



# GOVERNMENT SUPERANNUATION FUND AUTHORITY

## Our Mission

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

- returns to be maximised without undue risk to the Fund,
- the Crown's contribution to GSF to be minimised, and
- the needs and reasonable expectations of its stakeholders to be met.

[www.gsfa.govt.nz](http://www.gsfa.govt.nz)

## Further information

If you have any queries regarding your GSF membership or would like a free copy of the annual report, please contact Datacom Employer Services, GSF Schemes Administration, PO Box 3614, Wellington 6140, Freephone 0800 654 731.



## Chairman's Letter 2016

Dear Member

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**) and the Government Superannuation Fund (**GSF** or the **Fund**) for the year ended 30 June 2016.

### Features of the 2016 Year

- During the fiscal year \$871 million was paid out to members of the GSF Schemes.
- Progress on the new business system for the administration of the GSF Schemes has been slower than planned. However significant progress has been made in 2015/16 and the new business system is on track to be operational in late 2016. The Authority is fully committed to having a fit for purpose system which will enable the GSF Schemes to continue to operate efficiently and accurately into the future.
- All pension payments were made on time and member satisfaction is measured at 82%.
- Below average return on investments for the year of 2.1%, before tax and after investment fees.

### Statutory Review

The GSF Act provides for a statutory review to be conducted every 5 years of how effectively and efficiently the Authority is performing its functions. Prior reviews were undertaken in 2006 and 2011.

In February 2016 the Minister of Finance appointed PricewaterhouseCoopers Securities Limited (PwC) to undertake the third 5 yearly review.

The review was completed towards the end of the financial year and the report on the review was tabled in Parliament in July 2016. The report can be viewed using the following link - [www.treasury.govt.nz/publications/reviews-consultation/gsfa](http://www.treasury.govt.nz/publications/reviews-consultation/gsfa).

The scope of PwC's assessment included a review of all relevant documentation and policies related to the investment governance and operations of the Authority.

PwC assessed the investment governance framework in terms of strategy, people, conflict of interest management, assessment of risks, reporting, decision making, documentation, compliance and outcomes. The review also took into consideration past reviews (for example the 2011 statutory review and an independent review initiated by the Authority and undertaken in 2015 by Mark Burgess, former CEO of the Australian Future Fund).

Overall, PwC stated they believe the Authority is a sound operation, run by experienced and capable people with an appropriate investment governance framework. In addition to noting the strengths of the Authority, PwC also made some recommendations for the Authority in the statutory review which will assist in improving its operations. The Authority will consider the recommendations and develop action plans, where appropriate, to implement the recommendations. Once the action plans are finalised, our responses to the review findings will be published on the Authority's website.

## Investment Activity

The Fund's objective is to maximise the excess return above New Zealand (NZ) Government Stock subject to limiting the chance of under-performing NZ Government Stock by more than 10% over a rolling ten year period to 25%. The Fund switched to a before NZ tax investment objective in 2015.

The Fund relies largely on equities to provide the excess return over NZ Government Stock returns but is always looking for more efficient ways to capture alternative return sources. 90% of the Fund is invested internationally. Almost 20% is invested in alternative asset classes such as insurance-linked assets, private equity and real estate funds, and skill-based trading strategies. Insurance-based investments have provided worthwhile diversification of fixed interest investments. Considerable attention is paid to the cost of active management relative to the extra risk and expected enhancement.

During the year the Board approved investment in a fund that has the potential to source returns from multiple asset classes based on different risk factors. The returns are uncorrelated with equities returns and with each other, providing a more robust combined return stream. The investment was funded from global equities, bonds and from an

existing exposure to a global tactical asset allocation strategy.

As noted last year, the Fund's private equity investments are now well into their 8 - 10 year lifecycles and have started to produce very good returns both in NZ and offshore. The Board is investigating ways to increase its commitment to global private equity where we believe additional returns are available to compensate for the greater risk, reduced liquidity and any additional cost.

Collaboration with other Crown Financial Institutions (CFIs) continues, notably with the Guardians of New Zealand Superannuation (NZ Super). As well as discussing common investment issues, the Authority shares with NZ Super the services of a company to co-ordinate engagements with global companies that have serious issues around environment, human rights and corruption. The Authority and other CFIs are members of the NZ Corporate Governance Forum to promote good governance among listed NZ companies.

The return for the 2015/16 financial year was 0.2% behind the Reference Portfolio and well below the 8.0% return on NZ Government Stock. Over the last 3 years the Fund investment return has averaged 9.8% per annum (pa), 0.3% pa ahead of the Reference Portfolio and 3.5% pa above NZ Government Stock. Over the last 10 years, which spans the global financial crisis, the Fund investment return was 5.9% pa, the same as the Reference Portfolio and behind the return for the same period for NZ Government Stock of 6.5% pa.

## Outlook

The global outlook is for continued slow growth, very low inflation, low interest rates and heightened risk from both struggling economies and geopolitical uncertainties.

The global economy remains fragile and uneven. Geopolitical risks are heightened with social divisions in many countries, notably in Europe (exemplified by the Brexit referendum in the UK), the Middle East and even in the United States of America (as evidenced by the presidential campaign). These tensions threaten to influence global government policies against trade and growth.

After last year's set back, global equity markets are not over-priced relative to company earnings and interest rates in a low inflation world, but future earnings will be under pressure from low revenue growth and low productivity growth. Disruptive industry change is prevalent. Overall returns are likely to remain modest.

Commodity prices remain near their multi-year lows and emerging markets are still relatively cheap despite some recovery in recent months. On the other hand, global listed real estate and infrastructure are expensive compared to equities in general.

The NZ dollar has remained above most estimates of long term fundamental value, especially against the currencies of Europe, Japan and Australia. The NZ share market, which is dominated by companies with stable earnings and high dividend yields, is very fully valued and likely to lag global markets if the outlook improves.

## Communications

The Authority's website - [www.gsfa.govt.nz](http://www.gsfa.govt.nz) - continues to be an important part of our communications strategy and contains comprehensive information on both the Authority and the Fund. It explains how the Authority operates and gives all stakeholders access to member booklets and policies, together with our half yearly investment results and investment policies and strategy.

If your contact details change, we request you advise the scheme administrator, Datacom, so we can contact you if required. Datacom will provide you with a personal details form on request for this purpose. Your personal information is maintained and stored electronically by the Authority within a cloud service in New Zealand.

## The Board

The Board has worked effectively and efficiently in 2015/16 with seven full Board meetings being held during the financial year. The Board has two permanent committees, an Investment Committee chaired by Craig Ansley and an Audit and Risk Review Committee chaired by Cecilia Tarrant. There is also a GSFBS Committee in place to provide governance oversight to the project developing the new Business System for the administration of the GSF Schemes. The GSFBS Committee is chaired by Michelle van Gaalen.

## Conclusion

The Board thanks the Minister of Finance and government officials for their support, and the Management team and staff for their high level of work and commitment to meeting the Authority's objectives.

I also thank my fellow Board members for their expertise and commitment during the year.



**Keith B Taylor**

*Chairman*

*Government Superannuation Fund Authority Board*

7 September 2016

