



GOVERNMENT  
SUPERANNUATION FUND  
AUTHORITY

# Statement of Intent

JULY 2023 to  
JUNE 2027

SOI 23



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# Statement from the Board

The Government Superannuation Fund Authority (**the Authority**, “**we**”, “**our**”) is an autonomous Crown Entity established under the Government Superannuation Fund Act 1956 (**the Act**).

The functions of the Authority are to manage and administer the Government Superannuation Fund (**GSF** or **the Fund**) and the GSF superannuation schemes (**the Schemes**) in terms of the Act.

The Fund has an actuarial deficit in that the assets are significantly less than the gross liabilities of the Schemes. The deficit exists primarily because, over the years, successive governments have elected not to pay employer contributions on behalf of their staff. Instead, governments provided funding as entitlements were paid. The Authority relies on the provisions in the Act for the Minister of Finance (**Minister**) to ensure that sufficient funds will be available to the Fund to pay entitlements as they fall due.

In carrying out our functions, we have established two desired outcomes:

1. Contribute to an improvement in the Crown’s overall economic position by endeavouring to minimise the Crown’s contributions to the Fund.
2. Meet the needs and reasonable expectations of stakeholders.

We seek to maximise the returns of the Fund without undue risk, controlling costs and ensuring members receive their entitlements in accordance with the Act.

The members of the Schemes and the employer contributors to the Schemes are also key stakeholders of the Fund. We have determined the reasonable expectations of the members and the employers to be as follows:

- Members - for entitlements to be calculated correctly, consistent with the Act and the policies maintained by the Authority, and to be paid on time. Meeting this expectation is a key factor in the Authority’s management and administration of the Schemes.
- Employers - for contributions to be minimised.

We take a long-term view when developing our investment strategy because the Fund is expected to pay entitlements for approximately 50 years.

We have adopted an Investment Objective (see page 5) and strategy that involves taking additional investment risk to improve the Crown’s position compared to investing solely in New Zealand Government Stock (**NZ Government Bonds**).

Our investment strategy is also benchmarked against a Reference Portfolio, which is a simple, notional portfolio that would be expected to largely achieve the Investment Objective by investing only in major, liquid, public markets at low cost. 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 managers.

As part of the strategy, we have diversified away from equity risk into alternative sources of additional return and engages skilled active managers as we believe they can add value after allowing for additional fees and costs.

We have used active investment management for the Fund since 2008.

We report on how we have performed relative to our objectives in the Annual Reports of the Authority and the Fund.

More information on the Authority and its policies and operations is available on our website:  
[www.gsfa.govt.nz](http://www.gsfa.govt.nz).



Anne Blackburn  
Chair



Michael Sang  
Chair, Audit and Risk Review Committee

June 2023

# The Authority

## Nature and Scope

The Authority was established in 2001 to manage and administer the assets of the Fund and the Schemes in accordance with the Act.

The Authority Board (**the Board**), established by the Act and appointed by the Minister, governs the Authority and determines its business either directly or by delegation.

We oversee management of the Fund and the Schemes and have outsourced the day-to-day activities in relation to Schemes administration and investment management, including custody of the Fund's assets.

Our organisational structure is set out in Diagram 1 on page 4.

This Statement of Intent (**SOI**) is prepared pursuant to part 4 of the Crown Entities Act 2004 (**Crown Entities Act**) and the Crown Entities Act: Statement of Intent Guidance published by the Treasury. In addition, as required by Section 15N of the Act, the SOI includes specific comments on the expected performance of the Fund, the key risks to the performance and the steps taken to manage those risks (see pages 10–18).

This SOI covers the four financial years ending 30 June 2024 to 30 June 2027.

## Functions and Operations

Our functions are to manage and administer the Fund and the Schemes in accordance with the Act. All decisions relating to the business of the Authority are made under the authority of the Board, in accordance with section 25 of the Crown Entities Act.

Our key activities fall into the following two broad categories:

### Investment

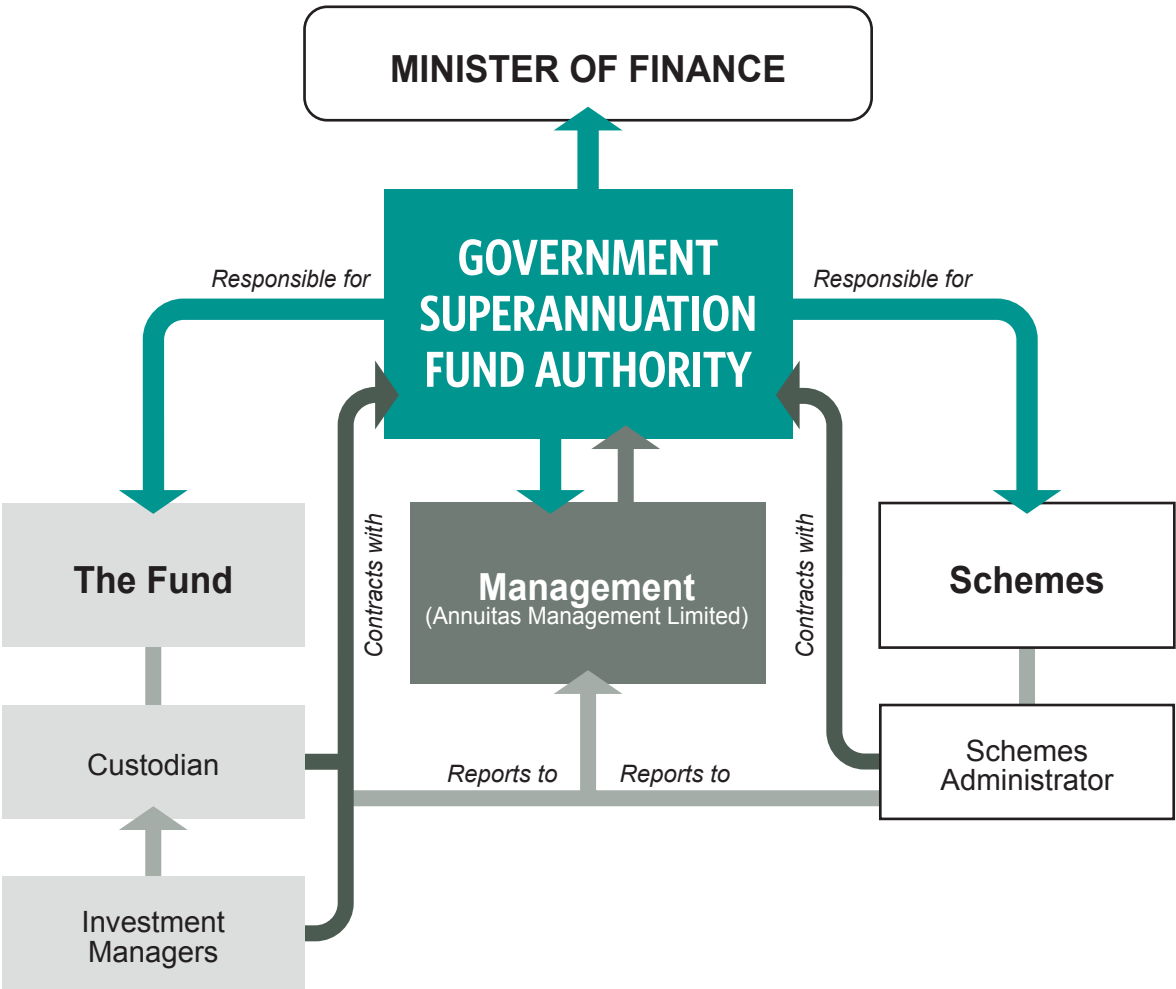
- Management of the investment assets of the GSF.

### Schemes

- Management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- Interpretation of the provisions in the Act and exercise of discretionary powers in relation to any Schemes matters.

Details on the outputs and performance measures for these activities are provided on page 11 (Investment) and page 18 (Schemes).

**Diagram 1: Structure of the Government Superannuation Fund Authority and its operations**





# Investment

## Objectives and strategy

Our investment responsibilities under the 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; and
- avoid prejudice to New Zealand's reputation as a responsible member of the world community.

We meet these responsibilities by developing and implementing:

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

## Best practice portfolio management

We interpret best practice portfolio management as:

- having a clear investment objective that reflects our statutory responsibilities and desired outcomes;
- maintaining a sound investment strategy consistent with that objective and our 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; and
- sharing relevant knowledge and resources with other Crown Financial Institutions (**CFIs**), peer funds and experts.

## Investment Beliefs and Investment Strategy

Our Investment Beliefs provide a foundation for the Fund's investment strategy. They represent the our 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 us to take a long-term view for the Fund's 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 New Zealand taxes.

Implementation of the investment strategy is outsourced to third parties. We determine investment strategy, select and monitor external managers. We manage investment operational risk by robust contractual arrangements with an independent custodian and the outsourced managers. Our Statement of Investment Policies, Standards and Procedures (**SIPSP**) sets out how these risks are managed. The SIPSP is reviewed and updated at least annually by the Board.

Our Investment Beliefs and Investment Strategy are detailed in the following table:

Core Investment Beliefs	Investment strategy
<p><b>Risk</b> Higher returns usually require us to accept higher risk of loss and/or variability of returns</p>	<p>We seek Fund returns in excess of NZ Government Bonds primarily by accepting additional investment risk.</p>
<p><b>Time Horizon</b> As a longer horizon investor, we believe we are better able to absorb the volatility associated with higher returns than short-term investors.</p>	<p>Because the Fund has a long horizon and meets only part of the GSF's pension obligations it can tolerate the volatility associated with a high level of equity risk.</p>
<p><b>Diversification</b> We believe on average over time spreading investments among different sources of return improves the quality of our portfolio.</p>	<p>The Fund seeks diversified exposures to rewarded non-traditional risk factors where practicable and consistent with its investment objectives. The Fund generally has some foreign currency exposure to diversify risk.</p>
<p><b>Asset Allocation</b> Our allocation to global equities is the largest determinant of the portfolio's risk and return.</p>	<p>Equity risk is the largest source of investment risk and excess return in the Fund. The Fund invests in other sources of systematic risk and return. Asset allocation may be varied within prescribed limits when market prices diverge widely from normal valuations.</p>
<p><b>Active Management</b> Selective active management can add value to the Fund.</p>	<p>Passive investment in broad market representative portfolios is the default strategy to access return sources. Active management is used where there is sufficient confidence in the ability of available investment managers to add value net of costs. Active managers are benchmarked against replicable indices, where possible, that reflect the risk factors they attempt to capture.</p>
<p><b>Ethical/responsible investment</b> Environmental, social and governance (<b>ESG</b>) factors should be considered from both an investment and reputational perspective.</p>	<p>The Fund does not invest in entities acting contrary to NZ's laws or international agreements and excludes direct tobacco investments. The Authority is a member of United Nations supported Principles for Responsible Investment (<b>PRI</b>). We collaborate with other investors to engage with companies that breach the PRI standards and exclude them from the Fund when engagement is unlikely to improve outcomes. The Fund's managers take account of material ESG factors in their investment processes.</p>
<p><b>Climate-related risk</b> Climate change presents significant investment risks and opportunities. In addition, we have a responsibility to help limit global warming.</p>	<p>Alongside other CFIs we have committed to achieving net-zero carbon emissions, when measured across the Fund's investments, by 2050. We have an interim target to reduce the carbon intensity of the Fund's listed equities portfolios by 50%, from where they were at 30 June 2019, by 30 June 2025.</p>

Core Investment Beliefs	Investment strategy
<p><b>Oversight</b> We believe a good governance framework promotes improved investment outcomes for the Fund.</p>	<p>We have clear decision-making frameworks, including these Investment Beliefs, that ensure we maintain a steady hand through times of market turmoil. We regularly monitor Fund and manager performance against replicable benchmarks, where possible, net of fees and costs, to gauge added value.</p>
<p><b>Implementation</b> We believe managing alignment of interests, fees and costs is a critical component of Fund outcomes.</p>	<p>We measure performance net of fees and costs and regularly compare manager fees with market peers to ensure they are competitive.</p>

## Maximising return without undue risk to the Fund as a whole

We seek to develop and maintain a diversified and efficient investment portfolio that will meet the Investment Objective described below. We implement this strategy by allocating the Fund's assets across a mix of exposures to broad categories of market risk and return and supplementing this with active, skill-based sources of return.

We have defined our Investment Objective as follows:

### Investment Objective

The Authority aims to maximise the Fund's excess return relative to NZ Government Bonds (before New Zealand tax) without undue risk of underperforming NZ Government Bonds measured over rolling ten-year periods.

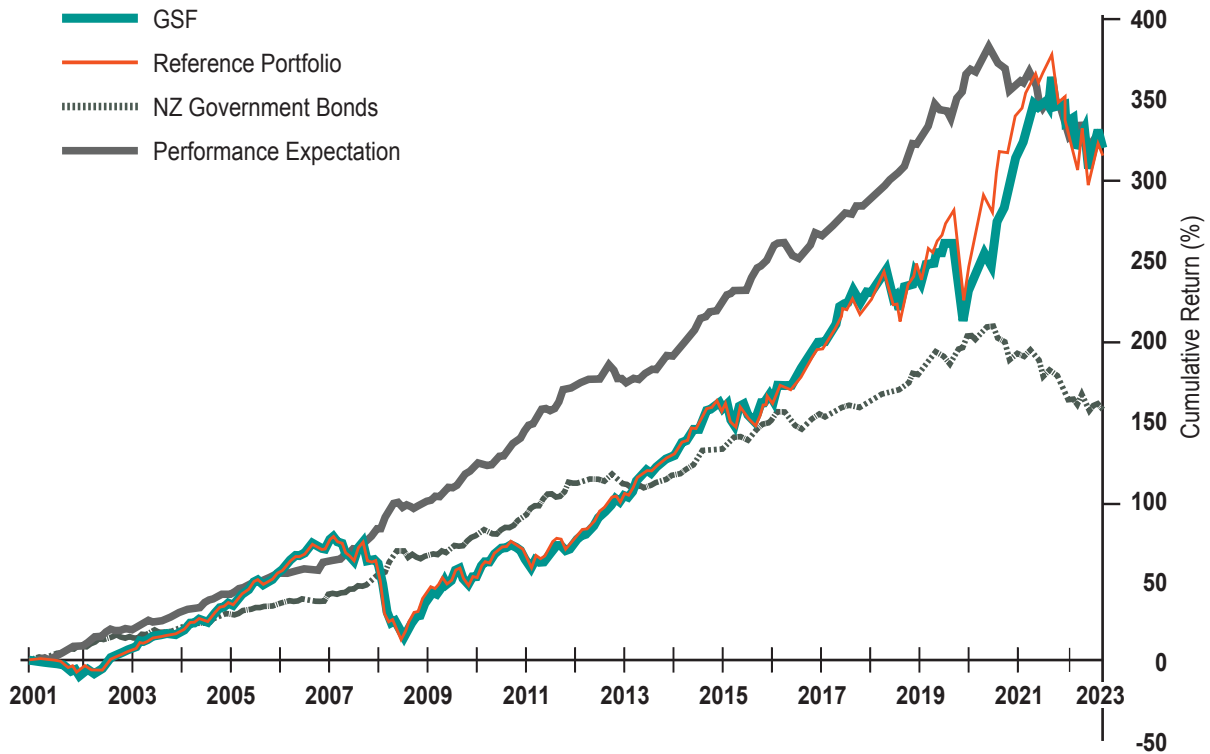
We benchmark the Fund's investment performance against a Reference Portfolio as well as against the Investment Objective. The Reference Portfolio is a simple, notional portfolio that would be expected to largely achieve the Investment Objective by investing only in major, liquid, public markets at low cost. Most of the Fund's performance will be attributable to the market risk factors captured in the Reference Portfolio.

In addition, we aim 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 (i.e. 'alpha')
- periodically adjusting the Fund's exposure to the asset classes to which it is exposed.

The Fund's investment return since October 2001, when the Authority assumed responsibility for managing the Fund, is compared with the Investment Objective and Reference Portfolio in Graph 1 over the page.

**Graph 1: GSF Cumulative Return since Inception (before tax and after fees)**



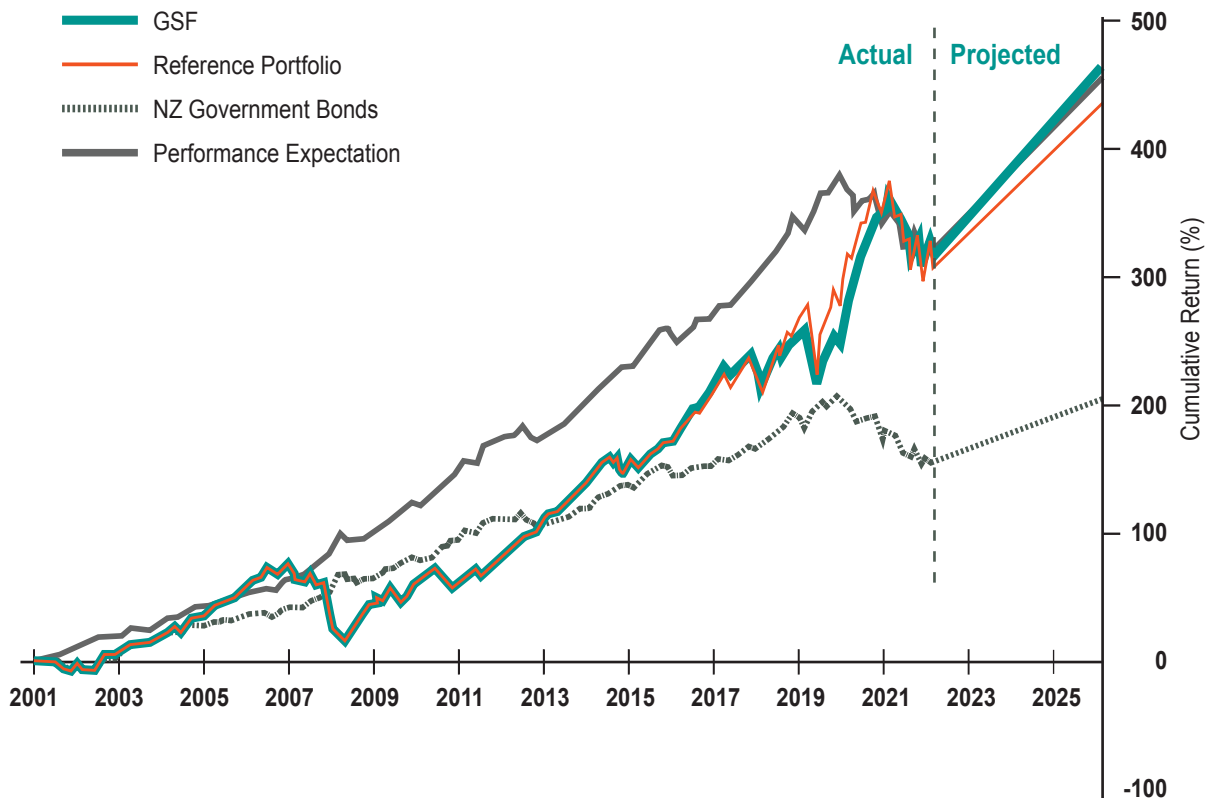
Over the next 10 years, we expect the Fund to achieve an average return of 7.7% pa. before tax and investment costs, from:

- an expected return of 4.6% pa from NZ Government Bonds;
- an expected return of 2.3% pa from additional risk in the Reference Portfolio; and
- an expected return of 0.8% pa from alternative market exposures and active management strategies.

The volatility of market prices for risky assets like equities means the actual return in any given year may vary widely from the ten year expected average. The range of potential average returns over rolling ten year periods is much narrower than for any single year however.

The projected return for the next ten years and the expected range of outcomes are illustrated in Graph 2 on the next page.

**Graph 2: GSF Return Projection (before tax and after fees)**



Because the Fund will pay entitlements for the next 50 years, we take a long-term view in setting the Fund's investment strategy. We measure investment performance over rolling ten-year periods. Market returns are in line with target since inception.

We regularly review the Fund's investment strategy and believe the current strategy and risk profile are appropriate to achieve the investment objective over the Fund's long-term horizon.

## Avoid prejudice

We have developed programmes to monitor the risk of investments to New Zealand's reputation, exclude prejudicial investments where practicable, engage companies on environmental, social and governance (**ESG**) issues and generally support greater integration of material ESG issues into investment processes. This includes development of measures to assess the Fund's exposure to climate-related risks and opportunities, including transition risks, report these in accordance with globally accepted standards, and align investments with Government policies to reduce global greenhouse gas emissions. Our Responsible Investment policies are contained in section 6 of the Statement of Investment Policies Standard and Procedures (**SIPSP**). The SIPSP is available for viewing on our website - [www.gsfa.govt.nz/policies](http://www.gsfa.govt.nz/policies).

We are a signatory to the United Nations supported Principles for Responsible Investment (**PRI**). Signatories seek to address six aspirational principles established by PRI where they are consistent with each signatory's fiduciary duties. The principles can be viewed on the PRI website - <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment>.

We have entered into a resource sharing agreement with other CFIs to help us meet our 'avoid prejudice' obligations and implement our policies, including our PRI commitments, efficiently.

# Forecast Service Performance

## Investment Performance Expectations

Our forecast investment return is based on expected average ten year returns for each asset class held (see Significant Assumptions used in the Forecast of the Fund on page 13).

Given the volatility of market prices for risky assets like equities, the actual return in any given year may vary widely from the ten year average. The range of potential annual returns over rolling ten year periods is also much narrower than for any single year.

Our forecast return for the Fund for the year ended 30 June 2024 is 7.7% before tax and investment costs (see Table 1 on page 10). This translates to forecast investment income, including valuation changes, of \$371 million<sup>1</sup>.

We forecast the Reference Portfolio to have a 10-20% chance of returning 10% less than NZ Government Stock over the next 10 years.

The forecast return for the Fund includes added value from alternative market exposures and active management strategies. These increase the Fund's expected return compared with the Reference Portfolio with a comparable degree of risk. The Actual Portfolio is forecast to return 0.8% (\$40 million) more than the Reference Portfolio, before tax and investment costs.

**Table 1: Projected Investment Performance for the year ended 30 June 2024**

Investment Performance	Actual Portfolio 2023/24		Reference Portfolio 2023/24	
	\$m	%	\$m	%
Gross Investment Income	371	7.7	331	6.9
Total investment costs	31	0.6	17	0.4
Net Investment income	340	7.1	314	6.5
Tax	64	1.3	64	1.3
<b>Forecast Investment Income after Tax</b>	<b>276</b>	<b>5.8</b>	<b>250</b>	<b>5.2</b>

Investment Costs	Actual Portfolio 2023/24		Reference Portfolio 2023/24	
	\$m	%	\$m	%
Investment management fees	27	0.54	14	0.30
Custody expenses	1	0.02	1	0.02
Overheads (share of Authority's operating expenses)	3	0.06	2	0.04
<b>Total Investment Costs</b>	<b>31</b>	<b>0.62</b>	<b>17</b>	<b>0.36</b>

Numbers may not add due to rounding.

<sup>1</sup> Refer Forecast Statement of Changes in Net Assets on page 31

Notes for Table 1:

- The Actual Portfolio includes investment activities aimed at improving risk-adjusted return compared to the Reference Portfolio.
- Table 2, on page 12, shows the assumed asset allocations for the Actual Portfolio and the Reference Portfolio.
- The assumed returns from each asset class are set out in Table 3 on page 14 and include, where appropriate, the added value expected from active management of the asset class. We have used a conservative estimate for active management, assuming managers outperform by the amount of their base management fee.
- Total investment costs include the projected investment management fees and custody expenses and 70% of the Authority's projected operating expenses. The other 30% of the Authority's expenses is allocated to Schemes. For the Reference Portfolio assumptions, the Authority's expenses are allocated 50:50 between the Investments and the Schemes.

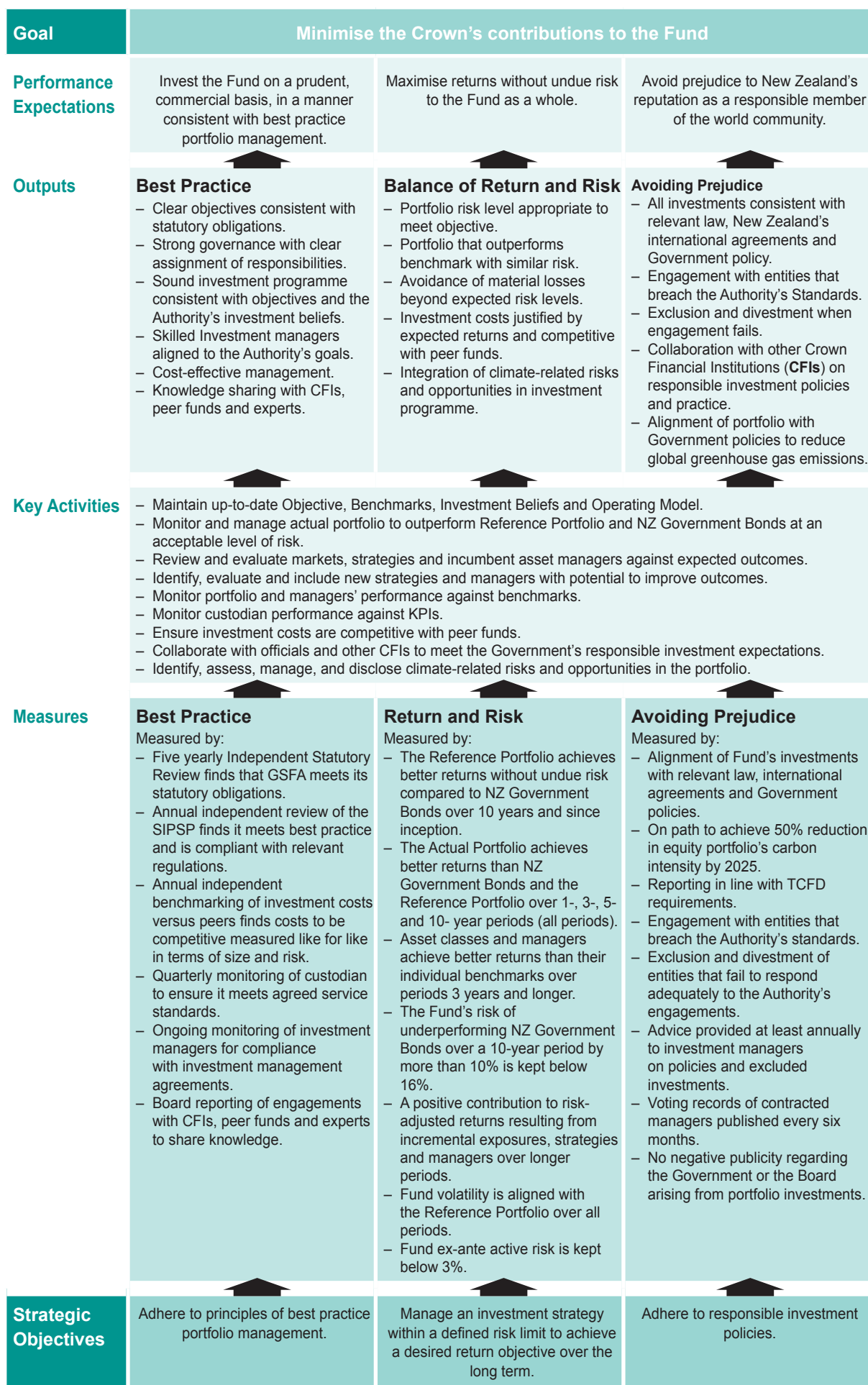
**Table 2: Projected Investment Performance for the years to 30 June 2027**

Forecasted Performance of Actual Portfolio	2023/24 (%)	2024/24 (%)	2025/26 (%)	2026/27 (%)
<b>Gross Investment Income</b>	<b>7.7</b>	<b>7.4</b>	<b>7.3</b>	<b>7.3</b>
Total investment costs	(0.6)	(0.7)	(0.7)	(0.6)
Net Investment income	7.1	6.6	6.6	6.6
Tax	(1.3)	(1.3)	(1.3)	(1.3)
<b>Forecast Investment Income after Tax</b>	<b>5.8</b>	<b>5.3</b>	<b>5.4</b>	<b>5.3</b>

## Outputs and Performance Measures

In addition to setting the Investment Objective, we set specific outputs and performance measures for investment. These help us achieve the investment outcomes we have established. Some outputs are ongoing, while others reflect specific projects that may be completed over a period beyond one year.

We have identified the following service performance outputs and performance measures for investment:





## Significant Assumptions used in the Forecast of the Fund

Table 3 sets out the assumptions we have used for the asset allocation of the Fund's Actual Portfolio and Reference Portfolio. The Reference Portfolio is a simple, notional portfolio, invested passively in liquid public markets only.

We seek to enhance the Fund's performance by investing in certain alternative market exposures, such as private equity, catastrophe insurance, life settlements and active management strategies. We reflect these exposures and strategies in the Actual Portfolio and expect to increase Fund returns and/or reduce investment risk compared to the Reference Portfolio, after allowing for incremental costs.

**Table 3: Assumed Asset Allocations (%) of the Actual Portfolio and the Reference Portfolio as at 30 June 2023**

Asset Class	Actual Portfolio	Reference Portfolio
<b>International Equities</b>	<b>70</b>	<b>70</b>
Public	55	
Private	15	
<b>New Zealand Equities</b>	<b>10</b>	<b>10</b>
Public	7	
Private	3	
<b>Global Fixed Interest</b>	<b>14</b>	<b>20</b>
Catastrophe Risk	3	
Life Settlements	3	
<b>Total</b>	<b>100</b>	<b>100</b>
Foreign Currency Exposure	(20)	(20)

**Table 4: Assumed Returns (%) and Risk (%) for each Asset Class (before tax and before fees)**

Asset Class	Actual Portfolio	Reference Portfolio	Risk
International Equities	8.0	7.5	15
New Zealand Equities	7.4	6.9	13
Global Fixed Interest	5.1	4.6	3
Global Private Equity	9.1	n/a	15
Catastrophe Risk	6.7	n/a	4
Life Settlements	7.0	n/a	3
<b>Total Portfolio</b>	<b>7.7</b>	<b>6.9</b>	<b>12</b>

*Notes*

- *The assumed returns for the Reference Portfolio allow for current market conditions.*
- *The risk measure is the assumed annual volatility of return for each asset class. The annual volatility is not an appropriate risk measure for Catastrophe Risk and Life Settlements.*
- *Actual investment management fees may vary significantly from those projected. Actual returns from each asset class in the year may vary significantly from expected returns. In addition, performance fees are paid to some managers if agreed performance targets are exceeded.*
- *The assumed returns for each asset class in the Actual Portfolio include, where appropriate, the added value expected from active management of the asset class. We have used a conservative estimate for active management, assuming managers outperform by the amount of their base management fee.*
- *Currency hedging to New Zealand dollars is in place for all international assets while leaving an overall level of foreign currency exposure the Board considers is prudent. The net currency exposure benchmark is currently 20% of the Fund's assets. The Fund may have foreign currency exposure anywhere between 0% - 40%.*
- *Projected investment assets at 1 July 2023 are estimated using average asset values for the three months to 31 January 2023 with expected returns applied to 30 June 2023.*
- *Projected entitlement payments from the Fund are \$17 million per month.*
- <sup>a</sup> *Taxation assumptions are summarised in Table 5.*

**Table 5: Taxation Assumptions**

Asset Class	Tax Assumptions
International Equities and most Alternative Assets	28% on 5% of the average value of the portfolios during the year.
New Zealand Equities	28% on dividends, allowing for 20% imputation credits
Global Fixed Interest and some Alternative Assets	28% on accrued profit or loss

# Schemes

## Background

The Schemes were established in 1948 to provide a way for public sector employees to save for their retirement.

The Schemes were closed to new members from 1 July 1992, except for people who were eligible for membership through their employment with certain Pacific Island governments. Membership was closed to these people in 1995.

There are seven Schemes, each of which is deemed to be registered as a superannuation scheme under the Financial Markets Conduct Act 2013 pursuant to section 9H of the Act.

At 30 June 2022, the Schemes had 48,628 members, made up of 5,940 contributory members and deferred annuitants (e.g. members who have elected to receive their entitlements from a future date) and 42,688 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 50 years or so.

Contributory members contribute a defined percentage of their superable salaries (which may be different to their total remuneration) to the Fund on a regular basis.

In return, they receive a retiring entitlement based on their average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non-Government employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund. The Government, as an employer, meets its share of members' retirement entitlements as they fall due for payment. Therefore, the Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non-Government employers) being deemed by the Authority's Actuary to be sufficient to meet 32.6% of the entitlements for the 2023/2024 year.

The actual and projected present values of the Unfunded Past Service Liabilities (**UPSL**) of the Fund have been calculated by the Authority's Actuary in the actuarial valuation, as at 30 June 2022. The results are set out in Table 6 on page 16. The UPSL values are estimates of the Crown contributions required to meet the past service liabilities of the Fund.

**Table 6: Actual and Projected Unfunded Past Service Liabilities**

	Actual		Projected (30 June)			
	30 June 2022	2023	2024	2025	2026	2027
	\$M	\$M	\$M	\$M	\$M	\$M
Past Service Liabilities	12,259	11,941	11,587	11,209	10,813	10,403
Net Assets	4,962	4,937	4,905	4,868	4,830	4,791
Unfunded Past Service Liabilities	7,297	7,004	6,683	6,340	5,983	5,612

Numbers may not add due to rounding.

#### Notes

- The actual and projected unfunded past service liabilities were calculated by the Authority's Actuary using a net of tax investment rate. The UPSL, calculated using a gross discount rate, are recorded in the Crown's financial statements. In estimating the future net assets, the Actuary has assumed there will be no added value from active investment management.
- Investment markets returns have been greater than assumed by the Authority's Actuary since the valuation was undertaken at 30 June 2022.
- The Actuary is projecting the net assets to be \$4.9 billion as at 30 June 2023 and 2024, reducing to \$4.8 billion for 2025, 2026 and 2027. In comparison, the Board is projecting the net assets to be \$4.9 billion as at the same dates (refer page 31 Forecast Statement of Change in Net Assets).

In all actuarial valuations since 30 June 2012, the Authority's Actuary has made allowance for continued improvements in mortality (i.e. for annuitants living longer) which has increased the past service liabilities and consequently the UPSL.

We are responsible for managing and administering the Schemes in accordance with the Act. The day-to-day administration of the Schemes is outsourced to Datacom Connect Limited (**Datacom**).

The overall expected costs for year ending 30 June 2024 (**Schemes**) of \$7.5 million include the expected Schemes administration expenses, estimated actuarial costs and approximately 30% of the Authority's projected operating expenses (see page 31).

## Objectives and Strategy

We aim to ensure sustainable, cost effective management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements. We do this by ensuring:

- contributions are collected and entitlements are calculated and paid correctly in a cost effective and timely manner, in terms of the Act and the policies maintained by the Authority (**Policies**); and
- service levels agreed with Datacom are met.

The sustainability of the Business System, used for administration of the Schemes, is fundamental to achievement of this strategy. We developed a new Business System that has been in use by Datacom since December 2016. The Business System is working well and we are confident it will be sustainable over the medium to longer term.

Also key in achieving the Schemes' outcome is the performance of Datacom. We have established and maintain a co-operative relationship with Datacom to ensure all issues relating to the administration of

the Schemes are communicated early to us and are managed and resolved in an open collaborative manner, taking into account the interests of the members of the Schemes and the Crown.

The Actuary appointed by the Authority undertakes actuarial reviews of the Fund on a regular basis. Based on these reviews, we report to the Crown on the value of the liabilities of the Fund, as required by section 94 of the Act.

In communicating with members and employers, we seek to ensure information provided is of a high standard and is timely. This includes information on member entitlements and our activities.

We interpret the provisions of the Act and the Policies, and exercises our discretionary powers, in relation to matters raised by members. We seek to achieve equity and consistency in our application of the provisions of the Act and the Policies.

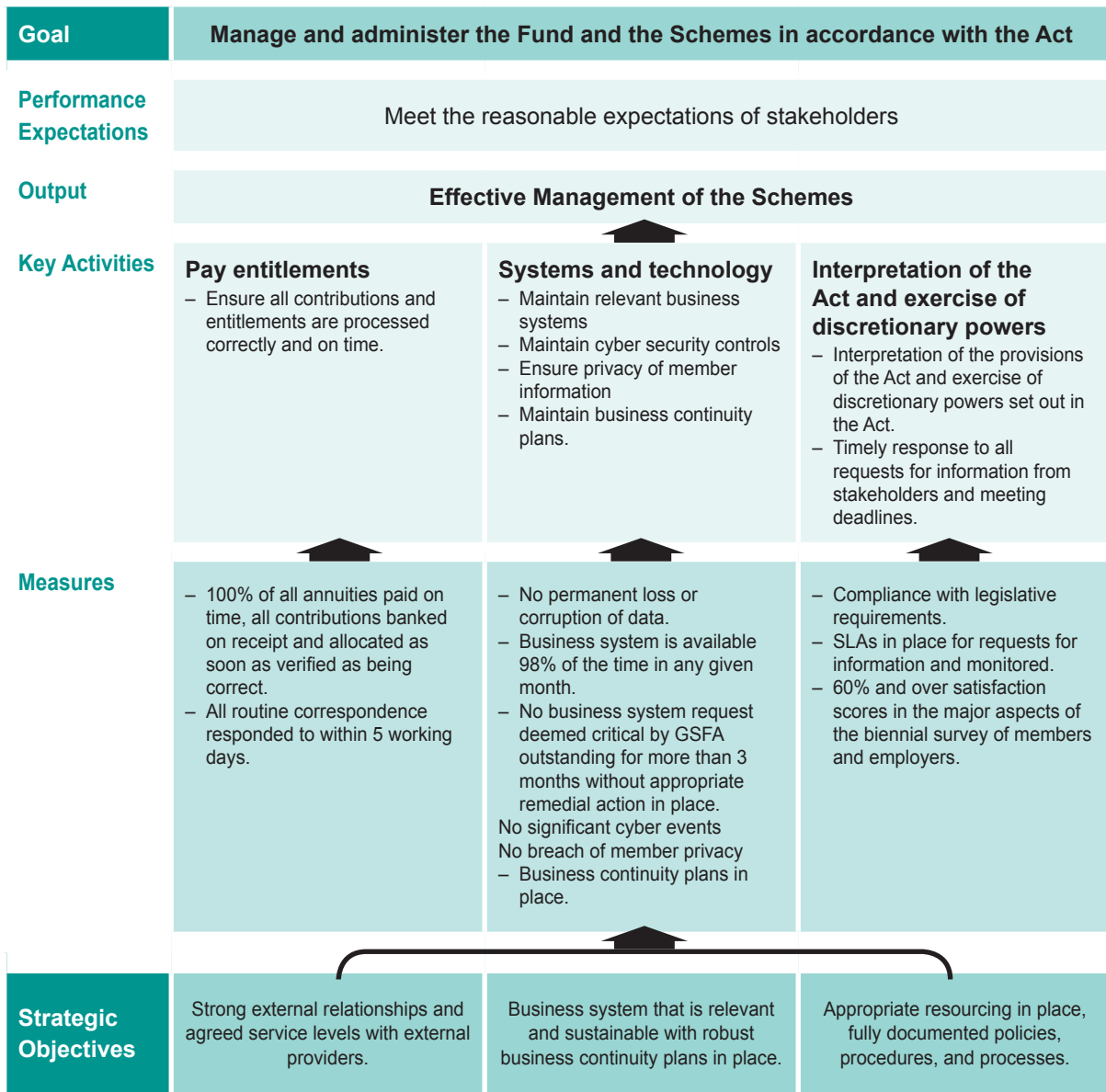
## Forecast Service Performance

Our key activities in relation to the Schemes are:

- management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator; and
- interpretation of the provisions in the Act and the Policies and exercising discretionary powers (set out in the Act).

# Outputs and Performance Measures

We have identified the following outputs and performance measures to assist in achieving the Schemes' outcome:



# Organisational Health and Capability

## Governance

The Board is the governing body of the Authority and is responsible for making all strategic decisions relating to the Fund and the Schemes. The Board has all the powers necessary for managing, and for directing or supervising the management of, the business of the Fund.

The Minister appoints the members of the Board. The Board has a wide range of experience and expertise in the investment, financial and business sectors.

The Board has prepared a Governance Manual and a Corporate Governance Statement.

The documents incorporate legislative and regulatory requirements as well as the policies and practices developed by the Board. The Authority's Corporate Governance Statement is available on our website – [www.gsfa.govt.nz](http://www.gsfa.govt.nz).

Our key policies and practices are set out below:

- Our obligations with respect to the Fund and the Schemes are supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on at least an annual basis.
- The Board reviews, on at least an annual basis, its own activities and the activities of Management, to ensure that clear and proper sets of accountabilities remain in effect, delegations are properly implemented, and reporting is comprehensive.
- The Board reviews its own performance annually and, at all times, aims to achieve best practice.
- The Board has established two committees:
  - Audit and Risk Review; and
  - Investment

to perform and exercise the functions and powers of the Board delegated to each committee, as applicable. The committees have written terms of reference and ensure their activities remain consistent with the Crown Entities Act. Each committee reviews its performance annually and their performance is also reviewed by the Board.

- The Board meets at least six times per annum and ensures that it receives appropriate and reliable reporting on the Fund and the Schemes, and on the actions of its Management and other service providers.
- The Board regularly considers the resources required for the effective and proper management of the Fund and the administration of the Schemes and acts to ensure that resources available to the Authority, both internally and externally, align with these requirements. The Board aims to use resources of appropriate quality and capacity for its needs, at a reasonable cost. The Board ensures that comprehensive service level agreements are entered into with the major external service providers, which specify reporting and compliance standards.
- The Board has a systematic compliance programme with its service providers and any breaches of compliance are reported to the Board.

- The Board has established a risk management programme, which is implemented and reviewed regularly by Management. The Audit and Risk Review Committee monitors matters of risk management and reports to the Board.

## Organisational Structure

We have adopted an outsourced model for the key activities of Schemes administration and investment management (including custody of the Fund's assets).

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 management and secretarial roles on behalf of the Authority and NPF. The MSA between the Authority and Annuitas contains delegations of authority to enable Management to carry out the day-to-day management of the Authority's investment, custody and Schemes administration functions. At its quarterly meetings the Board receives reports from Management on all significant decisions made and matters determined under the delegations of authority.

The joint venture with NPF is seen to be the most appropriate way of providing the management and support required by the Board. The Schemes and the NPF schemes are closed to new members and both organisations have adopted an outsourced model for the major activities of investment, custody and Schemes administration. Annuitas allows economies of scale and higher quality resourcing than could be justified if each organisation operated on a stand-alone basis.

We have appointed:

- Datacom as the Schemes Administrator. Datacom is responsible for the collection and processing of contributions to the Schemes, maintenance of member records, calculating, notifying, processing and paying of all entitlements under the Schemes, maintaining toll free lines and a help desk to log and process all oral and written enquiries, and maintaining the financial records of the Schemes. All interpretation issues and determinations, arising under the Act and the Policies, must be referred by Datacom to us for decision;
- JP Morgan Chase Bank N.A. as the global custodian for the Fund. The custodian is responsible for the safekeeping of the assets of the Fund held in custody, settling transactions, and reporting on the performance and compliance of the investment managers we appoint;
- Specialist management organisations to undertake day to day investment decisions and trading, currency hedging and investment advice; and
- Towers Watson Australia Pty Limited to provide specialist actuarial advice.

## Organisational Development

Board members are typically appointed for three years and often serve two or more terms.

The Board, through the Chair, advises the Minister to help ensure an appropriate balance of skills and experience is maintained in the membership of the Board.



The Board generally sets aside a session each year for strategic planning and has regular investment refresher sessions to stay abreast of current and emerging best practices. The Board assesses whether its strategies remain appropriate and the capabilities of the organisation to achieve its Objectives. In particular, the Board reviews the robustness and sustainability of its systems and technology and assesses whether appropriate resources and skills are in place for the Authority and Management to achieve their accountabilities and responsibilities.

Investment workshops provide an opportunity for the Board and Management to receive presentations and discuss contemporary issues and new approaches relating to investment management, or other parts of our business. Board members are also encouraged to take advantage of training and development opportunities available in superannuation and investment.

We maintain close working relationships with other CFIs. A formal collaboration process is in place to facilitate sharing of information and strategies with other CFIs where appropriate, including joint evaluation of investments.

Management of the Fund's assets and the administration of the Schemes will continue to be outsourced to specialist organisations. A key element of an outsourced model is to ensure each contracted manager, where appropriate, has in place a well planned and tested business continuity plan (**BCP**), including a disaster recovery programme (**DRP**). This is particularly important in the key areas of custody and Schemes administration. The BCPs/DRPs for the custodian and the Schemes Administrator are tested on a regular basis and reported to the Board.

The Management team is responsible for overseeing the key roles and responsibilities – investment, Schemes administration and finance. Key person risk is reduced by maintaining appropriate back-up support in the three key areas. Annuitas is committed to being a 'good employer' and offering equal employment opportunities to prospective and existing staff. Each year Annuitas has programs focused on the following elements:

- Leadership, accountability and culture
- Recruitment selection and induction
- Employee development, promotion and exit
- Flexibility and work design
- Remuneration and recognition conditions
- Harassment and bullying prevention
- Safe and healthy environment.

# Consultation and Reporting to the Minister

## Matters requiring consultation with the Minister

We are required to consult with the Minister on the following matters:

- The method for calculating interest on contributors' contributions, where the contributor is discharged or released from the regular forces in circumstances where no retiring allowance is payable (section 71K(b) of the Act).
- Approval of any class of transactions which involve:
  - borrowing money;
  - mortgaging or charging any of the real property of the Fund, whether present or in the future, as security; or
  - entering into a derivative transaction or amending the terms of that transaction (where derivative transaction includes swaps, options, futures and any combination of those things).
- Approval to operate bank accounts outside the provisions set out in section 158 of the Crown Entities Act.

Approvals have been sought and granted for some of the matters outlined above.

With regard to derivative transactions, the Minister has given approval for the Authority to enter into such transactions where the use is consistent with the SIPSP.

No approvals from the Minister have been necessary with respect to section 71K(b), or with respect to borrowing of money or mortgaging of real property.

## Reporting to the Minister

The financial statements of the Authority and the Fund are maintained and reported in accordance with the Act and the Crown Entities Act. The Act requires us to report to the Minister on the Fund at intervals and include any information that the Minister requires. In addition to the annual reports of the Authority and the Fund, we provide information to the Minister for inclusion in the Crown's budget and economic updates. The Actuary appointed by the Authority calculates the Unfunded Past Service Liabilities for inclusion in the Crown's financial statements.

Treasury also reports to the Minister on a six-monthly basis, following consultation with us, on the Fund's investment performance and on key operational issues.

The Act requires that an independent review, by an independent consultant appointed by the Minister, must be conducted every five years of how effectively and efficiently we are performing its functions under the Act. Reviews were undertaken in 2006, 2011, 2016 and 2021. We expect the next review will be undertaken in 2026.

# Processes in Relation to Acquisitions

Section 141 of the Crown Entities Act requires us to report on any processes to be followed for the purpose of section 100 (Acquisitions of shares or interests in companies, trusts and partnerships).

We believe the intention of section 100 is to cover situations where the Authority buys shares to facilitate an acquisition strategy. The Authority has no plans to acquire shares for this purpose.

# Risk Management

A summary of our assessment of the key risks to the business, including the key risks to the performance of the Fund, and actions being taken to manage those risks is set out below.

## Investment Risks

Risk	Action to Manage
Investment strategy and asset allocation are inappropriate.	<ul style="list-style-type: none"> <li>• Establish quantified investment objectives in terms of risk, return and horizon reflected in a Reference Portfolio.</li> <li>• Diversify the risk exposures, assets and management techniques of the Fund.</li> <li>• Seek professional advice on the investment strategy and asset allocation.</li> <li>• Compare the investment strategy and asset allocation with peer funds.</li> <li>• Peer reviews of advice and regular consultation with other CFIs and large investment funds.</li> <li>• Independent statutory review every 5 years.</li> <li>• Review the SIPSP annually, as required by section 15L of the Act.</li> </ul>
Poor performance of active investment managers.	<ul style="list-style-type: none"> <li>• Robust selection process for all investment managers, based on demonstrated ability.</li> <li>• Diversification among strategies and managers where appropriate.</li> <li>• Avoid investment in strategies with low likelihood of adding value.</li> <li>• Mandates for active investment managers with clearly prescribed risk limits.</li> <li>• Regular monitoring and review of manager performance.</li> <li>• Management agreements, which provide for dismissal at our discretion.</li> </ul>

Risk	Action to Manage
Overall investment management risk.	<ul style="list-style-type: none"> <li>• Adoption of a Reference Portfolio that reflects an appropriate investment horizon and desired level of risk.</li> <li>• Specific mandate for each investment manager, based on best practice portfolio management.</li> <li>• Constraints to govern credit and liquidity risks.</li> <li>• Regular rebalancing of the Fund to approved risk exposure limits and use of strategic tilts.</li> <li>• Use of a custodian to hold securities, settle and record transactions, report on performance and monitor compliance of investment managers with mandates.</li> <li>• Operational risk review of commingled investment vehicles, including robust due diligence of managers, and monitoring of their prior and ongoing contractual obligations.</li> <li>• A comprehensive SIPSP, reviewed annually and enforced by the Authority.</li> <li>• Clear separation of functions between investment management, custody, and overall supervision.</li> <li>• Appropriate resourcing of the Management team to conduct the oversight function.</li> </ul>

Risk	Action to Manage
Currency risk, for example the risk that the Fund will lose value through adverse exchange rate movements.	<ul style="list-style-type: none"> <li>• Maintaining an overall level of foreign currency risk that is prudent in the context of the total Fund.</li> <li>• Limiting external managers' ability to add currency risk.</li> </ul>
The assumed gross pre- tax investment returns for each asset class are not achieved.	<ul style="list-style-type: none"> <li>• Adopting a diversified asset allocation for the Fund, reflected in the Reference Portfolio, and governance arrangements that ensure adherence to the strategy through time.</li> <li>• Appointing investment managers based on demonstrated ability, with benchmarks relevant to total portfolio risk.</li> <li>• Shifting asset or risk allocation to limit losses from extreme market events when asset values are extreme.</li> </ul>
Major structural changes to investment markets and/or taxation environment.	<ul style="list-style-type: none"> <li>• Neither of these risks is within our control. However, we take into account changes in these risks in our reviews of the investment strategy and asset allocation.</li> </ul>

## Reputation Risk

Risk	Action to Manage
Prejudice to New Zealand's reputation.	<ul style="list-style-type: none"> <li>• Determination of authorised investments and markets in investment mandates.</li> <li>• Exclusion of direct investment in certain activities that are illegal in New Zealand, contrary to international obligations and/or widely discouraged in New Zealand, such as nuclear weapons, landmines, cluster bombs, tobacco and whaling.</li> <li>• Assessment of Fund's exposure to climate-related risks and opportunities and alignment with Government policies to reduce global greenhouse gas emissions.</li> <li>• Implementing the Responsible Investment policies in collaboration with other CFIs and with support from the Guardians of New Zealand Superannuation and the PRI. We monitor securities with significant responsible investment risks, engages with high risk entities and may exclude those with unacceptable risks.</li> <li>• Encouraging external investment managers of commingled funds to consider our responsible investment policies.</li> </ul>
The Authority's reputation risk.	<ul style="list-style-type: none"> <li>• Robust selection process for contracted managers.</li> <li>• Comprehensive management and service level agreements and clearly defined and agreed mandates and reporting standards.</li> <li>• Informing contracted managers of our responsible investment policies, as set out in the SIPSP, and excluded investments.</li> <li>• Maintenance of an internal governance framework for appropriate fiduciary oversight, performance management and control of functions carried out by the Board and Management.</li> <li>• Implementation of a comprehensive risk management programme.</li> <li>• Sustainable management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements.</li> <li>• Clear communication with stakeholders.</li> </ul>

# Schemes Risks

## Liabilities

The Fund's liabilities arise from the defined benefit schemes specified in the Act. Factors that may affect the liabilities include:

- Movements in the consumer price index (**CPI**) (all retiring allowances and spousal annuities are CPI indexed).
- The rate of increase in contributors' salaries, especially as it affects the last five years of contributory service.
- The discount rate used to value the liabilities.
- Factors affecting retirement or cessation of service by contributors, including state sector restructuring and privatisations.
- Patterns of entitlement selection on retirement.
- Mortality rates.
- Quality of information (data) received from employers.

None of the above factors are within the control of the Authority. We will, however, ensure that accurate and timely information is provided to the Actuary to enable preparation of actuarial projections of the liabilities in accordance with the provisions of the Act.

Risk	Action to Manage
The provisions of the Act relating to the Schemes are not complied with and discretions relating to the Schemes are inappropriately applied.	<ul style="list-style-type: none"><li>• Monitoring the performance of the Schemes Administrator and resolving any issues of interpretation of the Act.</li><li>• Ensuring all discretionary decisions are exercised in accordance with the Act and the Policies.</li><li>• Ensuring any changes to the Policies are made only after taking into account the interests of relevant persons, including the Crown, in accordance with the Act.</li><li>• Appropriate resourcing of the Management team to conduct the oversight function.</li></ul>

**Administration**

We are responsible for the management and administration of the Schemes. Day to day administration duties are carried out by the Schemes Administrator, Datacom in accordance with an updated agreement effective from 1 April 2020.

In administering the Schemes, heavy reliance is placed on the Business System owned by the Authority. Support is provided for the Business System by Sensity Limited.

Risk	Action to Manage
<p>Poor performance by Datacom.</p>	<ul style="list-style-type: none"> <li>• Having a detailed scheme administration management agreement in place with Datacom, backed by a parent company guarantee.</li> <li>• Maintaining a close liaison with Datacom.</li> <li>• Monitoring Datacom’s performance against the KPIs.</li> <li>• Carrying out a biennial survey that assesses, amongst other things, the level of satisfaction of members and employers with the service provided by Datacom.</li> <li>• Taking remedial action on any issues identified in the survey.</li> </ul>
<p>Serious information technology problems.</p>	<ul style="list-style-type: none"> <li>• Ensuring any system modifications to the Business System are approved by the Authority and that the system is well maintained.</li> <li>• Ensuring Datacom and Sensity Limited have in place back- up procedures in place and a fully tested business continuity.</li> <li>• Ensuring the Authority, the Custodian, Datacom and Sensity have in place appropriate cyber security protocols</li> <li>• Business continuity plan and disaster recovery plan in place, and regular monitoring of systems reliability.</li> </ul>
<p>Breach of member privacy</p>	<ul style="list-style-type: none"> <li>• Ensuring the Authority, Datacom and Sensity have in place appropriate member privacy controls</li> </ul>







# Forecast Financial Statements

Forecast financial statements for the four years ending  
30 June 2027

## **The Fund**

- Forecast Statement of Changes in Net Assets
- Forecast Statement of Net Assets
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows
- Statement of Accounting Policies

## **The Authority**

- Forecast Statement of Comprehensive Revenue and Expense
- Forecast Statement of Financial Position
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Operating Result to Net Cash Flows from Operating Activities
- Statement of Accounting Policies

## Forecast Statement of Changes in Net Assets

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
	Increase in assets from:				
346,400	Investing activities	371,056	360,194	363,769	364,615
	Operating activities				
(47,849)	Expenses <sup>1</sup>	(43,902)	(44,424)	(43,038)	(39,674)
<b>298,551</b>	<b>Surplus before tax and membership activities</b>	<b>327,154</b>	<b>315,770</b>	<b>320,731</b>	<b>324,941</b>
(65,000)	Tax	(63,911)	(64,754)	(65,449)	(65,821)
<b>233,551</b>	<b>Surplus after tax and before membership activities<sup>2</sup></b>	<b>263,243</b>	<b>251,016</b>	<b>255,282</b>	<b>259,120</b>
	Membership activities				
710,000	Contributions - Crown	705,000	711,000	709,000	704,000
13,000	Contributions - members	9,000	7,000	6,000	5,000
8,000	Contributions – other entities	8,000	7,000	6,000	5,000
(952,000)	Benefits paid	(978,000)	(986,000)	(983,000)	(974,000)
(221,000)	Net membership activities	(256,000)	(261,000)	(262,000)	(260,000)
<b>12,551</b>	<b>Net increase/(decrease) in net assets</b>	<b>7,243</b>	<b>(9,984)</b>	<b>(6,718)</b>	<b>(880)</b>
4,961,996	Opening assets available to pay benefits	4,974,547	4,981,790	4,971,806	4,965,088
<b>4,974,547</b>	<b>Net assets available to pay benefits</b>	<b>4,981,790</b>	<b>4,971,806</b>	<b>4,965,088</b>	<b>4,964,208</b>

## Notes:

- 1) Expenses - This amount is transferred from the Fund to the Authority to meet the investment, schemes administration and operating expenses of the Authority (see page 38).
- 2) The surplus in the Forecast Statement of Change in Net Assets is lower than the projected Forecast Investment Income in Table 1 as the Forecast Statement of Change in Net Assets above includes all the costs for the Authority.

## Forecast Statement of Net Assets

Estimate as at 30 June 2023 \$000		Forecast as at 30 June 2024 \$000	Forecast as at 30 June 2025 \$000	Forecast as at 30 June 2026 \$000	Forecast as at 30 June 2027 \$000
4,640,625	<b>Investments</b>	4,676,073	4,666,640	4,857,470	4,718,622
	Other assets				
430,010	Cash and cash equivalents	445,898	421,945	282,274	411,750
169,700	Receivables, prepayments and other assets	134,586	157,161	134,534	163,628
599,710		580,484	579,106	416,808	575,378
<b>5,240,335</b>	<b>Total assets</b>	<b>5,256,557</b>	<b>5,245,746</b>	<b>5,274,278</b>	<b>5,294,000</b>
	Less				
265,788	Payables	274,767	273,940	309,190	329,792
265,788		274,767	273,940	309,190	329,792
<b>4,974,547</b>	<b>Net assets available to pay benefits</b>	<b>4,981,790</b>	<b>4,971,806</b>	<b>4,965,088</b>	<b>4,964,208</b>
11,941,000	Estimated actuarial present value of promised retirement benefits	11,587,000	11,209,000	10,813,000	10,403,000
6,966,453	Deficit	6,605,210	6,237,194	5,847,912	5,438,792
<b>4,974,547</b>	<b>Net assets available to pay benefits</b>	<b>4,981,790</b>	<b>4,971,806</b>	<b>4,965,088</b>	<b>4,964,208</b>

Notes:

3) *Deficit*

- *The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) 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 at 30 June 2022 using a net discount rate.*
- *The Deficit shown in the Forecast Statement of Net Assets differs from that estimated by the Authority's Actuary in their actuarial valuation of the Fund as at 30 June 2022, under NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans (NZ IAS 26), dated 24 August 2022. The Authority's estimate at 30 June 2023 includes actual investment income to 31 January 2023.*
- *There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes and the Crown pays its share of the Deficit on a cash flow (pay as you go) 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 that sufficient funds are available, or will be available, to pay entitlements as they fall due.*

## Forecast Statement of Cash Flows

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
	<b>Cash flows from operating activities</b>				
	<i>Cash was provided from</i>				
715,690	Contributions - Crown	705,000	710,301	709,000	704,000
12,522	Contributions - members	9,000	7,000	6,000	5,000
7,735	Contributions - other entities	8,038	7,050	6,050	5,050
17,525	Income tax	-	-	-	-
91,257	Interest	122,686	120,565	121,256	121,538
	<i>Cash was disbursed to</i>				
(950,976)	Benefit payments	(978,000)	(986,000)	(983,000)	(974,000)
-	Income tax	(56,894)	(64,476)	(65,220)	(65,698)
(47,899)	Operating expenses	(43,402)	(44,424)	(43,038)	(39,674)
<b>(154,146)</b>	<b>Net cash (outflows) from operating activities</b>	<b>(233,572)</b>	<b>(249,984)</b>	<b>(248,952)</b>	<b>(243,784)</b>
	<b>Cash flows from investing activities</b>				
	<i>Cash was provided from</i>				
4,665,395	Maturities and sales of investment assets	5,375,210	4,985,250	5,475,210	4,850,760
	<i>Cash was disbursed to</i>				
(4,552,996)	Purchase of investment assets	(5,125,750)	(4,759,219)	(5,365,929)	(4,477,500)
<b>112,399</b>	<b>Net cash inflows from investing activities</b>	<b>249,460</b>	<b>226,031</b>	<b>109,281</b>	<b>373,260</b>
(41,747)	Net (decrease)/increase in cash held	15,888	(23,953)	(139,671)	129,476
471,757	Opening cash brought forward	430,010	445,898	421,945	282,274
<b>430,010</b>	<b>Closing cash balance</b>	<b>445,898</b>	<b>421,945</b>	<b>282,274</b>	<b>411,750</b>

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

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
12,551	<b>Net increase/(decrease) in net assets</b>	7,243	(9,984)	(6,718)	(880)
	<i>Add non cash items</i>				
2,575	Amortisation of Business system	2,575	2,575	2,575	858
50,927	Change in deferred Tax	-	-	-	-
53,502	<b>Total non-cash items</b>	2,575	2,575	2,575	858
	<i>Add/(less) movements in working capital items</i>				
20,940	Decrease/(increase) in receivables and prepayments	32,538	(25,148)	20,050	(29,951)
(41,206)	(Decrease)/increase in other payables	(6,113)	(17,297)	18,654	4,321
(20,266)	<b>Total movement in working capital items</b>	26,425	(42,445)	38,704	(25,630)
	<i>Add/(less) items classified as investing activities</i>				
(254,901)	(Decrease) in net investment assets	(247,371)	(240,130)	(242,513)	(243,076)
(666)	(Increase)/decrease in investment receivables	(33,500)	25,000	(20,000)	30,000
55,634	Increase/(decrease) in investment payables	11,056	15,000	(21,000)	(5,056)
(199,933)	<b>Total movement in investing activities</b>	(269,815)	(200,130)	(283,513)	(218,132)
(154,146)	<b>Net cash outflows from operating activities</b>	(233,572)	(249,984)	(248,952)	(243,784)

# Statement of Accounting Policies

## Reporting entity and statutory base

The Fund was established by section 13 of the Act. It consists of the assets held in respect of various defined benefit superannuation schemes prescribed in the Act. Pursuant to section 19H of the Act, each of the schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The Fund is managed by the Authority. The Authority was established as a Crown entity by section 15A of the Act and became an autonomous Crown entity under the Crown Entities Act 2004.

As the primary objective of the Fund is to make a financial return, the Authority has determined the Fund is a profit-oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

## Basis of preparation

### Statement of Compliance

The forecast financial statements meet the requirements of section 15N of the Act and comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**).

The forecast financial statements also comply with New Zealand equivalents to NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (**IFRS**).

These forecast financial statements have been prepared for the Statement of Intent of the Authority commencing on 1 July 2023 and for the Minister.

They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

### Measurement Base

The forecast financial statements have been prepared on the basis of historical cost with the exception of investment assets, including derivatives, which have been measured at fair value.

### Functional and presentation currency

The reporting currency of the Fund is New Zealand dollars. All values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Fund is New Zealand dollars.

### Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of changes in net assets, net assets and cash flows, have been consistently applied:

#### a. Reporting requirements

The forecast financial statements have incorporated the requirements of NZ IAS 26 with the provisions of relevant legislative requirements.

#### b. Investments

Investments are recorded on a trade date basis and are stated at fair value. Projected Investment assets at 1 July 2023 are estimated using average asset values for the three months to 31 January 2023 with expected returns applied to 30 June 2023.

#### c. Promised retirement benefits

The actuarial present value of promised retirement benefits is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered.

#### d. Financial instruments

The Fund is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, receivables and payables. Financial instruments, including derivatives that are hedges of specific assets, are recognised on the same basis as their underlying hedged assets. All financial instruments are recognised in the Statement of Net Assets and all revenues and expenses in relation to financial instruments are recognised in the Statement of Changes in Net Assets. Financial instruments are shown at their estimated fair value.

#### e. Receivables

Receivables are carried at amortised cost.

Assets that are stated at amortised cost, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the recoverable amount.

#### f. Other assets

Other assets include the Business System. The Business System is being amortised over ten years. Amortisation is being recovered from the Authority as the user of the Business System.

#### g. Investment income and expenses

Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis.

Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses, at the end of the year (including those arising on translation of foreign currencies), are included in the Income Statement.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered in accordance with section 15E of the Act.

### **h. Operating revenue**

In terms of section 15E(1) of the Act, the administration expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Employer subsidy payments made to the Fund by the Crown and other employers includes a share of the expenses.

### **i. Contributions and benefits**

Contributions are recognised in the Income Statement, when they become receivable, resulting in a financial asset for amounts receivable from both employees and employers.

Entitlements are recognised in the Income Statement when they become payable.

Contribution and entitlement projection numbers are taken from the *PBE IPSAS 39: Employee Benefits* actuarial valuation prepared for the Crown financial statements as at 31 January 2023.

### **j. Taxation**

For tax purposes, the Fund is classified as a portfolio investment entity (**PIE**). Income taxation expense includes both the current year's provision and the income tax effects of temporary differences (if any).

Since the Fund became a PIE there have been no temporary differences. The Fund is not registered for Goods and Services Tax.

### **k. Statement of Cash Flows**

The following are the definitions of the terms used in the Statement of Cash Flows:

Cash and other cash equivalents includes cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund and its managers invest as part of its day to day cash management. All balances have an original maturity of less than three months.

Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.

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

### **l. Consolidation**

The Fund's financial statements include the Judges' Superannuation Account and the Parliamentary Superannuation Account.

## Changes in accounting policies

There are no significant changes in accounting policies.



## Forecast Statement of Comprehensive Revenue and Expense

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
47,849	Transfer from the Fund	43,902	44,424	43,038	39,674
43	Other revenue	24	24	24	24
<b>47,892</b>	<b>Total revenue</b>	<b>43,926</b>	<b>44,448</b>	<b>43,062</b>	<b>39,698</b>
6,014	Schemes administration	6,131	6,115	6,141	4,448
37,604	Investment management	33,189	33,793	32,370	30,657
4,274	Operating expenses	4,606	4,540	4,551	4,593
<b>47,892</b>	<b>Total expenses</b>	<b>43,926</b>	<b>44,448</b>	<b>43,062</b>	<b>39,698</b>
-	Net operating result	-	-	-	-

## Forecast Statement of Financial Position

Estimate as at 30 June 2023 \$000		Forecast as at 30 June 2024 \$000	Forecast as at 30 June 2025 \$000	Forecast as at 30 June 2026 \$000	Forecast as at 30 June 2027 \$000
	<b>Tax payers' equity</b>				
-	General funds	-	-	-	-
-	<b>Total tax payers' equity</b>	-	-	-	-
	Represented by				
	Current assets				
650	Cash	850	500	750	650
3,000	Receivables and prepayments	3,300	3,800	3,150	3,600
<b>3,650</b>	<b>Total assets</b>	<b>4,150</b>	<b>4,300</b>	<b>3,900</b>	<b>4,250</b>
	Current liabilities				
3,650	Payables and accruals	4,150	4,300	3,900	4,250
<b>3,650</b>	<b>Total liabilities</b>	<b>4,150</b>	<b>4,300</b>	<b>3,900</b>	<b>4,250</b>
-	Net assets	-	-	-	-

## Forecast Statement of Cash Flows

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
	<b>Cash flows from operating activities</b>				
	<i>Cash was provided from</i>				
8,000	Government Superannuation Fund	9,000	9,000	9,000	9,000
43	Interest	24	24	24	24
	<i>Cash was disbursed to</i>				
(8,471)	Operating expenses	(8,824)	(9,374)	(8,774)	(9,124)
<b>(428)</b>	<b>Net cash flows from operating activities</b>	<b>200</b>	<b>(350)</b>	<b>250</b>	<b>(100)</b>
(428)	Net (decrease)/increase in cash held	200	(350)	250	(100)
1,078	Opening cash brought forward	650	850	500	750
<b>650</b>	<b>Closing cash balance</b>	<b>850</b>	<b>500</b>	<b>750</b>	<b>650</b>

## Forecast Reconciliation of Net Operating Result to Net Cash Flows from Operating Activities

Estimate 2022/23 \$000		Forecast 2023/24 \$000	Forecast 2024/25 \$000	Forecast 2025/26 \$000	Forecast 2026/27 \$000
-	<b>Net operating result</b>	-	-	-	-
	<i>Add/(less) movements in working capital items</i>				
130	Decrease/(increase) in receivables and prepayments	(300)	(500)	650	(450)
(558)	(Decrease)/increase in payables and accruals	500	150	(400)	350
<b>(428)</b>	<b>Net cash flows from operating activities</b>	<b>200</b>	<b>(350)</b>	<b>250</b>	<b>(100)</b>

# Statement of Accounting Policies and Significant Assumptions

## Reporting entity and statutory base

The Authority was established as a Crown entity by section 15A of the Act. The core business of the Authority is to manage and administer the Fund and the Schemes (see below).

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes as prescribed in the Act. A separate financial forecast has been prepared for the Fund. Pursuant to section 19H of the Act, each of the schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The forecast financial statements have been prepared on the basis that the Authority is a going concern. The Authority is an Autonomous Crown Entity for legislative purposes and, as the primary objective is not to make a financial return, the Authority has designated itself a Public Benefit

Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**).

## Basis of preparation

### Statement of compliance

The forecast financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**). The forecast financial statements comply with other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities.

These forecast financial statements have been prepared for the Statement of Intent of the Authority commencing on 1 July 2023 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period are likely to vary from the information presented.

### Measurement base

The forecast financial statements are prepared on the historical cost basis.

### Functional and presentation currency

The reporting currency of the Authority forecast financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Authority is New Zealand dollars.

## Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position, and cash flows, have been consistently applied:

### a. Forecast figures

The forecast figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Authority for the preparation of the financial statements.

### b. Revenue and expenses

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of consideration received/or receivable. Revenue from the Fund is recognised as earned and reported in the financial period to which it relates.

Expenses paid in foreign currency are recorded at the rates of exchange prevailing at the date of the transactions and there are no currency gains or losses.

### c. Goods and Services Tax

The Authority makes principally exempt supplies for Goods and Services Tax (**GST**), as it manages superannuation schemes. GST is imposed on imported services if those services would be a taxable supply in New Zealand. The affected transactions for the Authority are fees incurred in relation to the custody of assets and investment reports undertaken overseas. GST on services is not reclaimable and GST is therefore included in expenditure.

### d. Statement of Cash Flows

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

### e. Taxation

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

### f. Accounting for Joint Ventures

The Authority has a 50% ownership in Annuitas. Staff employed by Annuitas act in management roles on behalf of the Authority. Reimbursement of Annuitas costs, calculated on a time basis, are included in the operating expenses of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

## Changes in accounting policies

All policies have been applied on bases consistent with those used in the year ended 30 June 2022.

## Investment management expenses

Investment management fees (including custody costs) are forecast to decrease from the estimate of \$37.604 million in 2023 to a forecast of \$33.189 million in 2024. This is predominantly due to a reduction in the estimated performance fees for some managers.

## Schemes administration expenses

The forecast Schemes administration expenses include reimbursement to the Fund for amortised expenditure on the Business System owned by the Fund.

## Recovery of expenses

The forecast expenses of the Authority, for the management and administration of the Fund and the Schemes for the 2023/2024 year, are \$43.926 million. These expenses, net of other revenue of \$0.024 million are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers payments made to the Authority (forecast \$43.902 million), partly from the Crown, under a Permanent Legislative Authority (**PLA**), and partly from non-Government employer contributions.

The payments to the Authority by the Fund are recovered from the Crown and from non-Government employer contributions in proportions determined by the Appointed Actuary. The Authority's appointed Actuary has determined that, from 1 July 2023, the Crown's share will be 98% (forecast \$43.024 million) and the share to be met from the non-Government employer contributions 2% (forecast \$0.878 million).

The expenses of the Authority include:

- Management of the GSF assets (**the Fund**).
- Expenses related to investment management, custodial arrangements and fees for implementing processes for avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- Management of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- Interpretation of the provisions of the Act and the Policies and the exercising of discretionary powers (set out in the Act).
- The fee paid to Annuitas under the management services agreement between the Authority and Annuitas.





Statement of Intent

# SOI 2023