Services of the Cook Islands, Niue or Tokelau, contributions are calculated on an employer by employer basis only on the contributors employed by that employer. The resulting employer rates are then smoothed to reduce the immediate impact of a change in valuation methodology. Contribution rates include ESCT and an allowance for expenses. A sample of average contribution rates at selected ages, before smoothing, is set out in the following table by age and gender.

Age	Males	Females
55	17.3%	17.4%
57	17.7%	17.8%
59	17.9%	18.0%
61	18.0%	18.1%
63	17.8%	17.9%
65	16.4%	16.6%
67	15.6%	15.5%
69	15.0%	15.1%
71	14.9%	14.9%

For non-funding employers (employers of those contributors who are paid from money that is public money) the employer contribution rate has been determined under a notional funding approach. The employer contribution rates including ESCT recommended in the statutory

11. Statistical actuarial valuation as at 30 June 2022 *(continued)*

actuarial valuation report as at 30 June 2022, effective from 1 July 2023 and after smoothing, are as follows:

- for the Armed Forces Scheme: a rate of 12.7% of contributor salaries;
- for the General Scheme: a rate of 13.9% of contributor salaries;
- for the Police Scheme: a rate of 8.6% of contributor salaries;
- for the Prisons Service Scheme: a rate of 0% of contributor salaries;
- for the Judges and Solicitor-General Scheme: an amount equal to the benefits payable; and
- for the Parliamentary Scheme: an amount equal to the benefits payable.

12. Gross liability for promised retirement benefits as at 30 June 2023

The Actuary has valued the promised retirement benefits in accordance with NZ IAS 26, as at 30 June 2023, for the purposes of the Fund's Financial Statements. Significant assumptions, used in the valuation, were:

- Discount rate/return on assets — 5.25% per annum
- Consumer Price Index/pension increase (long term) — 2.0% per annum
- Salary growth — 2.5% per annum

Movement in promised retirement/past service benefit liability	**2023 $ million**	**2022 $ million**
Opening gross promised retirement/past service benefit liability	**12,259**	12,361
Movements in liability		
Expected changes	**(318)**	(304)
Experience (gains)/losses	**365**	460
Assumption changes:		
Change in discount rate, Consumer Price Index and salary assumption	**337**	(259)
Change in demographic assumption (including mortality improvement)	**–**	–
Closing gross promised retirement/past service benefit liability	**12,643**	12,259

** Total may not add up due to rounding.*

Vested benefits – 30 June 2023

Vested benefits are calculated as the amount payable in the event all contributors ceased membership as at the valuation date. The vested benefit values, as at 30 June 2023, are shown in the following table, where contributors include the inactive members.

Vested benefits	**2023 $ million**	**2022 $ million**
Contributors	**1,320**	1,483
Pensioners:		
Current pensioners	**10,900**	10,380
Deferred pensioners	**560**	561
Total pensioners	**11,461**	10,941
Total vested benefits	**12,780**	12,424
Less net assets	**(5,146)**	(4,962)
Shortfall*	**7,634**	7,462

** Total may not add up due to rounding.*

13. Financial Instruments

13.1 Management of financial instruments

The investments of the Fund are managed on behalf of the Authority by specialist investment managers, which are required to invest the assets allocated for management in accordance with the terms of written investment management agreements. The Authority has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Authority's SIPSP.

JP Morgan Chase Bank acts as the global custodian on behalf of the Authority. They provide services including safekeeping of assets, settlement of trades, collection of investment income, and accounting for investment transactions.

13.2 Significant accounting policies

Details of the significant accounting policies and methods adopted are disclosed in Note 18 to the financial statements. These include the criteria for recognition, the basis of measurement, and the basis on which revenues and expenses are recognised in respect of each class of financial asset and financial liability. All policies have been applied consistently to all periods.

13.3 Capital risk management

The investment strategy, Reference Portfolio and Target Portfolio are reviewed regularly by the Authority, in conjunction with its advisers (see page 8). Management reviews, on behalf of the Authority, and generally on a monthly basis, the cash requirements and funding of the GSF Schemes, in the context of maintaining the Target Portfolio, and redeems or invests funds as appropriate.

13.4 Categories of financial instruments

The Fund recognises all financial assets and liabilities at fair value, or at amortised cost, as detailed in the Statement of Accounting Policies.

	2023 $000	**2022 $000**
Financial assets at fair value	**4,950,306**	4,627,552
Financial liabilities at fair value	**72,974**	190,835
Financial assets at amortised cost	**515,546**	636,288
Financial liabilities at amortised cost	**268,801**	190,621

13.5 Fair value measurements recognised in the statement of net assets

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets to identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the statement of net assets (continued)

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2023	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value				
Derivative financial assets	–	41,924	–	41,924
Insurance-linked assets				
North America	–	141,508	180,535	322,043
Investments in cash				
Asia & Australia	100,081	–	–	100,081
New Zealand	34,326	–	–	34,326
North America	1,566	–	–	1,566
Investments in equities				
Asia & Australia	309,157	–	–	309,157
Europe	339,190	–	–	339,190
New Zealand	269,193	–	164,603	433,796
North America	1,308,689	685,111	–	1,993,800
Rest of the world	9,444	–	–	9,444
Investments in bonds				
Asia & Australia	51,515	–	–	51,515
Europe	118,993	–	–	118,993
New Zealand	1,416	–	–	1,416
North America	357,562	–	–	357,562
Rest of the world	31,536	–	–	31,536
Investments in global private equity				
North America	–	–	803,957	803,957
	2,932,668	868,543	1,149,095	4,950,306
Financial liabilities at fair value				
Derivative financial liabilities	–	72,974	–	72,974
	–	72,974	–	72,974

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the statement of net assets (continued)

2022	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets at fair value				
Derivative financial assets	–	47,836	-	47,836
Insurance-linked assets				
North America	–	134,891	167,677	302,568
Investments in cash				
Asia & Australia	69,985	–	–	69,985
Europe	4,376	–	–	4,376
New Zealand	30,803	–	–	30,803
Rest of world	9,733	–	–	9,733
Investments in equities				
Asia & Australia	338,134	–	–	338,134
Europe	299,607	–	–	299,607
New Zealand	240,577	–	175,534	416,111
North America	1,129,482	711,108	–	1,840,590
Rest of the world	19,073	–	–	19,073
Investments in bonds				
Asia & Australia	63,288	–	–	63,288
Europe	91,882	–	–	91,882
New Zealand	1,488	–	–	1,488
North America	295,830	–	–	295,830
Rest of the world	27,081	–	–	27,081
Investments in global private equity				
North America	–	–	769,167	769,167
	2,621,339	893,835	1,112,378	4,627,552
Financial liabilities at fair value				
Derivative financial liabilities	–	190,835	–	190,835
	–	190,835	–	190,835

Movement of assets

There were no transfers of assets between level 2 and level 3 during the 2022 and 2023 financial years. Transactions during the year, within level 3 investments are outlined in the table below.

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the statement of net assets (continued)

2023 Level 3 Investments	Insurance Linked $000	Private Equity $000	Total $000
Opening balance Level 3	**167,677**	**944,701**	**1,112,378**
Purchases during the year	**252**	**106,311**	**106,563**
Gains(losses) for the year[1]	**22,490**	**(31,950)**	**(9,460)**
Less return of capital	**(9,884)**	**(50,502)**	**(60,386)**
Closing balance at 30 June 2023	**180,535**	**968,560**	**1,149,095**

2022 Level 3 Investments	Insurance Linked $000	Private Equity $000	Total $000
Opening balance Level 3	219,488	697,842	917,330
Purchases during the year	180	163,949	164,129
Gains for the year[1]	20,100	196,391	216,491
Less return of capital	(72,091)	(113,481)	(185,572)
Closing balance at 30 June 2022	167,677	944,701	1,112,378

[1] *Income and dividends for these investments are shown within the interest, dividends and other income category on the Statement of Changes in Net Assets. The changes in fair value are shown in the changes in fair value of investment assets through profit or loss in the Statement of Changes in Net Assets.*

Valuation techniques and inputs

For fair value measurements categorised within Level 2 and 3 of the fair value hierarchy, an entity is required to disclose a description of the valuation technique and the inputs used in the fair value measurement. These are disclosed below.

Financial Asset	Fair Value as at 30 June 2023		Fair Value as at 30 June 2022		Valuation technique	Significant unobservable input(s)	Relationship of unobservable inputs to Fair Value
	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000			
Derivative assets	**41,924**	**–**	47,836	–	Valuation is derived using forward pricing and swap models using present value calculations	Not applicable	Not applicable
International equities	**685,111**	**–**	711,108	–	Discounted cash flow techniques using account comparable markets and advice from specialised advisers	Investment Manager views regarding dividend payouts and macro-economic assumptions	More favourable assumptions increase the Fair Value of the investment

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the statement of net assets (continued)

Financial Asset	Fair Value as at 30 June 2023		Fair Value as at 30 June 2022		Valuation technique	Significant unobservable input(s)	Relationship of unobservable inputs to Fair Value
	Level 2 $000	Level 3 $000	Level 2 $000	Level 3 $000			
Insurance linked assets	**141,508**	**22,999**	134,891	22,552	Discounted cash flow techniques, option pricing models and comparable market valuations	Not applicable	Not applicable
					Internal Valuation Committee pricing through the utilisation of Broker dealer pricing sheets	Seasonality curves, catastrophe modelling and statistical analysis provided by independent third parties	The higher the curve the greater the Fair Value (and greater the risk)
Insurance linked assets - North America (Life Settlements)	**–**	**157,536**	–	145,125	Discounted cash flow techniques	Mortality multiples, market rates for life settlements practices and health circumstances	The higher the mortality multiple the higher the Fair Value
Private equity	**–**	**164,603**	–	175,534	Discounted cash flow and earnings multiple techniques	Revenue, earnings and associated valuation multiples, local market conditions and indicative quotes	The higher the latest sale returns and quotes of similar products the higher the Fair Value
Global private equity	**–**	**803,957**	–	769,167	Discounted cash flow and earnings multiple techniques	Revenue, earnings and associated valuation multiples, local market conditions and indicative quotes	The higher the latest sale returns and quotes of similar products the higher the Fair Value
Total	**868,543**	**1,149,095**	893,835	1,112,378			

13. Financial instruments *(continued)*

13.6 Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Fund's risk management and investment policies, approved by the Authority, seek to minimise the potential adverse effects of these risks on the Fund's financial performance.

These policies may include the use of certain financial derivative instruments to manage risk to within the approved limits.

The Authority outsources the investment management to specialist managers, who provide services to the Fund, co-ordinate access to domestic and international investment markets, and manage the financial risks relating to the operations of the Fund in accordance with investment mandates set and monitored by the Authority. The Fund invests 85% of the value of its investment assets (including cash) in a portfolio of equities and bond interest securities (2022: 85%).

Exposure to market risks is diversified by direct investment in private equity and insurance linked assets. The Fund also invests in derivative instruments such as futures and options.

The use of financial derivatives is governed by the Authority's SIPSP, which provides written policies on the use of financial derivatives. These policies permit the use of derivatives to change the Fund's exposure to particular assets where the use is consistent with the Authority's SIPSP. Compliance with policies and exposure limits is reviewed by the Authority on a continuous basis.

13.7 Credit risk

Credit risk (as defined in the SIPSP) is the risk of default by a counterparty to a particular transaction or an issuer of a security held in the portfolio. Credit ratings for the securities are monitored on a regular basis and credit rating ranges are agreed with all Investment Managers. The Authority measures credit risk on a fair value basis. Credit risk associated with receivables is considered minimal. The largest receivables balance is in relation to investments sold. It is the opinion of the Authority that the carrying amounts of the financial assets represent the maximum credit risk exposure at balance date.

The Fund considers that it has significant credit risk exposure where an investment exceeds 5% of its net assets. As at 30 June 2023, the Fund has two investments, with the same Manager, exceeding 5% of the net assets (2022: two). Processes are in place to monitor and manage these investments.

During the year the Fund continued securities lending as a means of earning additional income from its investments. As at 30 June 2023, the Fund had approximately $383 million (2022: $230 million) lent out to counterparties. These assets have remained in the name of the Fund and were lent out against specific collateral, including cash, provided by the borrower with loans collateralised to a minimum of 100% (2022: 101%) at the borrower level. The Fund has direct access to the collateral in the event of default.

13.8 Liquidity risk

The Authority's approach to managing liquidity for the Fund is to ensure that it will always have sufficient liquidity to meet the Fund's liabilities (including its share of the benefit payments), as they fall due. The Fund's listed equities and bond securities are considered to be realisable over a reasonable period of time, although with a market risk.

The Fund's liquidity risk is managed in accordance with the Authority's investment strategy. The Authority manages liquidity risk by maintaining cash, cash equivalents and short-term investments, and through the continuous monitoring of forecast and actual cash flows and by seeking to match the maturity profiles of financial assets and liabilities. The Authority's overall strategy to manage liquidity risk remains unchanged from the previous year.

The following tables summarise the maturity profiles of the Fund's financial liabilities based on contractual maturities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and based on the date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2023				
Unsettled purchases	**260,491**	**–**	**–**	**260,491**
Derivative liabilities	**61,406**	**4,587**	**6,981**	**72,974**
Other financial liabilities	**8,310**	**–**	**–**	**8,310**
Total	**330,207**	**4,587**	**6,981**	**341,775**

	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2022				
Unsettled purchases	186,690	–	–	186,690
Derivative liabilities	162,783	4,491	23,561	190,835
Other financial liabilities	3,931	–	–	3,931
Total	353,404	4,491	23,561	381,456

13.9 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk) and market prices (price risk). The Fund manages market risk by outsourcing its investment management; the investment managers manage the market risk in accordance with investment mandates.

Interest rate risk management

The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest instruments expose the Fund to fair value interest rate risk. The Authority monitors the Fund's exposure to interest rate risk.

The following tables detail the Fund's exposure to interest rate risk on financial assets, based on contractual maturities, at the financial statement date. Interest rate risk is managed by the investment managers.

13. Financial instruments *(continued)*

13.9 Market risk (continued)

Financial assets: Interest rate instruments

	Weighted average interest rate %	>12 months $000	1-5 years $000	5+ years $000	Total $000
2023					
Cash and cash equivalents	**2.59**	**341,018**	**–**	**–**	**341,018**
Bond securities	**3.36**	**22,580**	**124,347**	**414,095**	**561,022**
Total		**363,598**	**124,347**	**414,095**	**902,040**

	Weighted average interest rate %	>12 months $000	1-5 years $000	5+ years $000	Total $000
2022					
Cash and cash equivalents	0.16	471,757	–	–	471,757
Bond securities	2.42	26,950	142,382	310,237	479,569
Total		498,707	142,382	310,237	951,326

Interest rate sensitivity

A significant change to interest rates will have a significant effect on the value and income of many of the assets within the Fund. It is difficult to quantify the effect of a change in interest rates in many of the asset classes such as the equity portfolios. The assets directly affected by a change in interest rates would be the global bond assets and insurance linked assets.

The global bond portfolio has a benchmark duration of 6.8 years (2022: 7.0 years) and at the end of the year the portfolio was valued at $561 million (2022: $480 million). A 1% rise in interest rates would devalue the portfolio in the order of $38 million (2022: $34 million) (before tax) and conversely a 1% fall would increase the value by a similar amount.

The Fund hedges the foreign currency risk of its foreign assets back to New Zealand dollar (**NZD**) and has a benchmark of having 20% of the Fund in foreign currency. The Fund uses 3≈month forward contracts to hedge the foreign assets. These currency hedges are sensitive to the spread between 90 day interest rates in New Zealand and other foreign currencies. A 1% change in the spread will change the accrual of income in the order of $34 million (2022: $32 million) (before tax) over a year.

Foreign currency risk management

Foreign currency risk is the risk that the market value of a financial instrument will fluctuate because of changes in exchange rates.

The Fund undertakes certain transactions and holds investment assets denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Foreign currency exposures are managed within approved policy limits and parameters set out in the SIPSP. The Fund enters into contracts designed to hedge some of its exposure to foreign currencies.

The Authority has a benchmark exposure to foreign currencies of 20% (2022: 20%) of the total Fund on a before tax basis. The Authority adjusts the Fund's foreign currency exposure in accordance with defined tilting rules that reflect the prevailing valuation of the NZD. The strategy is implemented by adjusting the hedge ratio on the international equities' portfolio.

Asset Class	Before-tax Benchmark Hedge Ratio
Style Premia Fund	100.0%
Catastrophe insurance	100.0%
Global bonds	100.0%
International equities	90.3%
Life settlements	100.0%
Global private equity	0.0%

The Fund's total exposure to foreign currencies at the reporting date (after hedging) before tax was $1,183 million (2022: $1,219 million). The Fund's foreign exchange exposure, before taking into account hedging was $4,472 million (2022: $4,181 million).

Foreign currency sensitivity

The Fund is mainly exposed to the United States dollar (**USD**), Hong Kong dollar, and the Australian dollar. (2022: USD, Hong Kong dollar and the Japanese Yen).

For international equities and Insurance linked assets the foreign currency exposure is hedged by a specialist manager back to the NZD within the limits approved by the Authority. The bond managers are responsible for managing the exposure to other currencies back to the NZD, within the terms of their individual investment mandates. The following table details the Fund's sensitivity to a 5 per cent decrease in the NZD on the unhedged exposure to foreign currencies.

	Changes in NZD	Effect on (deficit)/surplus after-tax and before membership activities	
		2023 $000	2022 $000
Exchange rate risk	- 5%	**42,601**	43,887

When the NZD weakens against other currencies there is an increase in the surplus after tax (and before membership activities). For a strengthening of the NZD against other currencies there would be an equal and opposite impact on the surplus, and the amounts above would be negative.

There have been no changes in the methods and assumptions used to prepare the foreign currency sensitivity analysis from the prior year.

Market price risk

Market price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment or its issuer, or to factors affecting all instruments traded in the market. The Fund has investments in equity instruments, bond instruments and derivative financial instruments, which expose it to price risk. The investment managers manage the other market risk in accordance with the Authority's SIPSP and their mandates.

As the Fund's financial instruments are carried at fair value, with changes in fair value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect investment income.

13. Financial instruments *(continued)*

13.9 Market risk (continued)

The following table illustrates the effect on the operating revenue and net assets from possible long term changes in market price risk on equities that the Fund was exposed to at reporting date:

	Changes in variable	Effect on surplus/(deficit) after-tax and before membership activities	
		2023 $000	**2022 $000**
Market price risk	+ 5%	**140,016**	132,576

14. Related parties

In terms of sections 81W (2), 88(2) and 95(1) of the GSF Act, the Minister of Finance pays into the Fund out of public money any deficiency in benefits payable to contributors and annuitants. During the year the Fund had business transactions with the Government, Crown Entities, and State-owned Enterprises, together with a number of other public sector entities.

The Authority manages the Fund's assets and administers the GSF Schemes. For the year ended 30 June 2023, the Fund transferred $44,308,000 (2022: $73,592,000) to the Authority for operating expenses, as detailed in the Statement of Changes in Net Assets. In turn, the Fund was reimbursed by the Government for 97% being $42,979,000 (2022: 97% being $71,384,000) and other employers for 3% being $1,329,000 (2022: 3% being $2,208,000). As at 30 June 2023 $3,189,000 was payable by the Fund to the Authority for expenses incurred but not yet paid (2022: $3,050,000).

15. Actual versus forecasts

The Fund recorded a profit (before expenses and membership activities) of $505.681 million for the year ended 30 June 2023. This is against forecasted revenue of $350.360 million. The surplus before tax and membership activities was $461.373 million. This is against a forecasted surplus of $302.530 million.

In setting the forecasts, we use long term return estimates. The Fund's primary exposure is to Global equities, and for the year ended 30 June 2023, the actual returns far exceeded our long-term estimates. Consequently, this has resulted in a higher change in the fair value of investments assets compared to that initially forecasted.

Membership activities resulted in a deficit of $228.846 million against a forecast deficit of $224.000 million. The forecast benefit payments are actuarially estimated and are dependent on factors such as inflation, early retirements, redundancies, unexpected salary changes, or transfers to other superannuation schemes.

The overall result of the Fund was an increase in net assets of $183.960 million against a forecasted increase of $8.385 million.

16. Contingent assets, liabilities and capital commitments

As at 30 June 2023 capital commitments were in place for multiple investment managers. These are summarised as follows:

	2023 $000	2022 $000
Non-cancellable contractual commitments		
Less than one year	**296,684**	302,478
Between one and two years	**267,473**	292,072
Total non-cancellable contractual commitments	**564,157**	594,550

There are no contingent assets or liabilities (2022: Nil).

17. Subsequent events

There have been no material events subsequent to balance date requiring amendments to these financial statements.

18. Statement of Accounting Policies

The following significant policies have been applied in the preparation of the Financial Statements:

18.1 Reporting entity and statutory base

The Financial Statements of the Government Superannuation Fund (**the Fund**) are prepared pursuant to section 93 of the Government Superannuation Fund Act 1956 (**GSF Act**) and incorporate the Judges and Solicitor-General Superannuation Account and the Parliamentary Superannuation Account.

The Fund was established by section 13 of the GSF Act. It consists of various defined benefit superannuation schemes (**GSF Schemes**), as prescribed in the GSF Act. Pursuant to section 19H of the GSF Act, the GSF Schemes are treated as being registered on the managed investment schemes register under the Financial Markets Conduct Act 2013.

Reporting requirements

The Financial Statements have incorporated the requirements of *NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans,* with the provisions of relevant legislative requirements. The Fund is a profit-oriented entity domiciled in New Zealand.

18.2 Statement of compliance

The Financial Statements have been prepared on a going concern basis in accordance with Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**), applying the New Zealand equivalents to International Financial Reporting Standards, and its interpretations (**NZ IFRS**), as appropriate for profit-oriented entities. The Financial Statements comply with International Financial Reporting Standards (**IFRS**).

18.3 Critical accounting estimates and judgements

The preparation of financial statements, in conformity with NZ IFRS, requires judgements, estimates and assumptions to be made that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

18. Statement of Accounting Policies *(continued)*

18.3 Critical accounting estimates and judgements (continued)

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revisions affect both current and future years.

Further detail on the material assumptions or major sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying amounts of assets are discussed in Note 13 (Financial Instruments). As with all investments their value is subject to variation due to market fluctuations. Receivables have been valued in accordance with NZ IFRS 9. Under this standard the Fund has adopted the simplified expected credit loss model for the current and prior year.

Significant judgement has been applied in the measurement of financial assets and by the Actuary in preparing the valuation reports. Further detail of the actuarial valuations is provided in Notes 11 and 12.

18.4 Measurement base

The measurement base adopted is that of historical cost, except for investment assets, including derivatives, which are measured at fair value.

18.5 Presentation and functional currency

The Fund is located in New Zealand, and the performance of the Fund is measured and reported in NZD, rounded to thousands (**$000**) except as indicated. These Financial Statements are presented in NZD as that is the currency of the primary economic environment in which the Fund operates. The Fund's presentational and functional currency is therefore NZD.

18.6 Accounting policies

The following particular accounting policies, which materially affect the measurement of changes in net assets, net assets and cash flows have been adopted in the preparation of the Financial Statements.

Investment income

Interest income is recognised using the effective interest rate of the instrument. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Realised and unrealised gains or losses on financial instruments are recognised in the Statement of Changes in Net Assets. Interest income on assets, designated at fair value, is accrued at balance date. Dividend income is recognised in the Statement of Changes in Net Assets on the ex-dividend date.

Benefits

Benefits are recognised in the Statement of Changes in Net Assets when they become payable.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

Foreign currencies

Transactions in currencies, other than NZD, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities, denominated in foreign currencies, are retranslated at the rates prevailing on balance date. Gains and losses arising on translation are included in the Statement of Changes in Net Assets for the year.

Expenses

All expenses other than benefits, recognised in the Statement of Changes in Net Assets, are accounted for on an accrual basis.

Tax

For taxation purposes, the Fund is classified as a portfolio investment entity (**PIE**). The income tax expense represents the sum of the tax liability for the year and includes deferred tax (if any). The taxation currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax, as reported in the Statement of Changes in Net Assets, because it excludes items of income or expense that are never taxable or deductible, and it further excludes items that are taxable or deductible in other years.

Gains and losses on equities are non-taxable to the Fund. Taxable profit also requires that the Fair Dividend Rate (**FDR**) calculation method be applied to investments in overseas equities, which deems taxable income to arise regardless of the increase or decline in value of the investments. The Fund's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Net Assets when the Fund becomes a party to the contractual provisions of the instruments. The Fund offsets financial assets and financial liabilities if the Fund has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis. The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled, or expires.

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract, whose terms require delivery within the timeframe established by the market concerned and are initially measured at fair value. Investments are designated at fair value.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

Fair values are determined by taking into account accrued interest on all applicable securities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets, designated at fair value, are measured at subsequent reporting dates at fair value, which is the exit price on the exchange on which the investment is quoted without any deduction for future selling costs. If a quoted market price is not available on a recognised stock exchange, the fair value of the instrument is estimated using accepted valuation techniques. Investments in units of pooled investment funds are valued at the closing price, or the value advised by the relevant investment manager.

Included within the financial statements there are $1,039.873 million of investments which have been valued using 31 March 2023 valuations as opposed to 30 June 2023 valuations. These are private equity and life settlements investments. No adjustments have been made to allow for the three month valuation delay.

Government Superannuation Fund Business System

All directly attributable costs, (less a previous allowance for impairment), for the Government Superannuation Fund Business System (**Business System**) have been capitalised. The Business System went live in November 2016. Amortisation of the capital costs began at that time.

Securities lending

Securities lending transactions are collateralised by securities or cash. The transfer of the securities to counterparties is only reflected in the Statement of Net Assets if the risks and rewards of ownership are also transferred. Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third-party agent. Recourse of those securities is only available in the event of default by the borrower and, as such, the non-cash collateral is not recognised in the Statement of Net Assets. Collateral advanced by the borrower in the form of cash is recognised in the Statement of Net Assets as an asset, along with a corresponding liability to repay the cash collateral to the borrower, once the securities have been returned.

Impairment

Financial assets that are stated at amortised cost are reviewed at balance date to determine whether there is objective evidence of impairment. Expected credit losses are reviewed at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

The Business System, referred to in Note 8 to the financial statements, has been reviewed for impairment against NZ IAS 36: Impairment of Assets, and no allowance for impairment was made in the current year.

Trade and other receivables

Trade and other receivables are carried at amortised cost and may include sales of securities and investments that are unsettled at balance date and may also include dividends and interest. Dividends and distributions are accrued when the right to receive payment is established. Interest is accrued at balance date from the time of last payment.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

Trade and other payables

Trade and other payables are not interest-bearing and are carried at amortised cost. Any outstanding balances are recorded on trade date and settled according to their terms of trade. Purchases of securities and investments, that are unsettled at balance date, are included in payables.

Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose values are derived from changes in one or more underlying financial instruments or indices. The Fund's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates. The Fund may use foreign exchange forward contracts, index futures and interest rate swap contracts to manage these exposures.

Derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently re-measured at each balance date using either quoted sales prices or appropriate valuation techniques. Any gains or losses are taken to the Statement of Changes in Net Assets in the period in which they occur. Transaction costs are expensed on initial recognition.

The use of financial derivatives is governed by a SIPSP, approved by the Board, which includes written policies on the use of financial derivatives. The Fund does not adopt hedge accounting.

Goods and Services Tax

The Fund is not registered for Goods and Services Tax (**GST**). All components of the Financial Statements are stated inclusive of GST where appropriate.

18.7 Forecast figures

The forecast figures are those presented in the Fund's 2022 Statement of Performance Expectations, being for the period 1 July 2022 to 30 June 2023. The forecast figures were prepared in accordance with the accounting policies adopted by the Fund for the preparation of the Financial Statements.

18.8 Standards issued but not yet effective

Certain new accounting standards and interpretations have been issued that are not mandatory for 30 June 2023 reporting periods and have not been adopted early by the Fund. The largest change to affect the financial statements next year will be the adoption of the Climate related financial disclosures. These will not have a material financial impact on the Fund when they are adopted however will require considerable work in order to meet the standard.

18.9 Consistency in presentation

The same presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Fund's Financial Statements for the year ended 30 June 2022.

18.10 Changes in accounting policies and disclosures

There have been no material changes to accounting policies during the year.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF GOVERNMENT SUPERANNUATION FUND'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of Government Superannuation Fund (the Fund). The Auditor-General has appointed me, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements of the Fund on his behalf.

Opinion

We have audited the financial statements of the Fund on pages 36 to 66, that comprise the Statement of Net Assets as at 30 June 2023, the Statement of Changes in Net Assets, the Statement of Cash Flows and the Statement of Changes in Deficit for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion the financial statements of the Fund on pages 36 to 66:

- present fairly, in all material respects:
  - its financial position as at 30 June 2023 and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Our audit was completed on 6 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Government Superannuation Fund Authority (the Board) and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of promised retirement benefits and unfunded deficit (Note 12) In 1999, the Minister directed annual valuations to be carried out in accordance with Section 94 of the Government Superannuation Fund Act 1956. As disclosed in Note 12 of the financial statements, the Fund obtained an actuarial valuation as at 30 June 2023 which estimated the gross promised retirement benefit at $12,780 million and a vested benefits shortfall of $7,634 million. As disclosed in the Statement of Changes in Deficit, the unfunded deficit at 30 June 2023 amounted to $7,497 million. The actuarial valuation is inherently subjective and is affected by use of assumptions such as: • the rate of return on assets; • the rates of salary growth; and • the rates of pension increases. The return on assets and salary growth assumptions remained unchanged when compared to the prior year. Pension increases were adjusted to reflect the current Consumer Price Index inflation, however, they remained unchanged in the long-term. As noted in Note 5 of the financial statements, there is no requirement on the Government to fully fund the Fund. Reliance is placed on the provisions in the Government Superannuation Fund Act 1956 for the Government to ensure that sufficient funds are available, or will be available, to pay benefits as they fall due. We have included the valuation of the Fund's gross liability for promised retirement benefits that has resulted in the unfunded deficit as a key audit matter due to its significance to the financial statements and the subjectivity of the assumptions inherent in estimating the amount of promised retirement benefits.	Our audit procedures included the following: • Evaluating the Fund's controls over benefits and contributions; • Testing the underlying data provided to the actuary and confirming that these agree to the underlying records; • Evaluating the professional competence and objectivity and relevant experience of the Fund's actuary; • Engaging our internal actuarial specialist to independently understand, challenge and evaluate: – the work and findings of the Fund's actuary; – the actuarial methods and assumptions employed, specifically the rate of return on assets, rates of salary growth and the rates of pension increases. • Evaluating the related disclosures about the Funds' unfunded liability, and the risks attached to them which is included in Note 12 to the Fund's financial statements; and • Assessing the related disclosures covering the Fund's actuarial deficit and any plan by the Crown to fund benefit payments as they fall due. As a result of the above procedures, we are satisfied that the valuation, key assumptions applied and the disclosures included in Note 12 are reasonable.

Key audit matter	How our audit addressed the key audit matter
Valuation of level 3 investments (Note 13.5) As disclosed in Note 13.5 of the financial statements, the Fund has investment assets measured at level 3 fair value measurement consisting of insurance linked assets, private equities and global private equity. These investment assets are managed by fund managers in accordance with the Fund's investment policies, standards and procedures. At 30 June 2023, the fund reported level 3 investment assets of $1,149 million. Level 3 investment assets are those that are measured using valuation techniques (as detailed in Note 13.5) that include inputs that are derived from non-observable market data, which requires judgement. Due to the judgements involved in valuing the level 3 investments, the valuation of these investments at 30 June 2023 has been identified as a key audit matter.	Our audit procedures included the following: • Testing internal controls in place over the valuation of investments, which includes: – the fund managers and the custodian's compliance statements to the Board; and – the review by management of the tolerance reconciliations provided by the custodian. • Obtaining an understanding of the valuation techniques and inputs used by the respective fund managers to determine the fair value of the investments; • Performing a trend analysis by fund manager to analyse the movement in price and unit holdings; • Reconciling the level 3 investments to the latest valuation reports and performing procedures where these valuation reports predate year end (refer Note 18.6 – Investments); including obtaining updated valuations from the fund managers. The reasonableness of any movements between the last valuation date and 30 June 2023 was assessed; and • Assessing the reasonableness of the disclosures required for level 3 financial instruments in the financial statements. As a result of the above procedures, we are satisfied that the valuation, key judgements applied and the disclosures included in Note 13.5 are reasonable.

Responsibilities of the the Board for the financial statements

The Board is responsible on behalf of the Fund for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible on behalf of the Fund for assessing the Fund's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Fund, or there is no realistic alternative but to do so.

The Fund's responsibilities arise from the Government Superannuation Fund Act 1956 and the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements.

For the forecast information reported in the financial statements, our procedures were limited to checking that the information agreed to the Fund's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the information included on page 3 to 32, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Fund in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of *Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests, in the Fund.

Silvio Bruinsma, Partner

For Deloitte Limited
On behalf of the Auditor-General

Auckland, New Zealand

Statement of Responsibility

The Financial Statements of the Authority, for the year ended 30 June 2023, have been prepared in accordance with section 154 of the Crown Entities Act.

The Board is responsible for the preparation of the Financial Statements and the Statement of Service Performance, and for the judgements made in them.

The Board confirms that internal control systems have been established and maintained during the period to provide reasonable assurances as to the integrity and reliability of the financial and non-financial reporting.

In our opinion, the Statement of Service Performance set out on pages 19–25 clearly reflects the objectives of the Authority. The attached Financial Statements for the financial year fairly present the financial position, as at 30 June 2023, and the operations and cash flows of the Authority for the year ended 30 June 2023.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

Michael Sang
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

6 September 2023

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Revenue				
Interest received		**62**	10	26
Transfer from the Government Superannuation Fund	1	**44,308**	47,830	73,592
Total revenue		**44,370**	47,840	73,618
Expenses				
Schemes administration		**6,145**	6,333	6,151
Investment management and custody	2	**33,879**	37,154	63,128
Operating	3	**4,346**	4,353	4,339
Total expenses		**44,370**	47,840	73,618
Net profit for the year		**–**	–	–
Other comprehensive income		**–**	–	–
Total comprehensive income for the year		**–**	–	–

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Financial Position

As at 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Equity				
General fund		**–**	–	–
Total equity		**–**	–	–
Represented by:				
Current assets				
Cash and cash equivalents		**712**	350	1,078
Trade and other receivables	4	**3,374**	4,050	3,130
Total current assets		**4,086**	4,400	4,208
Total assets		**4,086**	4,400	4,208
Current liabilities				
Trade and other payables	5	**4,086**	4,400	4,208
Total current liabilities		**4,086**	4,400	4,208
Net assets		**–**	–	–

The Financial Statements were approved by the Board on 6 September 2023.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

Michael Sang
Chair
Audit & Risk Review Committee
Government Superannuation Fund Authority Board

6 September 2023

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Cash flows from operating activities[1]				
Cash was provided from:				
Government Superannuation Fund[2]	1	**8,000**	8,000	9,000
Interest		**62**	10	26
		8,062	8,010	9,026
Cash was disbursed to:				
Total expenses[2]		**(8,428)**	(8,510)	(8,235)
Net cash flows (applied to)/from operating activities		**(366)**	(500)	791
Net (decrease)/increase in cash held		**(366)**	(500)	791
Opening cash and cash equivalents		**1,078**	850	287
Closing cash and cash equivalents[3]		**712**	350	1,078

[1] *Operating activities include all receipts of revenues and interest income, and payments of expenses.*

[2] *The Statement of Cash Flows has been completed on a basis that reflects the cash receipt/payments from the Authority bank account.*

[3] *Cash and cash equivalents consist of a current account held with the Bank of New Zealand Limited, used in the day-to-day cash management of the activities of the Authority.*

Reconciliation of net operating result to net cash flows from operating activities

	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Net operating result	**–**	–	–
Movements in working capital items:			
Trade and other receivables	**(244)**	(300)	899
Trade and other payables	**(122)**	(200)	(108)
Net cash flows (applied to)/from operating activities	**(366)**	(500)	791

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Statement of Changes in Equity

For the year ended 30 June 2023

	2023 $000 Actual	2023 $000 (unaudited) Forecast	2022 $000 Actual
Equity at beginning of the year	–	–	–
Total comprehensive income for the year	–	–	–
Equity at end of the year	**–**	**–**	**–**

This statement is to be read in conjunction with the Statement of Accounting Policies and the Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2023

1. Transfer from the Government Superannuation Fund

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund.

2. Investment Management and Custody Expenses

	2023 $000	2022 $000
Custody expenses	**1,414**	1,624
Investment management expenses	**32,465**	61,504
Total investment management and custody expenses	**33,879**	63,128

3. Operating Expenses

	2023 $000	2022 $000
Audit of financial statements	**304**	274
Board fees and expenses	**282**	328
Management fees – Annuitas	**2,885**	2,935
Other expenses	**875**	802
Total operating expenses	**4,346**	4,339

4. Trade and Other Receivables

	2023 $000	2022 $000
Annuitas Management Limited	**100**	–
Government Superannuation Fund	**3,189**	3,050
Other receivables and prepayments	**85**	80
Total trade and other receivables	**3,374**	3,130

5. Trade and Other Payables

	2023 $000	2022 $000
Annuitas Management Limited	**–**	176
Investment management and custody expenses	**3,302**	3,313
Professional services and operating expenses	**769**	688
Other creditors	**15**	31
Total trade and other payables	**4,086**	4,208

6. Financial Instruments

6.1 Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Authority, causing the Authority to incur a financial loss. Financial instruments, which potentially subject the Authority to credit risk, consist principally of cash, cash equivalents and receivables. The Authority has a minimal credit risk in its holdings of these. The Authority does not require any collateral or security to support financial instruments.

There is no significant concentration of credit risk other than amounts due from the Fund, which in turn is funded by the Government in terms of section 15E of the Act.

The maximum amount of credit risk for each class is the carrying amount in the Statement of Financial Position.

6.2 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Transactions in overseas currencies are recorded in NZDs at the rates of exchange prevailing on the date of payment. The total exposure to currency risk is minimal.

6.3 Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Authority has no significant interest rate risk.

6.4 Liquidity Risk

The Authority manages liquidity risk by maintaining cash and cash equivalents and through the continuous monitoring of forecast and actual cash flows. The Authority's overall approach to liquidity risk remains unchanged from the previous year.

All the Authority's financial liabilities are expected to be paid within the next 12 months.

6.5 Fair Values

The fair values of financial instruments are equivalent to the carrying amounts disclosed on the Statement of Financial Position.

7. Board Fees

Board members were paid the following fees during the year[1]:

	2023 $	2022 $
Anne Blackburn, Chair	**61,600**	61,600
Murray Brown	**38,962**	38,962
Angela Foulkes	**30,800**	30,800
Alison O'Connell, retired 30 April 2023	**32,083**	38,500
Michael Sang	**33,880**	33,880
Hugh Stevens, appointed 26 May 2023	**3,829**	–
Sarah Vrede	**30,800**	30,800
Total Board fees	**231,954**	234,542

[1] *Board Members' fees are determined by the individual's position on the Board. They also differ because some members charge GST.*

The Authority also met Board members' direct travel and other related expenses. Travel and other expenses totalled $20,465 in 2023 (2022: $10,082). The Authority continued with directors and officers insurance cover for Board members, and company reimbursement insurance in respect of any claims made by them, under indemnities provided by the Authority. The total cost of the insurance for the year was $18,780 (2022: $17,235).

8. Related Party Information

The Authority is an autonomous Crown entity.

The principal function of the Authority is to manage and administer the Government Superannuation Fund (**GSF**) and the associated GSF Schemes. For the year ended 30 June 2023, the Authority received $44,308,000 (2022: $73,592,000) for operating expenses as detailed in the Statement of Comprehensive Revenue and Expense. As at 30 June 2023, $3,189,000 was due from GSF for expenses incurred (2022: $3,050,000).

The Authority also entered into various transactions with Government entities on an arm's length basis in the normal course of business. The Authority continued with the resource sharing agreement with NZ Super Fund to work jointly on Responsible Investing Policies.

As at 30 June 2023 the Authority had appointed the Board Chair, Anne Blackburn, and the Deputy Chair, Hugh Stevens, as directors of Annuitas. The costs of running Annuitas are shared between the Authority and the National Provident Fund on an equitable basis, as agreed between the two parties. The Authority paid fees for this service during the year amounting to $2,885,000 (2022: $2,935,000). The amount owed by Annuitas to the Authority at year end was $100,000 (2022: $176,000 owed by the Authority to Annuitas).

The Board, through Management, monitors the performance of the external managers, appointed by the Authority to provide services to the Authority, and their adherence to the terms of their contracts, and co-ordinates actuarial, communications, legal and taxation services for the Authority.

There were no transactions between the Board members as individuals and the Authority, other than the payment of fees or expenses. There were no individual transactions with Management other than for the reimbursement of expenses.

9. Actual Versus Forecast

Investment revenues are subject to the volatile nature of investment markets, this being the main reason for the variance between the forecast and actual changes in fair value of investment assets (within the Fund).

For the year ended 30 June 2023, the Transfers from the Fund were $44.308 million compared to a forecast of $47.830 million. The main reason for the lower than budgeted number is the lower than forecast management and performance fees paid to Investment Managers. These fees were generally lower because of the lower market performance in the earlier part of the year and changes in asset allocation against that forecast.

10. Contingent Assets and Liabilities

There are no contingent assets or liabilities at 30 June 2023 (2022: Nil).

11. Commitments

The Authority has commitments for the administration of the GSF Schemes, the provision of professional services, and for the provision of Management services from Annuitas. These commitments are summarised as follows:

	2023 $000	2022 $000
Non-cancellable contractual commitments		
Less than one year	**5,834**	6,160
Between one and two years	**3,633**	5,586
Between two and five years	**2,885**	3,762
Total non-cancellable contractual commitments	**12,352**	15,531

In terms of section 15E (1) of the GSF Act, the administrative expenses of the Authority are reimbursed by the Fund. The expenses referred to in the above table are therefore reimbursed by the Fund as they are incurred.

12. Subsequent Events

There have been no material events after balance date that require adjustments to, or disclosure in, the financial statements (2022: Nil).

13. Statement of Accounting Policies

The following significant policies have been applied in the preparation of the Financial Statements:

13.1 Reporting Entity

The Government Superannuation Fund Authority (**the Authority**) was established in October 2001, as a Crown entity by section 15A of the Government Superannuation Act 1956 (**GSF Act**) (and subsequent amendments) and became an autonomous Crown entity under the Crown Entities Act 2004 in January 2005.

The Authority's primary function is to manage the Government Superannuation Fund (**the Fund**) and administer the GSF Schemes. The Authority does not operate to make a financial return and is domiciled in New Zealand.

The Authority has designated itself as a public benefit entity (**PBE**) for financial reporting purposes.

Separate Financial Statements have been prepared for the Fund in terms of section 93 of the GSF Act.

13.2 Basis of Preparation

The financial statements have been prepared on a going concern basis. All accounting policies, have been applied consistently to all periods. As required, comparative disclosure notes have been changed to reflect up to date assessments and consistency.

Statement of Compliance

The financial statements of the Authority have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (**NZ GAAP**). The financial statements have been prepared in accordance with Tier 1 Public Sector PBE accounting standards and comply with those standards.

Presentation Currency and Rounding

The financial statements are presented in NZD and all values are rounded to the nearest thousand (**$000**).

Standards Issued but not Effective

Certain new accounting standards and interpretations have been issued that are not mandatory for 30 June 2023 reporting periods and have not been adopted early by the Authority. None of these standards are likely to have a material impact on the Authority when they are adopted. All standards will be adopted in the period in which they become mandatory.

13.3 Measurement Base

The measurement base adopted is that of historical cost.

13.4 Accounting Policies

The following particular accounting policies have been consistently applied in the preparation of the Financial Statements.

Revenue

Revenue is recognised on an accrual basis. Interest income is accrued at balance date using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Expenses

All expenses recognised in the Statement of Comprehensive Revenue and Expense are accounted for on an accruals basis.

Foreign Currencies

Transactions in overseas currencies are recorded in NZD at the rates of exchange prevailing on the dates of the transactions with any currency gain or loss included in the Statement of Comprehensive Revenue and Expense.

Tax

In terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

Financial Instruments

Financial instruments include both financial assets and financial liabilities. The Authority recognises a financial asset or a financial liability on the date the Authority becomes a party to the contractual provisions of the instrument. Financial assets include bank term deposits (if applicable), receivables from related parties and other receivables. Financial liabilities, measured at amortised cost, include trade, and other payables.

Measurement

Financial assets, classified as receivables, and other financial liabilities, are initially measured at fair value and subsequently carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Goods and Services Tax

As the Authority manages superannuation schemes, its supplies are largely exempt for Goods and Services Tax (**GST**) purposes. GST is payable on certain overseas fees that would otherwise be subject to GST if received in New Zealand. GST on these items is included within operating expenditure on the Statement of Comprehensive Revenue and Expense.

Impairment

All assets are reviewed at balance date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Derecognition

The Authority derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach.

Accounting for Joint Ventures

The Authority and the Board of Trustees of the National Provident Fund (**NPF**) have formed a joint venture company, Annuitas Management Limited (**Annuitas**). Each organisation has entered into a management services agreement with Annuitas. The Authority has a 50% ownership in Annuitas, but does not equity account for Annuitas as this is deemed to be immaterial. The authorised, issued and paid up capital of Annuitas is $2.

13.5 Forecast Figures

The forecast figures are those approved by the Board at the beginning of the period and presented in the Authority's Statement of Performance Expectations for the year commencing 1 July 2022. The forecast figures were prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted by the Board for the preparation of the Financial Statements.

13.6 Changes in Accounting Policies

There have been no material changes to accounting policies during the year.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF GOVERNMENT SUPERANNUATION FUND AUTHORITY'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of Government Superannuation Fund Authority (the Authority). The Auditor-General has appointed me, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information, of the Authority on his behalf.

Opinion

We have audited:

- the financial statements of the Authority on pages 74 to 84, that comprise the Statement of Financial Position as at 30 June 2023, the Statement of Comprehensive Revenue and Expense, the Statement of Cash Flows and the Statement of Changes in Equity for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information of the Authority on pages 19 to 25.

In our opinion:

- the financial statements of the Authority on pages 74 to 84:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2023; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards; and
- the performance information on pages 19 to 25:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2023, including:
  - for each class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 6 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Government Superannuation Fund Authority Board (the Board) and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board for the financial statements and the performance information

The Board is responsible on behalf of the Authority for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board is responsible on behalf of the Authority for assessing the Authority's ability to continue as a going concern. The Board is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Authority, or there is no realistic alternative but to do so.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Government Superannuation Fund Act 1956.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the forecast information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Authority's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- We evaluate the appropriateness of the reported performance information within the Authority's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board is responsible for the other information. The other information comprises the Annual Report, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Authority in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of *Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Authority.

Silvio Bruinsma, Partner

For Deloitte Limited
On behalf of the Auditor-General

Wellington, New Zealand

Directory

As at 6 September 2023

Government Superannuation Fund Authority Board

Anne Blackburn *(Chair)*
Murray Brown
Angela Foulkes
Michael Sang
Hugh Stevens *(Deputy Chair)*
Sarah Vrede

Management

Annuitas Management Limited

Tim Mitchell	Chief Executive and acting General Manager, Investments
Fiona Morgan	Chief Financial Officer
Anthony Halls	Chief Investment Officer
Hadyn Hunt	Chief Risk Officer
Philippa Drury	General Manager, Schemes

Executive Office

Level 12, The Todd Building
95 Customhouse Quay
P O Box 3390
Wellington 6140

Schemes Administrator

Datacom Connect Limited

Custodian

JP Morgan Chase Bank

Tax Adviser

PricewaterhouseCoopers New Zealand

Actuary

Matthew Burgess, Towers Watson Australia Pty Ltd

Auditor

Silvio Bruinsma, Deloitte Limited (on behalf of the Auditor-General)

Bankers

Bank of New Zealand Limited *(Authority)*
ANZ Bank New Zealand Limited *(Fund)*

Legal Adviser

DLA Piper New Zealand

INVESTMENT MANAGERS

Overlay Manager

State Street Global Advisors, Australia, Limited

Global Bonds

Brandywine Global Investment Management, LLC
Pacific Investment Management Company, LLC
PGIM, Inc. *(appointed 1 September 2022)*

Insurance-Life Settlements

Apollo Global Management, LLC
Credit Suisse Securities (Europe) Limited

Insurance – Catastrophe

Fermat Capital Management, LLC
Nephila Capital Ltd

Global Equities

Ardevora Asset Management LLP
Arrowstreet Capital, Limited Partnership
Hyperion Asset Management Limited
Lazard Asset Management, LLC
Pzena Investment Management, LLC
Qtron Investments LLC
T.Rowe Price Australia Limited

Global Private Equity

Makena Capital Management (Cayman), LLC
StepStone Group, LP

New Zealand Equities

Devon Funds Management
Harbour Asset Management Limited
New Zealand Private Equity
Direct Capital Management Limited
HRL Morrison & Co Limited
Movac Growth Limited *(appointed 20 January 2023)*
Pencarrow Private Equity Management Limited
Pioneer Capital Management Limited
Willis Bond and Company Management Limited

Foreign Exchange Hedging

State Street Global Advisors, Australia, Limited

B.20

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Investment Policies, Standards and Procedures

9 August 2023

SIPSP 23

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Investment Policies, Standards and Procedures

This document is titled Statement of Investment Policies, Standards and Procedures (**SIPSP**) and is dated 9 August 2023 and supersedes all previous versions. An electronic copy is available on our website - www.gsfa.co.nz.

No liability

While the Authority has made every effort to ensure the information provided in this document is accurate, neither the Authority nor its advisers will be liable whether in contract or in tort (including negligence), equity or any other cause of action to any person or persons who rely on the information without the prior agreement of the Authority.

Change without notice

The Authority may change the information in this document at any time and without providing any notice to any party of any changes. The Authority maintains an electronic version control register to record and date all changes made.

Contents

1 Introduction

Description

The Government Superannuation Fund Authority (**the Authority**) was established in 2001 to manage and administer the assets of the Government Superannuation Fund (**GSF** or **the Fund**) and the Government Superannuation Fund Schemes (**GSF Schemes**) in accordance with the Government Superannuation Fund Act 1956 and subsequent amendments (the **GSF Act**).

The Authority is an autonomous Crown entity under the Crown Entities Act 2004 (**Crown Entities Act**).

Structure

Section 15L of the GSF Act requires the Authority to establish investment policies, standards, and procedures (**SIPSP**) while Section 15M specifies what must be contained within any associated statements. This SIPSP addresses the requirements of section 15M and is structured as follows to reflect the approach employed to manage the Fund's investment programme.

Section of this SIPSP	Relevant clause(s) of Section 15M of the GSF Act
Introduction	
Governance	(f) the fund management structure
Investment beliefs	
Investment objective	(e) balance between risk and return
Investment strategy	(a) classes of investments and selection criteria
Responsible investment	(d) ethical investment (i) retention, exercise or delegation of voting rights (k) prohibited or restricted investments
Risk management	(g) use of futures, options and other derivatives (h) management of various financial risks
Review and monitoring procedures	(b) performance benchmarks (c) reporting investment performance (j) valuation of investments not regularly traded
Appendix	(k) investment constraints or limits

Purpose

This SIPSP records the arrangements set by the Authority's Board (**the Board**) for the governance and management of the investment assets held by the Fund, including fiduciary roles and responsibilities, the decision-making processes and the policies and procedures for management of Fund.

The Authority's investment responsibilities under the GSF Act are to:

- invest the Fund on a prudent, commercial basis, in a manner consistent with best practice portfolio management
- maximise returns without undue risk to the Fund as a whole
- avoid prejudice to New Zealand's reputation as a responsible member of the world community.

The Authority meets these responsibilities by developing and implementing:

- principles for best practice portfolio management
- an investment strategy centered on maximising return over the long term within a defined risk limit
- responsible investment policies to meet the requirement to avoid prejudice to New Zealand's reputation as a responsible member of the world community.

2 Governance

Policies

Preamble

The Authority's powers and discretions are defined in the GSF Act. The Board is the governing body of the Authority and is responsible for all decisions relating to the Fund.

The Board has all the powers necessary for managing, directing and supervising the management of the business of the Authority and the Fund.

The Board's governance arrangements are designed to achieve best-practice portfolio management by establishing good decision-making processes, defining fiduciary roles and responsibilities, and providing effective policies and procedures for management of the Fund.

The Authority will maintain a Corporate Governance Statement, which establishes the Board's responsibilities, practices and structure in relation to the Authority's statutory obligations.

In satisfying its responsibilities, the Board may delegate decision making and implementation to third parties as it sees fit.

Management of all assets, except cash held for operational liquidity purposes, is to be outsourced to third party managers (investment managers) and a custodian.

Investment mandates with investment managers shall include guidelines setting out eligible investments, performance criteria, constraints and exposure limits, including use of derivatives and reporting requirements.

Investment managers require specific written authorisation from the Authority to invest outside of the prescribed permitted investments. The Board will consider such investments as they arise on application from the investment manager.

A custodian is to be appointed to separate investment decision making (undertaken by the investment managers) from the holding of assets and securities, transaction settlement, recording and reporting of investment activities (undertaken by the custodian).

All the assets of the Fund, apart from cash holdings required for operational liquidity purposes, are to be held in custody unless specifically authorised by the Board.

Standards

Selection of the custodian and investment managers is made in accordance with the Authority's policy on procurement of services.

Selection of the custodian and investment managers is contestable and generally to be conducted through a request for proposal and interview process unless specific circumstances warrant a different approach.

Investment managers are selected after having been subject to appropriate due diligence, which takes into account, among other criteria specific to the role:

- best-practice portfolio management
- the skills and experience of the manager compared to peers
- the substance and viability of the manager
- the costs that can be expected to be incurred
- the potential for cost savings and other efficiency gains
- the existence of appropriate risk management procedures.

This process ensures that the investment managers employed by the Fund have the requisite operational capabilities and are best placed to support the Fund in achieving its investment objectives.

Procedures

The Board

The Board meets its responsibilities under the GSF Act by developing and implementing principles for best-practice portfolio management which it interprets as:

- having a clear investment objective that reflects its statutory responsibilities and desired outcomes
- maintaining a sound investment strategy consistent with the investment objective and the Authority's investment beliefs
- having strong governance with clear assignment of responsibilities that promotes accountability, clear reporting and effective communication with the Fund's stakeholders
- ensuring cost-effective management of investments by engaging an external custodian of its assets and investment managers with the requisite skills and alignment of interests with the Authority and monitoring their performance closely
- sharing relevant knowledge and resources with other Crown financial institutions, peer funds and experts.

The Board has established an Investment Committee of the Board to review significant investment matters prior to their consideration by the Board and review investment procedures in accordance with a cycle specified in the SIPSP or otherwise approved by the Board. The Investment Committee has written terms of reference and its performance is reviewed annually.

The Authority and the Board of Trustees of the National Provident Fund have formed a joint venture company, Annuitas Management Limited (**Annuitas**), to engage staff (**Management**) to provide management services to each organisation. The Management Services Agreement between the Authority and Annuitas delegates authority to Management to enable it to carry out the day-to-day activities of the Authority and the Fund. This includes the management of functions contracted out to third parties for investment management, custody, scheme administration, legal, tax and advisory services.

The Board appoints investment managers, custodians and external investment advisers and reviews their performance regularly.

Management

Management is responsible for:

- identifying and implementing appropriate investment strategies for the Authority to meet its obligations and objectives under the GSF Act
- identifying and monitoring investment managers, custodians, and external investment advisors
- varying the Fund's asset allocation according to prescribed criteria and within prescribed limits pursuant to a dynamic asset allocation (**DAA**) programme
- implementing the Board's rebalancing policies and providing reports to the Board on monthly rebalancing and DAA decisions
- reporting investment performance quarterly to the Board including aggregate returns and returns analysed by asset class and by investment manager. In each case actual returns are compared to benchmarks, expected risk measures and any active return targets. Summary reports of aggregate and asset class returns are provided monthly. Peer-relative performance of the Fund and of its investment managers are also reported to the Board annually
- implementing the Board's responsible investment policies, monitoring investment managers in this regard, and providing reports on responsible investment issues to the Board regularly
- managing cash required for operational liquidity purposes
- liaising regularly with the Treasury which acts on behalf of the Minister of Finance.

Investment managers

Each investment manager is contractually mandated to invest in a defined range of eligible investments, which may cover one or more of the Fund's asset classes and is subject to limits of investment risk which are defined in the respective agreements with each investment manager. In the case of segregated mandates this involves investment managers instructing the custodian to buy or sell securities on behalf of the Fund. In the case of collective investment vehicles (**CIV**) an investment manager arranges for the purchase and sale of securities in line with the relevant CIV's mandate.

Investment managers are delegated responsibility to exercise voting rights on behalf of the Authority, but the Authority retains the ultimate voting right. Investment managers are required to vote in the interests of the Fund and their voting record is monitored.

NZ investment managers are required to advise the Authority of their voting intent where the issue is likely to be publicly contentious, or give rise to a conflict of interest, or against the recommendation of an approved proxy voting service. In such cases, Management may direct the investment managers' votes under delegation from the Board. Investment managers' voting record is summarised on the Authority's website every six months.

Where applicable, monthly or quarterly reports to the Authority from the investment managers include:

- details of securities held
- a review of the performance and an analysis of performance factors
- investment philosophy and strategy (if changed)

- compliance with the terms of the investment contract
- an annual external audit report.

Investment managers meet with Management, on behalf of the Authority, at least annually. Details of the current investment managers can be found on the website - *www.gsfa.govt.nz*.

Custodian

The Fund's custodian is contractually required to provide the following services:

- safekeeping of assets
- trade processing and settlement
- monthly accounting and valuation reporting
- monthly investment performance measurement reporting and comparisons with benchmarks
- monthly compliance reporting
- corporate actions, income collection and withholding tax reclaims
- securities lending.

The custodian provides monthly reports of the Fund's investments as a whole, each asset class and each investment manager to enable monitoring and review of the Fund's and investment managers' performance. Those reports include:

- the cash position of each portfolio
- accounting matters including portfolio valuation
- reconciliation of portfolio values and cash flows with the investment managers
- investment performance measurement and comparisons with benchmarks
- tax reclaims
- reports of compliance with mandate-specific restrictions on separately managed portfolios.

Investment Advisors

External investment advisors provide the Board and Management with independent comment on key aspects of the Authority's investment programme. This includes capital markets' assumptions and qualitative and quantitative information related to strategy and investment managers.

3 Investment Beliefs

The Authority's investment beliefs provide a foundation for its investment strategy. They represent the Authority's views about the sources of investment return and risk and how these can be captured cost effectively, having regard to the Authority's unique circumstances:

- the nature of the GSF's pension obligations allows the Fund to take a long-term view for its investment strategy and tolerate short-term volatility in market prices and a degree of illiquidity
- to promote the Crown's interests, the Fund's investments focus on returns after foreign taxes but before NZ taxes
- implementation of the investment strategy is outsourced to investment managers.
- The Authority determines investment strategy and selects and monitors the investment managers.

The Authority's investment beliefs are set out below.

Core Beliefs
Risk Higher returns usually require us to accept higher risk of loss and/or variability of returns.
Time Horizon As a longer horizon investor, we believe we are better able to absorb the volatility associated with higher returns than short-term investors.
Diversification We believe on average over time spreading investments among different sources of return improves the quality of our portfolio.
Asset Allocation Our allocation to global equities is the largest determinant of the portfolio's risk and return.
Active Management Selective active management can add value to the Fund.
Ethical/responsible investment Environmental, social and governance (**ESG**) factors should be considered from both an investment and reputational perspective.
Climate-related risk Climate change presents significant investment risks and opportunities. In addition, we have a responsibility to help limit global warming.
Oversight We believe a good governance framework promotes improved investment outcomes for the Fund.
Implementation We believe managing alignment of interests, fees and costs is a critical component of Fund outcomes.

4 Investment Objective

Policies

Preamble

The Authority is required to maximise the returns of the Fund without undue risk. It takes a long-term view when developing its investment strategy because the Fund is expected to pay entitlements for approximately 50 years.

It is increasingly common practice for funds to set objectives at least in part relative to a reference portfolio, which is a simple, low-cost, notional portfolio that would be expected to achieve the investment objective by investing only in major, liquid, public markets.

This helps define the strategy's risk and is used to assess the contribution to the Fund's performance of decisions by the Fund's investment managers.

The Authority will adopt an investment objective and strategy that involves taking additional investment risk to improve the Crown's position compared to investing solely in New Zealand Government Bonds.

The Authority will benchmark its investment strategy against the return on New Zealand Government Bonds and a Reference Portfolio (**Reference Portfolio**).

Standards

The Authority interprets the Investment Objective as to maximise excess returns relative to New Zealand Government Bonds (before NZ tax) without undue risk of underperforming bonds, measured over rolling ten-year periods. The expected ten-year excess return depends partly on the risk taken by the Authority. It is estimated annually and published in the Authority's Statement of Performance Expectations. New Zealand Government Bond returns are benchmarked by the S&P NZX NZ Government Bond Total Return Index.

The Fund's Reference Portfolio reflects the Authority's risk appetite, provides a benchmark to measure the Authority's performance over periods less than 10 years, and creates a framework for accountability and performance measurement. It is designed to return more than New Zealand Government Bonds while meeting the Fund's risk appetite. The Board has adopted the Reference Portfolio set out in the Appendix Table 1.

Procedures

While the Fund's focus is on long-term risks and returns, they are influenced to some degree by prevailing market conditions. Thus, the Authority estimates them regularly and documents them in the four-yearly Statement of Intent and the annual Statements of Performance Expectations.

The long-term expected excess return of the Reference Portfolio is published in the Authority's Statement of Intent and annual Statement of Performance Expectations and will vary over time.

In addition to estimating risk of underperforming New Zealand Government Bonds over the next 10 years, the Authority uses a number of short-term and long-term risk metrics to gauge 'undue risk' and define its risk appetite. These include comparing the Fund and the Reference Portfolio using standard measures of fund volatility and value-at-risk, sensitivity to global equity market returns, expected returns under various macro-economic scenarios, and performance in periods of severe market stress, such as the worst historical rolling four quarters.

The Authority's risk appetite measures are set out in Appendix Tables 2A and 2B.

5 Investment Strategy

Policies

Preamble

The investment strategy adopted by the Authority establishes a Reference Portfolio, which is a default portfolio consistent with the risk limit, then aims to outperform the Reference Portfolio on a net-of-fees basis in three ways:

- *taking exposure to sources of return not represented in the Reference Portfolio that are considered to offer systematic reward for bearing risk of loss. These alternative sources of return, which are referred to as "alternative risk premia" (or 'beta'), include illiquidity, and insurance-linked risks*
- *capturing returns attributable to investment managers' skill rather than systematic risk bearing (ie 'alpha')*
- *dynamically adjusting the Fund's exposure to the asset classes to which it is exposed.*

Strategies intended to help the Fund outperform its Reference Portfolio must be approved by the Board.

The Fund's target allocation must be approved by the Board. The current target allocation is set out in Appendix Table 3.

Dynamic Asset Allocation (**DAA**) decisions may be determined by Management within limits approved by the Board. The limits that asset classes may be tilted away from their target allocation are shown in Appendix Table 4.

Standards

The asset classes approved by the Authority for inclusion in the Fund are:

- equities, comprising equity securities and securities convertible into equities including partly paid ordinary and preference shares
- property, comprising land and premises built on land and holdings in entities that invest principally in land and premises
- fixed interest, comprising interest-bearing securities issued or guaranteed by sovereign governments and agencies and issued by non-sovereign issuers
- cash and short-term securities, comprising NZ and foreign currency cash and interest-bearing securities with less than one year to maturity
- commodities, comprising futures contracts traded on recognised public exchanges
- insurance-linked assets, comprising securities providing exposure to natural catastrophe risks and longevity (life settlement) risks; and
- forward foreign currency contracts for the purposes of offsetting foreign currency exposures arising from international assets to achieve the Fund's strategic net exposure and as a value adding return source in the Authority's DAA programme.

The Fund includes a strategic net foreign currency exposure in both its Reference and actual portfolios. The actual exposure may vary from the Reference Portfolio's weighting by varying the extent to which it is offset (hedged) in accordance with the limits specified in Appendix Tables 4-5.

The Fund may invest in these asset classes through direct ownership of the assets, through collective investment vehicles (**CIVs**) that hold the assets (subject to section 15K of the GSF Act which prohibits the Fund having a controlling interest) or through derivative securities, such as futures, forward contracts, options and swaps. Asset classes or strategies that have not been approved by the Authority are not permitted to form part of the Fund's asset allocation.

Procedures

The Authority manages the Fund to its target allocation that incorporates alternative risk premia and skill-based strategies and is expected to be more efficient than the Reference Portfolio (ie improve risk-adjusted returns after fees and foreign tax).

The selection of individual investments within the various asset classes is delegated by the Authority to investment managers selected for their expertise in particular investment disciplines. In general, investment managers invest the Fund in accordance with contractual mandates that specify authorised investments and risk limits. In some cases, the investment is via a CIV whose investment mandate is consistent with the Fund's objectives.

The Fund's investments are generally traded on recognised public exchanges but may be traded privately, subject to any limits approved by the Board.

The hedge ratio for international equities is varied to deliver the Fund's desired total foreign currency exposure, taking into account any currency hedging of other asset classes and any DAA tilts.

Implementation of significant asset allocation changes or the addition of new asset classes may include staged entry or exit to limit risk.

From time to time the Authority may move allocations in response to relative valuation signals to add returns. Such deviations are limited to ensure the investment objective of the Fund is not compromised.

DAA tilts are implemented by the physical movement of assets (selling the asset to be underweighted and buying the asset to be overweighted) or via derivatives where there is a well-developed market. Management of derivatives is undertaken though an overlay account managed by a third-party manager. In the case of currency tilts, forward currency contracts and basis swaps are used as for normal hedging. These decisions are reported to the Investment Committee and to subsequent Board meetings and their investment performance impact is reported monthly by the custodian.

6 Responsible Investment

Policies

> ***Preamble***
>
> *In addition to maximising return without undue risk, the Authority is required to avoid prejudice to New Zealand's reputation as a responsible member of the world community, follow best practice portfolio management and to have an ethical investment policy. These requirements are addressed by the Authority in terms of its Responsible Investment (**RI**) policies.*
>
> *Our RI policies address activities that are illegal or contrary to international agreements to which NZ is a party. They extend beyond that to consider activities that are inconsistent with the Authority's ethical standards, notably severe environmental damage, bribery and corruption and human rights abuses.*
>
> *We believe ESG factors that are financially material will be reflected in share prices because investors recognise them as indicators of risk or quality. Positive ratings on ESG factors are normally associated with better-run companies and higher company value. Anticipating changes in material ESG factors for specific companies is a potential source of additional return for active managers. ESG factors also present reputational risks for the Authority, which must be managed along with financial objectives.*
>
> *Climate change is a specific example of an ESG factor with far more pervasive and global impact than other factors. Managing climate-related risks and opportunities is a major focus of the Authority.*

The Authority is a signatory to the Principles for Responsible Investment and will give effect to its obligations as a signatory through integration of environmental, social and governance considerations in its investment strategy for the Fund.

On climate change, we expect our investment managers to have regard to both the immediate risks surrounding transition to a lower-carbon world, through changes in consumer preferences and government policies to limit emissions, and the longer-term risks of global warming.

Aside from the investment implications of climate change, the Authority has committed to align its portfolio with internationally agreed paths to a lower carbon world.

Standards

The Authority's investment managers are charged with maximising investment returns relative to a representative market benchmark. We expect our active managers to integrate material ESG and climate-related factors in their investment decision-making. How that is done varies but should be consistent with the manager's investment style.

Lowering exposure to greenhouse gas emissions will require changes to some managers' investment mandates, benchmarks or constraints on their portfolio holdings.

The Authority encourages active engagement with companies by its managers and prefers engagement with companies that that breach its RI standards. But it will exclude companies where engagement is unlikely to be effective due to the context of the company's operations or a lack of responsiveness from the company to the issue.

The Authority's managers have responsibility for its proxy voting because we consider that is a proper responsibility of active managers and they can be more effective. All managers must exercise our voting rights.

In determining which companies to exclude, the Authority takes into account:

- New Zealand law
- international conventions to which New Zealand is a signatory
- significant policy positions of the New Zealand Government
- impact of exclusion on expected returns of the Fund
- actions of our peers
- severity of breach/action
- likelihood of success of alternative courses of action (such as engagement).

The Fund excludes investments in the government bonds of any nation state where there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.

Procedures

The Authority monitors the ESG characteristics of the portfolio using manager-provided and third-party data but we do not direct our managers on how to manage ESG factors, apart from specific exclusions.

We evaluate managers' investment processes in terms of how they generate investment value and integrate ESG considerations.

The Authority collaborates with other investors to engage with companies that breach its standards and we exclude them when engagement is unlikely to improve outcomes.

The Authority will instruct its investment managers to limit exposure to carbon-intensive investments to align with the New Zealand Government's policies to achieve net zero global emissions by 2050.

The Authority will also consider investment in strategies specifically targeting solutions to climate risks, such as alternative technologies and carbon capture. We expect most of those solutions, however, to be developed by companies in our existing public and private equity universe.

In some cases, the Authority may direct investment managers with respect to certain investments where ESG considerations are sufficiently important to over-ride purely investment-driven factors. This may be on how to vote our shares or, more typically, to exclude the securities entirely.

Effective engagement with companies on ESG issues requires a substantial commitment of time and resources. Aside from relying on its investment managers, who typically represent a much larger investor clientele, the Authority has a collaborative agreement with the Guardians of New Zealand Superannuation Fund (**NZ Super**) and the Accident Compensation Corporation, which have similar RI obligations. All are signatories to the international Principles for Responsible Investment.

The collaborative agreement among CFIs encompasses policy development, identification and analysis of high RI risks, co-ordination of engagement and exclusion activities, engagement of research providers, research sharing and communications. The parties to the agreement meet regularly to review current engagements and exclusions, high-risk securities, research and policy development.

With the assistance from the NZ Superannuation Fund, the Authority implements its RI policies by:

- monitoring high-risk issues and securities
- monitoring portfolio investments against the RI policies
- monitoring investment managers' approaches to ESG and climate-related risks, the Fund's exposures to greenhouse gas emissions and the development of policies to manage these risks
- analysing RI issues and appropriate responses
- communicating the Authority's policies and decisions to investment managers
- participating in collaborative engagements with other investors
- excluding securities that breach its standards and where the CFIs agree engagement is unlikely to lead to worthwhile change in the issuer's behaviour
- monitoring investment managers' voting records
- publishing its RI policies and exclusion decisions (individual company engagements may be confidential).

In applying the RI policies to a CIV, the Authority assesses value to the Fund of the CIV as a whole rather than each security it may hold. The Authority communicates its RI policies to managers of CIVs in which it invests and encourages them to consider whether its policies are appropriate for the CIV. In addition, the Authority will review its investment if there is a material change in the CIV's mandate or strategy.

In addition to the application of its RI policies to the investments held in the Fund, the Authority:

- encourages the adoption of good corporate governance practices, including exercising voting entitlements consistent with maximising shareholder value and RI policies where possible
- encourages investment managers to consider its RI policies and to integrate ESG factors into their investment analysis and/or engage with corporate entities as part of their investment process
- works with similar investors to enhance the effectiveness of its RI policies, which may include supporting collaborative initiatives and engagements.

Management provides regular reports to the Board on the following matters:

- excluded investments pursuant to the Authority's RI policies
- developing issues affecting particular investments or classes of investment
- engagements with companies pursuant to the Authority's RI policies
- matters considered by the CFIs pursuant to their formal collaborative agreement

- approach taken by investment managers on ESG and climate-related risks, the Fund's exposures to greenhouse gas emissions and the development of policies to manage these risks.

The Authority will publish a Climate-related Disclosures Report annually from 2022 aligned with the recommendations promoted by the Task Force for Climate-related Financial Disclosures.

7 Risk Management

Policies

Preamble

The GSF Act requires the Authority to have risk management policies for the management of various investment, operational and financial risks.

The Board's Audit and Risk Review Committee assists the Board in fulfilling its responsibilities with respect to internal controls, accounting policies, financial statements approval and risk management.

Risk management is further supported by the Corporate Governance Statement, Acceptable Conduct Policy, Expenditure Policy for Board members and Management, Risk Policy, Procurement of Services Policy, defined roles and responsibilities, performance accountability processes and timely disclosure and communication.

The Fund's investment risk will be controlled by:

- specifying total Fund risk tolerances for under-performance measured against the
- New Zealand Government Bonds and the Reference Portfolio (active risk) over ten years
- monitoring those risks, including for intermediate periods, and reporting on them no less than quarterly; and
- specifying, monitoring and reporting no less than quarterly on:
  - the Fund's total volatility, risk relative to global equities and the Reference Portfolio
  - total and relative drawdown risk in stressed environments
  - expected contribution of single strategies to the Fund's total risk and total active risk
  - expected risk of single strategies and investment managers relative to benchmarks representative of the strategy or the investment manager's style.

The Authority will maintain constraints and limits in respect of each asset class or strategy to control risks.

Derivatives may be used for risk management, value adding investment strategies and transactional efficiency.

Standards

A description of various investment, operational and financial risks is provided below.

a) *Risk that the Fund's investment objectives will be compromised over time*

Asset allocations will drift over time as a result of differences in asset class returns and cashflows, while rebalancing asset allocations incurs transaction costs. Rebalancing involves making a trade-off between these factors. Rebalancing limits therefore define the extent to which the allocation to an asset class is permitted to deviate from the intended allocation (the target allocation plus any temporary changes reflecting DAA decisions) before rebalancing trades are required.

Rebalancing limits are set out in Appendix Table 5 and are expressed as deviations around the intended allocation. Asset classes are to be rebalanced once the rebalancing limits are breached.

b) *Market risk*

Market risk is the risk of adverse movements in investment markets (including asset prices, changes in the yield curve or other market-related variables) that affect the value or income of the portfolio. Market risk is outside the control of the Authority. The volatility of investment markets means that the return from the Fund is inherently uncertain. Actual returns from each asset class may vary significantly each year from the mean returns assumed in determining the investment strategy appropriate to the long term.

Major structural changes to investment markets and/or taxation environment are not within the control of the Authority. However, the Authority takes into account changes in these risks in its reviews of the portfolio, Reference Portfolio, DAA and asset class strategy.

The Fund's target asset allocation in Appendix Table 3 reflects the Authority's appetite for market risk when read in conjunction with DAA limits in Appendix Table 4 and rebalancing limits in Appendix Table 5.

c) *Borrowing or leverage risk*

The Fund is not permitted to borrow money or charge any of the Fund's property, directly or through financial instruments, without the Minister of Finance's consent.

The Fund may own equity securities or invest in CIVs that borrow or grant charges on their own assets provided that owning these equity securities does not cause undue risk to the Fund as a whole, as expressed in the Investment Objective. Particular investments or

strategies within CIVs may be leveraged or include leverage or be invested 'short' provided the overall risk of the CIV is acceptable. (Short positions arise when securities are sold while not yet owned, in anticipation of being bought after the price falls. Short positions may be created physically by borrowing the securities and selling them or through derivative contracts.)

Derivatives are authorised investments for the Authority. These are financial instruments whose value and characteristics are derived from underlying assets, indices or reference rates. They usually contain embedded leveraged exposure to the underlying assets.

Derivatives cover a broad range of financial instruments and include futures contracts, forward currency contracts, swaps, forward interest rate contracts, options and credit default swaps. They may be used for risk management, value adding investment strategies and transactional efficiency.

Section 15C of the GSF Act requires the consent of the Minister of Finance to enter into derivative transactions. The Authority has sought and obtained the Minister's consent to use derivatives that create leverage, where the use of those is consistent with the Authority's SIPSP. The Authority has also obtained the Minister's consent to enter into temporary overdrafts with its banks.

d) *Manager risk*

The Authority appoints investment managers to implement its investment strategy. Investment managers' returns may vary from expected levels.

e) *Credit risk*

Credit (or counterparty risk) is the risk of default by a counterparty to a particular transaction or an issuer of a security held in the portfolio.

f) *Liquidity risk*

Liquidity risk is the risk that a security cannot be sold when required or that the price achieved is significantly less than the last quoted price without any fundamental change that justifies the lower price. The Fund invests mainly in securities traded in public markets. Investment in non-publicly traded assets is subject to the Fund's overall liquidity limits. At all times the Fund must be able to meet cash obligations for its share of member entitlements, tax and losses on derivative positions, notably currency hedging contracts. The liquidity test is described in Appendix Table 5.

g) *Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. These risks are managed in accordance with the Authority's Risk Policy.

h) *Currency risk*

Currency risk is the risk that the foreign currency denominated assets will lose value due to the effect of an adverse exchange rate movement. Exposure to currency risk is determined at total portfolio level and specified in the Reference Portfolio and the actual portfolio.

Appendix Table 1 specifies the net foreign currency exposure in the Reference Portfolio for benchmarking purposes. Appendix Table 3 specifies the Fund's target currency exposure while Appendix Tables 4 and 5 specify the ranges bounding that exposure permitted for rebalancing and DAA.

i) *Derivative Risk*

The use of derivatives by the Fund will be consistent with the following:

- derivatives may be entered into by the Authority or its investment managers on behalf of the Fund. Where investment managers or custodians use derivatives, their use must be specified in each investment management agreement or be consistent with the terms governing the CIVs
- where the Authority is a counterparty to a derivative, the terms and conditions of the derivative must be specified in appropriate industry standard documentation.

The use of derivatives is permitted only where:

- it results in market exposures appropriate to the Fund as a whole
- the instruments are traded on recognised exchanges or issued by a counterparty over-the-counter
- the resulting counterparty exposures are adequately controlled and meet the Fund's general requirements in terms of credit rating and contractual arrangements
- the Fund can meet any liquidity requirements arising from their use
- derivative positions held directly by the Fund are collateralised. In general, this means the Fund must hold sufficient cash or securities corresponding to the derivatives at

current and prospective market prices to ensure the Fund remains within permitted risk limits at all times

- derivatives relating to foreign exchange may be used for the purposes of managing and hedging currency exposures held within the Fund and for the purposes of purchasing or selling foreign currencies required for the settlement of foreign exchange transactions
- the net exposure to foreign currencies (after taking into account hedging positions) in the relevant portfolios is to be in accordance with the Authority's hedging policy for the asset class. If required, appropriate parameters for hedging using proxy currency will be established with the currency managers as well as appropriate operational ranges.

The effective exposures to underlying securities or assets arising from any derivatives are to be taken into account for the purposes of determining compliance with the prescribed exposure limits of portfolios.

Procedures

The Board has approved the following constraints and limits in order to manage investment, operational and financial risks.

a) *Risk that Fund's investment objectives will be compromised is managed by:*

- rebalancing monthly to ensure the Fund remains aligned with the target allocation taking into account known cash flows for the following month. The rebalancing limits are set as a trade-off between the costs of being exactly at the target allocation against the risk that variations in exposures will compromise the Fund's investment objectives. Rebalancing takes into account investments that are relatively illiquid, such as equity interests in CIVs that are not traded and have contractual restrictions on redemptions; and
- asset classes or components of asset classes that are not able to be readily traded are not subject to formal rebalancing limits but are monitored to ensure their exposure does not become excessive relative to their target exposure.

The rebalancing ranges around the target allocations are shown in Appendix Table 5.

b) *Market risk is managed by:*

- specifying the total risk of the Fund and its various major exposures consistent with the Investment Objective and best-practice assumptions in relation to exposure risks and correlations among them
- diversifying the asset classes in which the Fund invests by adopting the Reference Portfolio and target allocation described in Appendix Tables 1 and 3 and a range of investment management techniques for the Fund
- seeking professional advice on the investment strategy, the Reference Portfolio and the target allocation
- consulting with other CFIs and large investment funds
- requiring investment managers to manage their portfolios within the market exposure limits for each asset class held as defined in the agreements with each manager; and
- setting limits to which investment managers are required contractually to manage their portfolios, which should include:

  - limits on the expected volatility of their total portfolio or their portfolio relative to the benchmark
  - limits on concentration of exposure to any single issuer of securities
  - limits on particular exposures in the investment manager's benchmark and exposures not represented in the benchmark.

c) *Leverage risk is managed by:*

- ensuring that the risk arising from leverage embedded in any equities, shares of a CIV, or derivative positions is managed in accordance with the governing investment management agreement or the terms and conditions of the CIV, and within the risk tolerance of the Fund as a whole
- requiring any derivative transactions held directly by the Fund to be adequately collateralised with cash or corresponding securities, valued at current market prices
- entering into commercial arrangements for any charges against the Fund in accordance with industry best practice, such as the use of agreed counterparty settlement limits and temporary overdrafts for forward currency contracts, swaps and other contracts for difference
- requiring settlement of amounts outstanding from any derivative transactions due to short-term price fluctuations that exceed levels agreed in advance with counterparties
- the Authority satisfying itself that investment managers (including managers of CIVs) have adequate policies and procedures relating to leverage and derivative counterparties and monitoring adherence to their policies
- using appropriate industry standard documentation.

d) *Investment manager risk is managed by:*

- robust selection process for investment managers based on demonstrated ability and independent expert opinion
- diversification among investment managers
- setting mandates for active investment managers based on best-practice portfolio management that prescribe acceptable risk limits
- regular assessment and review of investment managers' performance against the agreed benchmark and peers
- putting in place investment management agreements or other satisfactory contractual terms that separate Fund assets from investment managers and protect against investment managers' errors, omissions and wrongful actions.

e) *Credit risk is managed by requiring that investment managers of the Fund's credit investments:*

- maintain the credit quality of their portfolios within agreed contractual guidelines and specified according to leading credit rating agencies
- limit exposure to individual issuers to prescribed limits
- maintain policies and procedures relating to derivative counterparty selection and management and appropriate industry standard documentation; and

- control counterparty risk by daily collateralisation of open derivative positions or credit quality limits in investment management agreements. Securities lending risk is managed by collateralisation and an indemnity from the custodian.

f) *Liquidity risk is controlled by implementing the Fund's target allocation and rebalancing procedures. In addition, liquidity risk is managed by:*

- monitoring the Fund's liquidity quarterly against prescribed levels approved by the Board (Appendix Table 5)
- requiring investment managers to invest only in securities listed on recognised exchanges, except as specifically authorised by the Board
- limiting investment in securities that are not traded on recognised markets as authorised by the Board (Appendix Table 5 footnote)
- requiring investment managers, within the terms of their individual investment management agreements, to hold diversified portfolios
- limiting the credit rating of the fixed interest and cash investments to levels as detailed in the investment management agreements with each investment manager
- presenting to the Board the projections of the Fund's liquidity, cash flows and illiquid investment obligations whenever an illiquid investment is considered
- including future cash flows of the Fund in any consideration of additional illiquid asset investments.

g) *Operational risk is managed by:*

- engaging an independent custodian to record transactions, report on performance and monitor compliance of investment managers with mandates
- having a specific mandate for each investment manager based on best-practice portfolio management, except for investments in CIVs
- separating functions between investment management and custody and specifying limits to the authority delegated to Management for DAA decisions
- ensuring Management has sufficient resources to conduct the oversight function as part of its overall responsibilities
- requiring Fund transactions to be authorised by at least two persons
- requiring investment managers and the custodian to:
  – provide the Authority with assurances against operational risk events
  – have in place insurance arrangements to cover claims in those events
  – have in place and regularly confirm the existence and efficiency of internal policies and controls to address those risks
  – provide compliance reporting; and
  – reconcile the Fund's recorded positions regularly.

h) *Currency risk is managed by:*

- fully hedging currency exposure on all asset classes except global equities and adjusting the hedge ratio on global public equities (not private equities) to achieve the desired total portfolio currency exposure
- engaging currency managers to manage the various hedging programmes

- specifying the bounds within which investment managers may take on currency exposures relative to their benchmarks
- specifying the instruments that investment managers may use and the minimum credit worthiness of the counterparties in the investment management agreement with each investment manager.

i) *Derivatives risk is managed as follows:*

- all investment managers using derivatives are required to provide the Authority with a copy of their policies relating to derivative securities trading and counterparty risk and to manage their derivative exposures in accordance with those policies. The Authority recognises that, where it invests in CIVs offered by investment managers, those vehicles may be investing in derivatives and takes that into account in determining the appropriate level of investment for the Fund
- the risk of derivatives is measured by their effective exposure to underlying assets as well as on a standalone basis. The value of derivatives is measured according to generally accepted industry best practice
- over-the-counter foreign exchange hedging derivative contracts may be entered into only with counterparties that have credit ratings approved by the Board and measured by a recognised rating agency for counterparty risk and domiciled in New Zealand, or in countries with which New Zealand has a double tax treaty
- the currency exposure associated with international investing is managed using forward foreign exchange contracts or basis swaps relating to the currencies in which the securities that comprise the portfolio are denominated, or their close proxies
- the investment management agreements for those investment managers actively using forward foreign exchange contracts include limits for the maximum exposure per counterparty. For other types of derivatives there are dollar limits for the maximum exposure before collateral is required
- derivative policies and practices, including foreign exchange hedging, are in accordance with the investment manager's derivatives policies, set out in their offer documents, or as otherwise specified in an investment management agreement. Investment managers are required to maintain policies and procedures relating to derivative counterparty selection and management accordingly and use appropriate industry standard documentation.

8 Review and Monitoring Procedures

Performance monitoring

Policies

The Authority will maintain a reporting framework that enables the Board to analyse and monitor the performance of the Fund, asset classes and investment managers against relevant objectives and benchmarks.

A schedule of key reporting items and their frequency will be maintained. Appendix Table 7.

Standards

The primary benchmark for the Fund, as described in section 4, is the return on New Zealand Government Bonds (before NZ tax) benchmarked by the S&P NZX NZ Government Bond Total Return Index.

In addition to estimating the risk of underperforming New Zealand Government Bonds over the next 10 years, the Authority uses a number of short-term and long-term risk metrics to gauge 'undue risk'. These include comparing the Fund and the Reference Portfolio using standard measures of fund volatility and value-at-risk, sensitivity to global equity market returns, expected returns under various macro-economic scenarios, and performance in periods of severe market stress, such as the worst historical rolling four quarters.

Monitoring of the Fund's performance in relation to this benchmark is to take place no less than quarterly.

An associated benchmark for the Fund is the Reference Portfolio as adopted by the Board and described in section 4. The benchmark return for the Reference Portfolio is the weighted average return on the benchmarks of its constituent parts (Appendix Table 1).

The Reference Portfolio is designed to return more than New Zealand Government Bonds while meeting the Fund's risk limits. The Fund's performance is therefore measured against the Reference Portfolio over 10-year periods, although monitored on a more-frequent basis. Performance is to be evaluated on a net-of-fees basis.

The relevant benchmarks for the purposes of assessing asset class or strategy performance are set out in Appendix Table 6. The measurement period for assessing relative performance is generally three to five years, although they are to be monitored no less than quarterly.

Procedures

Recognising that investment returns may not meet expectations from year to year, investment performance is assessed by comparing:

- the Fund's pre-tax, post-fee returns with New Zealand Government Bonds and the Reference Portfolio
- the pre-New Zealand tax, post-fee returns of individual asset classes or strategies with their respective benchmarks

- the pre-New Zealand tax, post-fee returns of investment managers with the benchmarks relevant to their respective mandates, plus any excess return target expected for active investment managers (reflecting the active risk taken by the investment manager).

Performance is considered over three and five years and longer periods where applicable. Investment managers are also compared to peer managers in the same asset class or strategy.

The Board reports the Fund's investment performance annually on the Authority's website - *www.gsfa.govt.nz* - and in the Fund's Annual Report, which is tabled in the House of Representatives. A forecast for investment performance is published each year in the Authority's Statement of Performance Expectations.

For reference, the Treasury also reports to the Minister of Finance quarterly, following consultation with the Authority, on the Fund's investment performance and significant operational issues.

Review procedures

Policies

All aspects of the Fund's investment programme are to be reviewed regularly in line with the schedule approved by the Board.

Standards

Reviews of the investment programme are undertaken by Management with the review provided to the Board for its consideration. In most cases the external investment advisor will provide the Board with its view of Management's review.

Procedures

The frequency for reviewing the key investment policies, strategies, and third-party providers to the Fund is as follows:

- the SIPSP is reviewed and approved at least annually by the Board. Only the Board can approve material changes to it. A version control document is maintained
- the Authority's investment beliefs are reviewed at least every five years
- the Reference Portfolio is reviewed by Management and approved by the Board at least every five years taking into account the investment environment in which the Authority operates. The trade-off between risk and return is reviewed based on analysis of the prospective risk and return characteristics of each asset class in which the Fund might invest and their combinations
- the target allocation is reviewed by Management and approved by the Board at least annually
- the expected excess return of the Reference Portfolio above the S&P/NZX NZ Government Bond Total Return Index over rolling 10-year periods is reviewed annually
- investment managers are reviewed annually against the criteria established for investment managers in section 6 to determine their ongoing suitability for their role.

Valuation of unlisted securities

Policies

The method of, and basis for, valuation of unlisted securities, being those that are not regularly traded on a public exchange, are to be independently verified in line with generally accepted industry standards.

Standards

For unlisted securities, where quoted market prices are not available, fair value is to be determined on the basis of independent valuation or by the application of generally accepted industry standards and subject to independent verification. Investments in CIVs are to be subject to external valuation processes and valued according to generally accepted industry standards.

In the case of over-the-counter derivatives, the mark-to-market method for determining the value is to be independently verified.

Procedures

Where investments are not traded on recognised exchanges, but can be independently priced by the custodian, the Authority, in conjunction with the custodian, determines fair valuation

on these investments through an objective or independent process, where possible, at least annually.

In cases where an independent valuation by the custodian is unable to be obtained, or where it can be obtained but at a cost determined by the Authority to be unreasonable, the Authority relies on the valuation provided by the investment manager using generally accepted industry standards that has either:

- been undertaken by a reputable, suitably qualified professional valuer who is independent of the investment manager; or
- been determined by reference to observable market variables obtained from sources independent of the investment manager.

Investments in collective investment vehicles, where underlying assets are not publicly traded, are subject to the Board being satisfied there are adequate and timely independent valuations and audit procedures to validate underlying valuations.

The Authority may seek independent advice from a suitably qualified, professional valuer to verify or confirm the reasonableness of any valuation provided by an investment manager. Where a valuation discrepancy arises between an investment manager and the custodian, the Authority generally accepts the custodian's valuation.

Appendix

Table 1: Reference Portfolio and benchmarks

Asset Class	Weight as at 30 June 2022 (%)	Benchmark
International equities	70	MSCI All Country World Low Carbon Target Index
NZ equities	10	S&P/NZX50 Gross including imputation credits
Fixed interest	20	Bloomberg Barclays Global Aggregate
Total assets	**100**	
Foreign currency exposure	20	MSCI All Country World Low Carbon Target Index Unhedged minus Hedged

** Ownership of predominantly international asset classes exposes the Fund to exchange rate risk, ie the risk of loss in value when the New Zealand dollar (**NZD**) appreciates. This risk can be offset to the desired extent with currency hedging contracts. The Fund's strategic net foreign currency exposure is expressed in the Reference Portfolio above, currently 20% of the total Fund.*

*** to measure the effects of its decarbonisation commitments relative to a standard market index, the Board will continue to monitor and report on the performance relative to the MSCI All Country World Index*

Table 2A: Fund Level Investment Risk Appetite

Fund Level Metric	Expected Risk / Limit	Measurement	Reporting	Approved
Fund Total Drawdown Risk	The worst-case drawdown must not be greater than 30% over rolling four quarters.	Current Reference and Target Portfolio drawdown under historical stressed market environments. Reference and Actual Portfolio historical return over most recent four quarters.	Board QIR & Treasury Risk Report	9-Aug-18
Fund Risk versus Government Bonds	There is expected to be a 13% chance of 10% underperformance over 10 years.	Forward looking Reference and Target Portfolio expected outcome (10-year full draws). Reference and Actual Portfolio historical returns over the last 10 years.	Board QIR & Treasury Risk Report	9-Aug-18
Fund Risk versus Government Bonds	There is expected to be an underperformance at the 5th percentile of no more than 32% over 10 years.	Forward looking Reference and Target Portfolio expected outcome (10-year full draws).	Board QIR & Treasury Risk Report	9-Aug-18

Fund Active Risk (risk versus Reference Portfolio)	A 3% pa limit on ex ante (forward looking estimates) of active risk. Active risk in excess of 6% pa ex post requires Management Response.	Forward looking standard deviation of the expected excess returns of the Target Portfolio versus the Reference Portfolio (ex-ante active risk). Standard deviation of historical returns of Actual Portfolio versus the Reference Portfolio over 5 years (ex-post active risk). Realised (ex-post) active risk will on occasion exceed 3%. The 6% (ex-post) limit effectively captures a 2 standard deviation outcome.	Board QIR & Treasury Risk Report	3-Nov-21

Table 2B: Strategy Level Investment Risk Appetite

Strategy Level	Expected Risk / Concentration limit	Measurement	Reporting	Approved
DAA Total Risk	It is expected DAA incremental total risk to be zero on average over the medium term but not more than 2.3% at any point in time.	Forward looking standard deviation of DAA plus Reference Portfolio returns minus the standard deviation of Reference Portfolio returns. Standard deviation of historical DAA plus Reference Portfolio returns minus the standard deviation of the Reference Portfolio returns over 5 years	QIR and Strategic Tilting Minutes	5-Aug-20
DAA Active Risk	It is expected DAA active risk will be 1% on average over the medium term and not more than 2.7% at any point in time.	Forward looking standard deviation of expected DAA returns. Standard deviation of historical DAA returns over 5 years	QIR and Strategic Tilting Minutes	5-Aug-20
Total Private Equity	30% concentration limit of private equity to total equity	Total (domestic and global) invested private equities to not exceed 30% of total (domestic and global) invested private and public market equities.	Annual Reviews and QIR	31-Jul-19

Table 3: Target Allocation as at 1 September 2022

Asset class	Weight (%)
International equities	55
NZ equities	10
Fixed interest	14
Global private equity*	15
Catastrophe risks	3
Life Settlement risks	3
Total Assets	**100**
Foreign currency exposure	20

** Total invested private equities (domestic and global) not to exceed 30% of total equities (domestic and global, private and public.*

Table 4: DAA limits

Asset class	Limit versus Target Allocation (%)[1]
Cash vs equities vs fixed interest	+/-10
Developed market equities vs emerging market equities	+/-5
US equities vs non-US equities	+/-5
NZ equities vs international equities	+/-2
Developed market fixed interest vs emerging market fixed interest	+/-5
Foreign currency exposure	+/-15
Major foreign currencies vs NZD[2]	+/-10
High yield credit vs governments vs investment grade credit	+/-5
Commodities and/or property	+/-5

[1] *Although the ranges have been expressed as symmetric, short exposures are not permitted.*

[2] *Major currencies include USD, EUR, GBP, JPY, CHF, AUD.*

Table 5: Rebalancing limits

Asset class	Rebalancing limits (± %)
Combined Global public and private equities	5
Combined NZ public and private equities	2
Fixed interest	4
Catastrophe risks	2
Life settlements	2
Foreign currency exposure	5

Liquidity Test:

- Assumes 30% declines in equities and the NZD.
- Assesses whether the Fund still holds sufficient liquidity following any significant valuation declines in assets to cover currency hedging losses and fund all uncalled private equity commitments.
- Checks whether rebalancing is required for liquid assets following withdrawals.

Table 6: Benchmarks

Asset class	Benchmark
International equities	MSCI All Country World Low Carbon Target Index
NZ equities	S&P/NZX50 Gross Index including imputation credits
Fixed interest	Bloomberg Barclays Global Aggregate Index
Global private equity1	MSCI All Country World Index
Catastrophe risks	Swiss Reinsurance Catastrophe Bond Total Return Index
Life settlements risk	Bloomberg Barclays Global Aggregate Index
Dynamic asset allocation	Programme profit or loss/total fund
Foreign currency exposure	MSCI All Country World Low Carbon Target Index unhedged minus hedged.

[1] *Private equity is benchmarked against the public market equivalent plus an expected risk premium of 3% pa.*

Table 7: Reporting Schedule

Strategic Issues	
Investment Objective	5-yearly
Reference Portfolio - Risk profile	5-yearly
Investment Model	5-yearly
Investment Beliefs	5-yearly
Target Portfolio Total Risk Review	Yearly
Target Portfolio Alternative Betas	Yearly
Investment Committee Terms of Reference review	3-Yearly
Statement of Intent/Statement of Performance Expectations	Yearly
Investment Consultant	5-yearly
Statement of Investment Policies, Standards and Procedures Review	Yearly
Climate Change Response	Quarterly
Responsible Investment Policy	Quarterly
Custodian Review	5-yearly
Dynamic Asset Allocation Review	3-yearly

Operational Reviews	
Quarterly Investment Report, including responsible investment	Quarterly
Global Public Equities	Yearly
NZ Public Equities	Yearly
Global Fixed Interest	Yearly
Currency Management	3-Yearly
Global Private Equities	Yearly
NZ Private Equities	Yearly
Life Settlement	Yearly
Catastrophe Risk	Yearly
Benchmarks for returns, risks and costs	Yearly
Investment Committee Self Review	3-yearly
Securities Lending	Yearly
Class Actions	Yearly
Liquidity Policy	3-yearly
Compliance with SIPSP	Yearly
Actuarial projections of Fund size and cashflow	Yearly
Rebalancing Policy	3-yearly

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Including

Statement of Investment Policies, Standards and Procedures

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