B20

Reports and Financial Statements

for the year ended 30 June 2021

GOVERNMENT SUPERANNUATION FUND AUTHORITY

GOVERNMENT SUPERANNUATION FUND
Te Pūtea Penihana Kāwanatanga

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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**) and the Government Superannuation Fund (**GSF** or the **Fund**) for the year ended 30 June 2021.

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.

The Authority's mission is to use best practice to manage the assets of 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 GSF to be minimised; and
- the needs and reasonable expectations of stakeholders to be met.

The Authority is 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.

Covid-19 – the Changing Operating Environment

2021 was another extraordinary financial year as the world continued to deal with the Covid-19 pandemic.

Financial markets had a strong recovery following the sharp decline in early 2020. We are pleased to report the Authority was able to continue to operate with full functionality and fulfil all its obligations during these difficult times with no disruption to the payment of pensions.

Key outputs for the 2021 year include:

- entitlements of $911 million were paid to around 46,000 GSF pensioners;
- around 620 telephone enquiries were responded to each month;
- information was received and processed for around 165 payrolls; and
- the business system, used to administer the GSF Schemes, performed well.

We remain vigilant as we expect there will more challenges in the future. With this in mind, flexibility to work from home has been maintained throughout the year for the Authority, Annuitas Management and our schemes' administrator, Datacom, to enable us to respond to all our members' requests on an uninterrupted basis. In addition, the Authority's website – *www.gsfa.govt.nz* – is continually updated with comprehensive information on both the Authority and the Fund.

Investments

The Fund's return, net of investment management fees and before tax, for the year to 30 June 2021 was 28.9%. This is the highest annual investment return achieved by the Fund since the Authority was established in 2001.

Up until 2001, the assets of the Fund were all invested in New Zealand Government Bonds. The Fund is now invested in a diversified range of asset classes (refer to page 8 for more detail). I am pleased to report the Fund has outperformed New Zealand Government Bonds by 2.2% pa net of investment management fees since inception of the Authority and by 5.5% pa over the last 10 years. The assets of the Fund now total $5.2 billion. During the year the Fund, increased its private equity investments and reduced exposure to its style premia and catastrophe risk portfolios, re-investing the proceeds into global equities and bonds.

The Authority has adopted a Reference Portfolio as its performance benchmark. It also uses the Reference Portfolio to set the amount of risk the Fund aims to take in the actual investment portfolio.

This Reference Portfolio comprises 70% global equities, 20% global fixed income and 10% New Zealand equities. The actual investment portfolio for the Fund is quite different to the Reference Portfolio, as we have diversified the actual investment portfolio significantly to reduce the investment risk to any particular asset class (refer Chart 1, page 8 for the comparison).

Whilst it is difficult to predict future returns, we know markets will not always rise. This diversification strategy is designed to place the Fund in a better position when markets fall.

The investments of the Fund are reviewed regularly to confirm they remain fit for purpose and our investment managers are performing in line with expectations.

2021 Statutory Review

Every 5 years, as required by the GSF Act, a statutory review of the Authority is undertaken by a third party appointed by the Minister of Finance.

In early 2021, Willis Towers Watson was appointed to undertake the statutory review which was published on 7 July 2021. The statutory review, together with our responses to the recommendations, can be found at *www.gsfa.govt.nz/about-us/governance/review/.*

We welcome the very thorough report, which identifies both strengths within our strategy and operations as well as recommends actions to further improve the overall operation of the Fund. The report serves to focus the Board and Management on specific areas of work.

Climate Change

New Zealand has committed to the Paris Accord and aims to become a net zero society by 2050, via the Climate Change Response (Zero Carbon) Amendment Act 2019. Reducing the impact of climate change requires companies to adapt to less carbon-intensive ways of operating, which will impact their businesses and investment portfolios significantly.

To give effect to this, the Authority is committed to reducing its investment exposure to carbon emissions to net zero by 2050. Our investment manager selection process takes into consideration the ability of investment managers to assess the impact of material climate-related risks and opportunities 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 this subject.

To manage climate-related risks and opportunities and maximise risk-adjusted returns effectively, the Authority seeks to:

- encourage our investment managers to engage with companies on the disclosure and management of climate related risks and opportunities;
- exercise our global voting obligations to influence change; and
- measure and report the Fund's overall exposure to carbon emissions and fossil fuels.

We have reduced the Fund's carbon exposure in the global equities portfolio by almost 30% since 2019. We are working with our investment managers to achieve a reduction of 50% by 2025 with the least impact on the Fund's investment returns.

We participate in the annual Principles for Responsible Investment (**PRI**) survey as a way of benchmarking our approach against other funds.

We also benefit from the resources and investment influence of the other Crown Financial Institutions (**CFIs**) - the Guardians of New Zealand Superannuation and the Accident Compensation Corporation. The Authority shares research resources and collaborates with the other CFIs where appropriate. All three CFIs are members of the PRI.

The Board is committed to reporting regularly on progress by posting updates on our website and in our annual reports. Our climate-related exposures and actions will be disclosed in accordance with the framework of the Task Force on Climate-Related Financial Disclosures, and the Board monitors progress on climate related work at its regular meetings.

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.

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 the Authority operates 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.

The Board

The Minister of Finance recently extended the terms of some members on the Board. The terms for all Board members are as follows:

• Anne Blackburn (Chair)	1 July 2021 to 30 June 2024
• Murray Brown	1 July 2021 to 30 June 2024
• Angela Foulkes	1 July 2021 to 30 June 2024
• Alison O'Connell (Deputy Chair)	1 August 2020 to 30 April 2023
• Michael Sang	1 August 2021 to 30 June 2023
• Sarah Vrede	1 August 2021 to 30 June 2023

The Board formally meets eight time a year for full Board meetings and during recent extraordinary times has met more frequently.

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 and works closely with Management. The Investment Committee's purpose is to assist the Board in reviewing investment strategy, policies and implementation with a forward looking focus. The Board members on the Investment Committee are Murray Brown (Chair), Alison O'Connell and Sarah Vrede. 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 committee is Angela Foulkes. The Board Chair is an ex officio member of both committees.

Thanks

The Board thanks the Minister of Finance and Government officials for their support, and the Management team and staff for their hard work and commitment to meeting the Authority's objectives. I also express my thanks to my fellow Board members for their expertise and commitment during what has been a testing year.

Through our engagement with members, employers and the Government Superannuitants Association, we are aware the uncertainties of the pandemic and the restrictions put in place to deal with it will have had a heavy impact on our members. We are committed to providing all stakeholders with a seamless and high level of service.

Ngā mihi

A Blackburn

Anne Blackburn
Chair,
Government Superannuation Fund Authority Board

6 September 2021

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.

The Authority defines 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 10-year periods.

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

The Authority uses 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.

In addition to equities, the Fund is spread across a range of other investments to diversify some of the risk. We also seek additional returns through active management of most asset classes. Finally, the Fund is weighted towards cheap asset classes and away from 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.

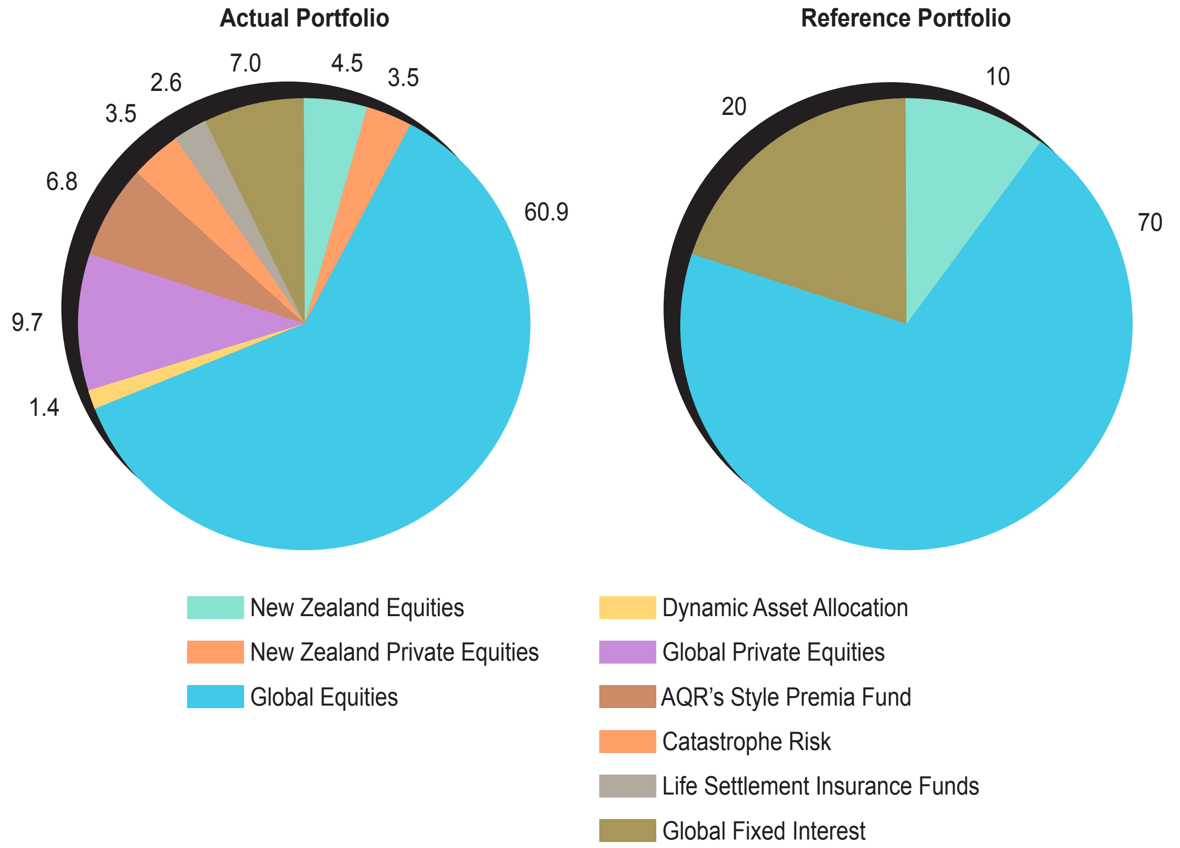
The Fund is managed to have similar risk to the Reference Portfolio but is more diversified. When global equities rise strongly, the Fund may underperform the Reference Portfolio but is more likely to out-perform bonds, which is the primary goal.

The Authority increased the Reference Portfolio's allocation to equities from 70% to 80% during 2019-2020 and the allocation to global bonds was reduced correspondingly from 30% to 20%. This shift increased the Fund's expected return and risk so the Reference Portfolio is now expected to outperform New Zealand Government Bonds by 3.3% pa over the next ten years.

The Board is satisfied the overall risk level remains acceptable as the probability of the Fund under-performing bonds by more than 10% over ten years is currently estimated at about 10%. The added value over New Zealand Government Bonds over the last 10 years was 5.5% pa with a somewhat lower risk profile. 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 2021, compared with the Reference Portfolio.

Chart 1 Asset Allocation as at 30 June 2021



Investment Returns

Global equities have been on a strongly rising trend since the global financial crisis in 2008, notwithstanding some setbacks, most notably the shock from the Covid-19 pandemic. March 2020 featured the sharpest fall in share market history and was followed by a strong rebound reflecting unprecedented monetary and fiscal stimulus through 2020/2021.

The Fund returned a record 28.9% in the year to June 2021, net of investment management fees and before tax, far in excess of the (negative) -3.6% return for New Zealand Government Bonds. Since inception, the Fund's return is 2.2% pa above New Zealand Government Bonds, as shown in Table 1 below.

Table 1 Total Fund Return - Summary

Return to 30 June 2021	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund (net of investment management fees)	28.9	9.5	10.6	9.9	7.7
Reference Portfolio	23.9	11.7	11.7	10.3	8.0
New Zealand Government Bonds	-3.6	3.3	2.9	4.4	5.5
CPI	3.3	2.2	1.9	1.4	2.1

• *Return comprises gross of fees returns prior to 30 June 2009 and net of investment management fees thereafter.*

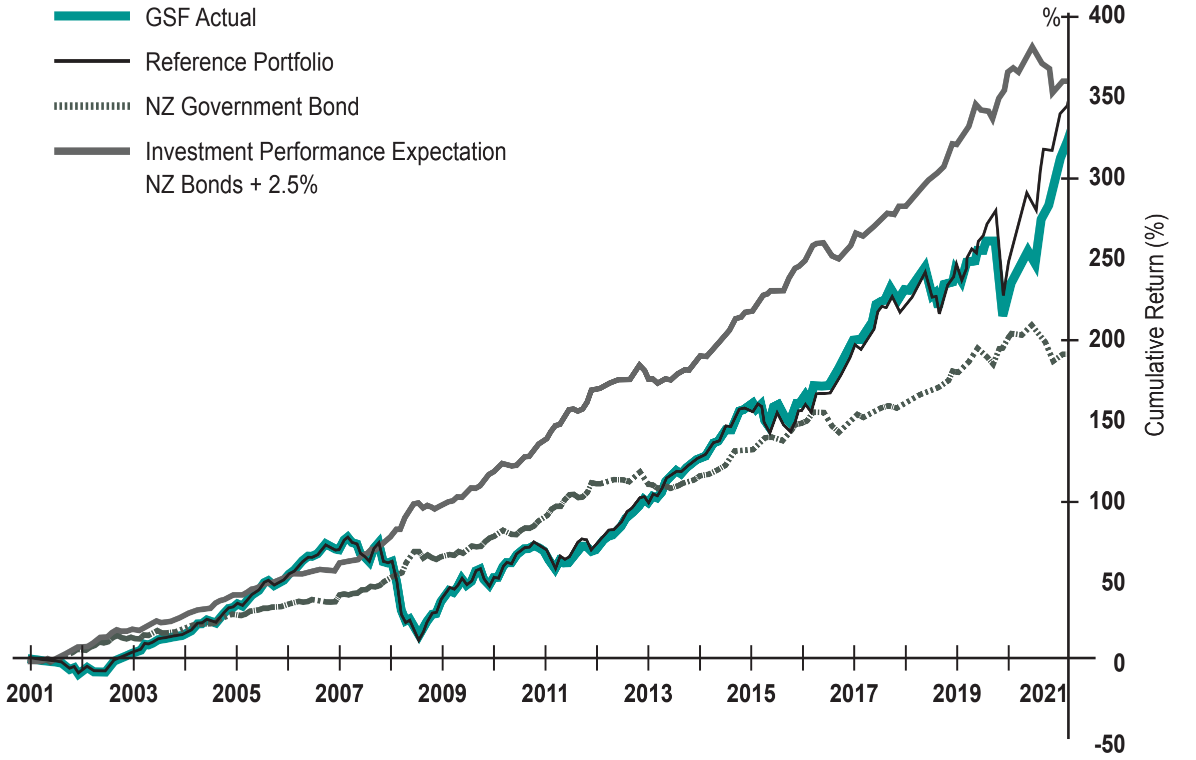
The Fund's 2021 return of 28.9%, net of investment management fees and before tax, was 5% ahead of the Reference Portfolio return of 23.9%. Active positions added significantly to returns, reversing some of the under-performance of the previous two financial years. Active managers contributed significantly, as did strategic tilting away from bonds towards global equities and towards the New Zealand dollar versus foreign currencies. Private equity also contributed positively.

Total returns remain behind benchmark for longer periods, owing entirely to negative relative results in financial years 2019 and 2020. These reflected the challenge of out-performing a very strong equity market that concentrated increasingly on a small number of technology-centred shares. 2021 signalled a welcome return to a more value-focused market. The Authority aims to add 1% pa return on average over ten-year periods from its alternative return sources, active managers and strategic tilting programme.

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 almost at the long term expected level relative to New Zealand Government Bonds.

Cumulative Return since 2001



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 2021

Asset Class	1 Year 7/20 – 6/21		3 Years 7/19 – 6/21		5 Years 7/17 – 6/21	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark
Total Fund[1]	28.9	23.9[2]	9.5	11.7	10.6	11.7
Global bonds (100% hedged)	3.9	-0.1	4.8	4.2	4.1	3.1
Global equities	29.0	28.1	11.6	13.2	14.0	14.9
Global private equities	37.6	31.3	17.3	16.5	15.3	17.8
New Zealand equities	13.0	11.0	13.1	13.0	14.5	13.8
New Zealand private equities	30.9	14.3	15.8	16.5	N/A	N/A
Catastrophe insurance	0.8	4.7	0.4	2.4	-0.1	2.4
Life settlements	2.0	2.0	-1.7	-1.7	0.6	0.6
Style Premia	12.1	0.1	-10.4	1.3	N/A	N/A
Currency overlay	5.3	5.1	0.2	0.3	(0.5)	(0.5)

[1] *The Total Fund return includes currency hedging to the NZD. Returns for global bonds, catastrophe insurance, life settlements and style premia 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

The current financial market outlook is buoyed by expectations of economic re-opening and recovery premised on increasingly effective vaccinations against Covid-19 and continued monetary and fiscal support. At this point it appears the stimulus will be enough to cause a bounce in activity and incomes in developed countries. Indeed, most market-watchers forecast a strong recovery through into 2022. There are still questions, however, about vaccines' ability to keep ahead of rapid mutations of the virus on the one hand and whether the scale of monetary expansion will lead ultimately to pressures on capacity and a rise in inflation on the other.

Equity and bond yields are still at low levels and their prices correspondingly high. Future returns are expected to be in the low single digits on average and the risks of a market slump are elevated.

Bonds remain unattractive investments on account of their low yields. Global equities are also expensive in terms of their earnings, but the expected return premium is in line with long-term experience which indicates global equity investors are being compensated adequately for their higher risk.

We expect the Authority's Reference Portfolio to return around 4-5% pa on average over the next few years.

Despite the recovery in the relative performance of previously neglected global equities, there is still an historic wide disparity in valuations between cheap and expensive equities. This points to cheaper equities continuing to perform relatively well in the next few years.

The New Zealand equity market has lagged global equity markets in the last 12 months and prices remain higher than normal relative to fundamentals. After a strong rise in late 2020, the New Zealand dollar is a little above our estimate of the fair value range.

Responsible Investment

The Act requires the Authority 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. The Authority must also have an ethical investment policy. The Authority addresses these matters through its Responsible Investment (**RI**) Policies, which cover the exercise of voting rights with respect to shares owned by the Authority and consideration of governance, environmental and social issues relating to its investments.

Environmental, social and governance (**ESG**) factors affect the performance of companies, securities and investment portfolios. The Authority believes financial markets are increasingly reflecting these factors in the prices of market securities, including climate-related risks and opportunities. We engage professional investment managers to invest the Fund actively on our behalf to maximise performance. They continually assess the impact of material climate-related risks and opportunities in their valuations and portfolio decisions and we include this as a criterion for selecting and retaining them.

New Zealand has committed to the Paris Accord and aims to become a net zero society by 2050, as per the Climate Change Response (Zero Carbon) Amendment Act 2019. Averting climate warming requires the companies we invest in to reduce greenhouse gas emissions. As most of the Fund is invested overseas, the Authority supports global efforts to achieve this. Although the Authority is a small investor compared to world markets, our investment managers, who invest on behalf of many investors, have more influence than the Authority alone. They also have more direct contact with the investee companies. Their task is to lower the Fund's carbon intensity exposure while preserving investment performance.

The Authority works with the Guardians of New Zealand Superannuation and the Accident Compensation Corporation to measure and reduce the Fund's carbon intensity and influence companies to address climate risks and opportunities. Specifically, the Authority has:

- 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 percentage of the Fund invested in equities (circa 70-80%) by 24% since 2019 and is committed to lowering it by 50% by 2025. We believe we can achieve this without jeopardising our investment returns;
- started to measure and report 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; and.
- participated in the annual PRI survey as a way of benchmarking our approach against other funds.

The Authority shares research resources and collaborates with the CFIs where appropriate. All three CFIs are members of the PRI. We partner with them by:

- meeting regularly to share information on best practice. This allows us, for example, to benefit from the Guardians of New Zealand Superannuation's membership of various other international groups that encourage companies to tackle climate risks and opportunities;
- using an independent firm, BMO Global Asset Management, to advise us on global environmental, social and governance issues and engage with companies on our joint behalf; and
- jointly investigating participation in global initiatives, such as those that seek to promote disclosure of emissions by companies.

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 $911 million to members and receives around 7,500 telephone calls a year. Datacom corresponds with all members annually and, combined with inquiries, this results in around 24,000 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 us 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, regardless of the size of the business. The Authority is very aware of the need to protect its data, including its network and member information.

The Authority protects its data by regularly installing the latest software updates and having automated back-ups 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 2021

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 of TSB Bank, Fisher Funds Management Limited, Ponga Silva Limited and Annuitas Management Limited. Ms Blackburn is also a director and Chair of Resolution Life NZ Limited. 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.

Alison O'Connell - Deputy Chair. Appointed as a Board member 1 May 2017 and as Deputy Chair from 1 August 2020. Dr O'Connell is on the boards of the Christchurch Art Gallery Foundation and Resolution Life NZ Limited, is a Governor of the UK Pensions Policy Institute and a member of the Retirement Commissioner's Expert Advisory Group on the Retirement Income System. Dr O'Connell is also a director of Annuitas Management Limited. Dr O'Connell is a Fellow of the Institute of Actuaries in the UK and the New Zealand Society of Actuaries and formerly held executive roles at the Pensions Policy Institute, Swiss Re and McKinsey.

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 Director of Capital Markets with the Financial Markets Authority and has more than 20 years' public and private sector experience in financial and capital markets. Most recently Ms Vrede was the head of the New Zealand Debt Management Office within Treasury. 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.

Annuitas has 14 staff and strives to be a good employer. It is committed to offering equal employment opportunities to prospective and existing staff.

Annuitas has a Health, Safety and Wellness Policy 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 offering and Annuitas strives to be a good equal employment opportunity employer.

Diversity of Staff

Ethnicity	New Zealand/ Other European	Asian	Māori
	12	2	0
Gender	Male	Female	
	6	8	
Age	Under 35	35-55	Over 55
	3	5	6

Staff participated in a range of educational development programmes during the year.

The Human Rights Commission advise there are seven key elements that organisations need to concentrate on as they move towards being a 'good employer'. The activities of Annuitas, compared with seven key elements, are summarised in the table below.

Elements	Annuitas Activity
Leadership, accountability and culture	• Alignment between strategic plan objectives, individual objectives and performance measures.
Recruitment, selection and induction	• Robust recruitment and selection process. • Orientation and induction for all staff.
Employee development, promotion and exit	• Professional development opportunities identified and sourced. • Any vacancies advertised internally. • Exit interview process.
Flexibility and work design	• Information technology systems facilitate working from home. • Flexible Working Arrangements Policy.
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	• Acceptable Conduct Policy for Employees and Contractors signed annually by all employees and available at all times. • Relevant other policies available at all times.
Safe and healthy environment	• Robust Health, Safety and Wellness Policy. • Strong focus on employee health, safety and well-being.

All Annuitas policies are regularly reviewed and updated.

The Management team is:

- Simon Tyler — Chief Executive
- Fiona Morgan — Chief Financial Officer
- Philippa Drury — General Manager, Schemes
- Paul Bevin — General Manager, Investments
- Hadyn Hunt — Chief Risk Officer

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.

The Authority 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 Performance

The Authority is responsible for the overall management of the Fund. The two outputs are the management of the investment assets of the Fund and the management of the GSF Schemes.

This Statement of Performance measures the Authority's progress against objectives and measures, including those set out in the Authority's 2020-2024 Statement of Intent and 2020 Statement of Performance Expectations.

Investment Management

Activity	Measure	Expected Outcome %pa	Actual Result %pa				
		10 year average	1 year	3 years	5 years	10 years	Comment
Maximising Return Without Undue Risk	Fund return before tax and after investment fees % pa	5.7	28.9	9.5	10.6	9.9	Achieved - the 10-year average return is above the long term expected return.
	Risk adjusted return - Sharpe Ratio (Sharpe Ratio is excess return over cash divided by volatility.)	0.5	n/a[1]	0.6	0.9	0.8	Achieved - the 10 year average risk-adjusted return is above long term expectations.
	Reference Portfolio return before tax % pa	4.7	23.9	11.7	11.7	10.3	N/A
	Value added versus Reference Portfolio % pa	1.0	5.0	-2.2	-1.1	-0.4	Not achieved in 3, 5 and 10 years. Achieved in 1 year.
	New Zealand Government Bonds return before tax % pa	1.4	-3.6	3.3	2.9	4.4	N/A
	Value added versus New Zealand Government Bonds % pa	4.3	32.5	6.2	7.7	5.5	Achieved
	Probability of under-performing New Zealand Government Bonds over 10 years by more than 10%.	10-16%	10-16%	<25%	<25%	<25%	Achieved - estimated probability was within expectations.
	Volatility	12%	n/a[2]	10.2%	8.3%	7.1%	Achieved - estimated volatility was within expectations.
	Value at risk $M	710	715				N/A
	Beta to global equities. Beta is the volatility of the Fund relative to the whole market.	0.7	0.6	0.6	0.6	0.5	Achieved - estimated sensitivity to global equities was within expectations.

Activity	Measure	Expected Outcome %pa	Actual Result %pa	
Best Practice	Statutory Review	Positive review.	The most recent statutory review was completed in 2021 and concluded, among other things, the Authority is effectively and efficiently performing its designated functions.	Achieved
	Statement of investment Policies, Standards and Procedures (**SIPSP**)	Independent review.	The SIPSP is reviewed annually by an independent adviser.	Achieved
	Investment costs	Costs competitive with peer funds measured like for like in terms of size and risk.	The Fund's performance and costs are benchmarked annually against global peer funds. The latest data available shows costs were in line with global peers of similar size and risk profile. Over the 5 years to December 2019, the Fund's performance was behind peers in terms of value added while costs of 78bp were 7bp above peers on account of a larger allocation to private equity. Manager fees also compare favourably against New Zealand peers.	Achieved
	Custodian performance	Custodian meets agreed service standards continuously.	The custodian is monitored against KPIs contained in the Service Level Agreement and service issues are addressed with the custodian quarterly.	Achieved
	Investment manager compliance	Managers remain within agreed risk limits continuously.	There were no material breaches of investment management agreements by external managers that required further action.	Achieved
	Exclusions policy	Exclusion of certain investments.	The list of excluded investments was maintained in collaboration with other CFIs and implemented with external managers. Commingled fund investments were also advised of exclusions.	Achieved
Avoiding Prejudice	Engagement	Successful engagements with entities that breach the Authority's standards.	The Authority collaborated with international peer funds through PRI, BMO and the Guardians of New Zealand Superannuation networks in several engagements. Subjects included palm oil, mining tailings and social media's failure to block objectionable material. Progress was made on all engagements.	Achieved

Avoiding Prejudice *(continued)*	Rating in PRI annual assessment survey	High comparative ratings versus peer funds.	The Authority received A ratings in the 2020 annual PRI survey assessment for application of its principles for responsible investment. The A ratings covered all modules reported, including strategy and governance, listed equities and fixed income.	Achieved
	Voting	Active voting by external managers.	The Authority's voting records of contracted managers are published every six months and identify where managers voted against company management.	Achieved
	Reputational risk	No adverse effects on reputation arising from portfolio investments.	This is measured by the absence of negative publicity relating to responsible investment issues. No negative correspondence received.	Achieved

Schemes

Activity	Measure	Expected Outcome	Actual Result
Schemes			
Pay entitlements	100% of all annuities paid on time and all contributions banked on receipt and allocated as soon as verified as being correct.	100%	Achieved
Correspondence	All routine correspondence responded to within 5 working days.	100%	Achieved
Systems and Technology			
Business system	No major loss or corruption of data or functionality.	No major loss	Achieved
Business system	Functionality remains relevant to requirements.	100% functionality	Achieved
Business system	Ability to access required data.	100% access	Achieved
Business continuity plan	Having appropriate business continuity plans in place.	Plans in place and routinely tested	Achieved
Legislation			
Provision of information	No requests being received for missing or incomplete information.	No requests received	Achieved
Provision of information	Timeframes met for requests for information.	Timeframes met	Achieved
Governance			
Survey	Achieving consistently good (60% and over) satisfaction scores in the major aspects of the biennial survey of members and employers.	Satisfaction met	Achieved

Authority's Report

On behalf of the Authority, I am pleased to present this report on the Fund for the year ended 30 June 2021. 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 2021, the gross return was 27.5% before tax and expenses (2020: -1.1% before tax and expenses).

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 7 of the Authority's 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 pages 24–25.

Anne Blackburn
Chair,
Government Superannuation Fund Authority Board

6 September 2021

GOVERNMENT SUPERANNUATION FUND

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 2021:

- 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 $7.142 billion (2020: $7.810 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 2021

Membership Commentary

Movement in contributors during the past five years

Year ended 30 June	Total Contributors	Change in Contributors	% Change
2017	8,356	-704	-7.77%
2018	7,743	-613	-7.34%
2019	7,136	-607	-7.84%
2020	4,512	-2,624	-36.77%
2021	**4,032**	**-480**	**-10.64%**

Number of contributors, by scheme

GSF Scheme	2021	% of 2021 Total	2020
General Scheme	**3,822**	94.79%	4,275
Armed Forces	**49**	1.21%	55
Police	**143**	3.55%	161
Prisons Service	**18**	0.45%	20
Judges and Solicitor-General	**–**	–	–
Parliamentary	–	–	1
Total contributors at end of year	**4,032**	100.00%	4,512

Movement in the number of contributors during the year

	2021	2020
Contributors at beginning of year	**4,512**	7,136
Cessation of employment before retirement	**-61**	-2,178
Death before retirement	**-12**	-10
Retirements	**-398**	-427
Transfer to other schemes	**-10**	-7
Withdrawals	**-1**	-2
Re-enrolments	**2**	–
Total contributors at end of year	**4,032**	4,512

** 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
2017	45,279	-356	-0.78%
2018	44,834	-445	-0.98%
2019	44,417	-417	-0.93%
2020	43,894	-523	-1.18%
2021	**43,413**	**-481**	**-1.10%**

Movement in number of annuitants during the year:

	2021	2020
Annuitants at beginning of year	**43,894**	44,417
New retiring allowances	**398**	527
New allowances to spouses	**723**	712
Deferred pensions now in payment	**312**	383
Discontinued allowances	**-1,914**	-2,045
Total annuitants at end of year	**43,413**	43,894

There were 2,629 deferred pensions at 30 June 2021 (2020: 2,941).

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
2017	8,356	45,279	4,115	57,750	-1,453
2018	7,743	44,834	3,739	56,316	-1,434
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**

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

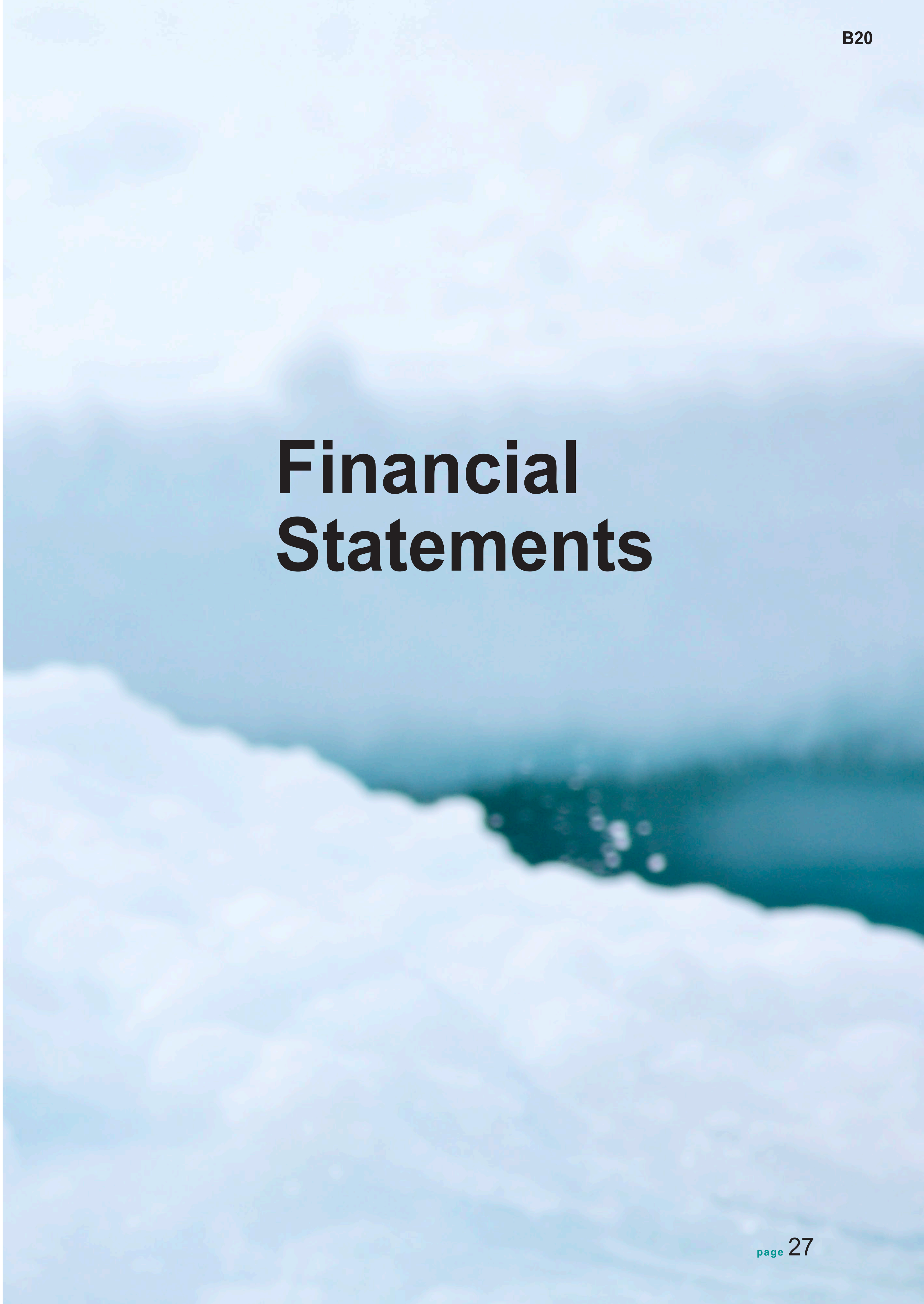
	2021	%	2020	%
Contributors	**4,032**	8%	4,512	14%
Deferred pensions	**2,629**	5%	2,941	6%
Annuitants	**43,413**	87%	43,894	81%
Total	**50,074**	100%	51,347	100%

Granting a charge over contributions

In the year to 30 June 2021, 4 charges (2020: 4) were registered by the Fund in favour of charge holders as security over individual contributor's contributions.

GSF Appeals Board

The GSF Appeals Board is a separate entity from the Board and the Authority. The GSF Appeals Board consists of five members appointed by the Minister of Finance. The function of the GSF Appeals Board is to hear and determine appeals from decisions made by, or under the authority of, the Authority in respect of any scheme. In the year to 30 June 2021, three appeals were heard by the Appeals Board.



Financial Statements

Statement of Responsibility

The Financial Statements of the Fund for the year ended 30 June 2021 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 87, 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 2021, and the changes in net assets and the cash flows of the Fund, for the year ended 30 June 2021.

Anne Blackburn
Chair,
Government Superannuation Fund Authority Board

Simon Tyler
Chief Executive

06 September 2021

Statement of Changes in Net Assets

For the year ended 30 June 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Change in assets from investing activities				
Interest, dividends and other income	1	**162,401**	87,686	96,242
Changes in fair value of investment assets through profit or loss	2	**1,092,653**	175,372	(137,625)
		1,255,054	263,058	(41,383)
Operating activities				
Operating expenses	3			
Funding for the Authority	14	**(67,060)**	(40,168)	(41,048)
Surplus/(deficit) before tax and membership activities		**1,187,994**	222,890	(82,431)
Income tax (expense)	4	**(108,900)**	(63,295)	(8,842)
Surplus/(deficit) after tax and before membership activities		**1,079,094**	159,595	(91,273)
Membership activities				
Contributions				
Government	5	**749,237**	731,000	692,230
Members		**17,857**	14,000	20,924
Other employers		**13,064**	13,000	13,542
Total contributions		**780,158**	758,000	726,696
Benefits and refunds paid	6	**(911,189)**	(917,000)	(901,212)
Net membership activities		**(131,031)**	(159,000)	(174,516)
Net increase/(decrease) in net assets		**948,063**	595	(265,789)
Opening net assets available to pay benefits		**4,270,097**	4,663,847	4,535,886
Net assets available to pay benefits		**5,218,160**	4,664,442	4,270,097

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

As at 30 June 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Current assets held at fair value through profit or loss				
Derivative assets	13.5	**11,216**	52,999	143,349
Current assets at amortised cost				
Cash and cash equivalents		**269,394**	216,465	429,136
Trade and other receivables	7	**115,994**	105,545	57,161
Total current assets at amortised cost		**385,388**	322,010	486,297
Total current assets		**396,604**	375,009	629,646
Non-current assets held at fair value through profit or loss				
Investments				
Derivative assets	13.5	**2,447**	1,116	3,018
Equities – New Zealand		**381,950**	349,279	336,616
Equities - International		**2,999,082**	2,471,669	2,079,709
Global bonds		**316,541**	266,494	179,456
Global private equity		**513,420**	371,235	337,156
Insurance-linked assets		**334,913**	447,168	418,579
Property – New Zealand		–	–	194
Style Premia Fund		**365,956**	504,580	324,075
Other investments		**180,378**	80,899	52,371
Total investments	13.5	**5,094,687**	4,492,440	3,731,174
Other non-current assets				
Business System	8	**13,735**	13,735	16,310
Total non-current assets		**5,108,422**	4,506,175	3,747,484
Total assets		**5,505,026**	4,881,184	4,377,130

Statement of Net Assets *(continued)*

As at 30 June 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Less liabilities				
Current liabilities held at fair value through profit or loss				
Derivative liabilities	13.8	**79,938**	58,223	18,142
Current liabilities at amortised cost				
Trade and other payables	9	**107,121**	125,058	79,374
Other current liabilities				
Income tax payable	4	**94,077**	20,887	2,654
Total current liabilities		**281,136**	204,168	100,170
Non-current liabilities held at fair value through profit or loss				
Derivative liabilities	13.8	**1,909**	7,680	2,393
Other non-current Liabilities				
Deferred Tax Liability	4	**3,821**	4,894	4,470
Total non-current liabilities		**5,730**	12,574	6,863
Total liabilities		**286,866**	216,742	107,033
Net assets available to pay benefits		**5,218,160**	4,664,442	4,270,097
Promised retirement benefits				
Gross liability for promised retirement benefits	12	**12,361,000**	12,026,000	12,080,000
Deficit		**7,142,840**	7,361,558	7,809,903
Net assets available to pay benefits		**5,218,160**	4,664,442	4,270,097

The Financial Statements were approved by the Board on 6 September 2021.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

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

6 September 2021

Statement of Cash Flows

For the year ended 30 June 2021

	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Cash flows from operating activities[1]			
Cash was provided from:			
Government contributions - members	**682,600**	692,438	659,454
Government contributions - expenses	**49,528**	38,562	42,787
Members' contributions	**17,576**	14,000	21,164
Other employers' contributions - members	**10,322**	10,962	12,105
Other employers' contributions - expenses	**1,800**	2,038	2,250
Interest and dividends	**160,498**	86,686	99,336
Income tax	**2,327**	–	–
Cash was disbursed to:			
Benefit payments	**(910,480)**	(916,975)	(901,461)
Income tax	**(20,485)**	(62,408)	(26,201)
Operating expenses	**(62,708)**	(39,668)	(40,041)
Net cash outflows from operating activities	**(69,022)**	(174,365)	(130,607)
Cash flows from investing activities[2]			
Cash was provided from:			
Maturities and sales of investment assets	**5,475,210**	4,478,333	4,482,403
Cash was disbursed to:			
Purchase of investment assets	**(5,565,930)**	(4,288,942)	(4,135,373)
Business System	**–**	–	(213)
Net cash inflows from investing activities	**(90,720)**	189,391	346,817
Net (decrease)/increase in cash held	**(159,742)**	15,026	216,210
Opening cash and cash equivalents	**429,136**	201,439	212,926
Closing cash and cash equivalents[3]	**269,394**	216,465	429,136

[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 2021

	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Opening deficit at the beginning of the year	**(7,809,903)**	(7,650,153)	(8,049,114)
Change in liabilities amount	**(281,000)**	288,000	505,000
Change in Net Assets	**948,063**	595	(265,789)
Closing deficit at the end of the year	**(7,142,840)**	(7,361,558)	(7,809,903)

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 2021, 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 2021

	2021 $000	2020 $000
Net increase/(decrease) in net assets	**948,063**	(265,789)
Non–cash items		
Deferred tax expense	**(649)**	(424)
Amortisation of the Business System	**2,575**	2,575
Total non–cash items	**1,926**	2,151
Movements in working capital items		
Benefits payable	**173**	(439)
Government contributions received in advance - benefits	**(2,260)**	6,631
Income tax payable	**91,423**	(16,935)
Investment expense payable	**–**	(27)
Investment payables	**28,077**	(77,996)
Investment receivables	**(42,011)**	39,774
Other employers' contributions received in advance – benefits	**610**	400
Other employers' contributions received in advance – expenses	**(882)**	608
Receivables and prepayments	**(16,566)**	5,169
Trade and other payables	**1,774**	(1,748)
Total movement in working capital items	**60,338**	(44,563)
Changes in items classified as investing activities		
Accrued interest portion of bonds	**(630)**	1,753
Accrued payments for Business System	**–**	(6)
Change in fair value of investment assets	**(1,092,653)**	137,625
Investment settlement receivables	**42,011**	(39,774)
Investment settlement payables	**(28,077)**	77,996
Total movement in investing activities	**(1,079,349)**	177,594
Net cash out flows from operating activities	**(69,022)**	(130,607)

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 2021

	2021 $000	2020 $000
Income from operations*		
Government contributions	14,368	14,340
Total contributions	**14,368**	14,340
Expenditure*		
Benefits paid:		
Retirements	**11,431**	11,355
Spouses and children	**2,937**	2,985
Total Benefits paid	**14,368**	14,340
Net changes in net assets	**–**	–

** 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 2021

	2021 $000	2020 $000
Income from operations*		
Government contributions	**4,510**	4,487
Members' contributions	**12**	13
Total contributions	**4,522**	4,500
Expenditure*		
Benefits paid:		
Retirements	**3,801**	3,782
Spouses and children	**721**	718
Total Benefits paid	**4,522**	4,500
Net changes in net assets	**–**	–

** 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.

GOVERNMENT SUPERANNUATION FUND

Notes to the Financial Statements

For the year ended 30 June 2021

1. Interest, dividends and other Income

	2021 $000	2020 $000
Equities – International	**35,606**	40,990
Equities – New Zealand	**27,763**	10,601
Global bonds	**5,564**	9,739
Global private equity	**32,896**	11,955
Insurance linked assets	**12,035**	95
Property – New Zealand	**–**	1,546
Short term and call deposits	**(134)**	81
Other income	**48,671**	21,235
Total interest, dividends and other income	**162,401**	96,242

2. Changes in fair values of investment assets through profit or loss*

	2021 $000	2020 $000
Equities – International	**910,566**	(47,009)
Equities – New Zealand	**40,084**	12,171
Global bonds	**3,236**	(1,255)
Global private equity	**103,921**	3,084
Insurance-linked assets (net)	**(43,216)**	33,708
Property – New Zealand	**(194)**	(1,195)
Style Premia Fund	**4,225**	(117,125)
Other investments	**74,031**	(20,004)
Total changes in fair values of investment assets through profit or loss	**1,092,653**	(137,625)

** 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 2020), as certified by the Actuary, the Government contributed 96% (from 1 July 2019: 96%) of the Authority's administrative expenses reimbursed by the Fund. Other employers contributed the balance of 4% (from 1 July 2019: 4%).

4. Income tax

	2021 $000	2020 $000
Reconciliation to statement of changes in net assets		
Surplus/(deficit) before tax and membership activities	**1,187,994**	(82,431)
Add imputation credits	**1,776**	1,947
Net taxable income/(loss)	**1,189,770**	(80,484)
Tax expense/(credit) at 28%	**333,136**	(22,536)
Tax effect:		
Non-taxable (gains)/non-deductible losses on equity investments	**(268,745)**	(13,673)
Foreign Investment Fund income	**48,879**	49,061
Prior period adjustment	**(2,622)**	(2,091)
Imputation credits	**(1,776)**	(1,947)
Withholding tax	**28**	28
Income tax expense	**108,900**	8,842
Income tax expense comprises:		
Current tax	**112,171**	11,543
Deferred tax	**(649)**	(610)
Prior period adjustment	**(2,622)**	(2,091)
Income tax expense	**108,900**	8,842
Movement in deferred taxation		
Opening balance	**(4,470)**	(4,894)
Prior period adjustment	**–**	(186)
Current year movement	**649**	610
Deferred tax (liability)*	**(3,821)**	(4,470)

* *The deferred tax liability relates to the Business System.*

	2021 $000	2020 $000
Movement in income tax payable		
Opening balance	**(2,654)**	(22,748)
Current year movement	**(112,171)**	(11,543)
Prior period adjustment	**2,622**	2,278
Tax payments	**16,172**	23,900
Withholding tax/Other	**1,954**	5,459
Income tax (payable)	**(94,077)**	(2,654)

5. Government and employer contributions

	2021 $000	2020 $000
Government service superannuation contributions	**665,982**	633,997
Government Superannuation Fund Authority expenses	**64,377**	39,406
Judges and Solicitor-General superannuation contributions	**14,368**	14,340
Parliamentary superannuation contributions	**4,510**	4,487
Total Government contributions	**749,237**	692,230

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 April 2021 to 30 June 2021 % of salary**	**1 July 2020 to 31 March 2021 % of salary**
General Scheme:		
- Non-funding employers*	16.2	14.9
- Funding except Islands (range)**	14.6 – 18.7	12.4 – 17.4
- Islands	16.5	16.8
Armed Forces	17.7	15.5
Police	15.9	16.5
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.*

The employer contributions were reviewed as part of the statutory actuarial valuation of the Fund as at 30 June 2020 and also in January 2021 following a legislative change that increased the employer superannuation contribution tax (ESCT) rate from 33% to 39% effective 1 April 2021. As a result, some changes to employer contribution rates were implemented with effect from 1 April 2021 (see Note 11).

6. Benefits and refunds paid

	2021 $000	2020 $000
Benefits:		
Allowances capitalised	**16,353**	15,803
Pension entitlements	**754,023**	747,144
Spouses and children	**133,526**	131,618
Refunds:		
Cessation of membership	**1,350**	1,837
Death	**910**	2,433
Transfers to other schemes	**5,027**	2,377
Total benefits and refunds paid	**911,189**	901,212

7. Trade and other receivables

	2021 $000	2020 $000
Government contributions - expenses	**16,525**	1,676
Interest and dividends	**3,053**	1,752
Investment settlements receivable	**94,932**	52,921
Other employers' contributions – expenses	**255**	**–**
Past service contributions	**427**	440
Pension entitlements	**431**	372
Prepaid benefits	**371**	–
Total trade and other receivables	**115,994**	57,161

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 (2020: $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 (2020: Nil).

9. Trade and other payables

	2021 $000	2020 $000
Benefits payable	**244**	71
Government contributions in advance – benefits	**4,718**	6,978
Government Superannuation Fund Authority	**3,953**	2,179
Investment settlements payable	**97,299**	69,222
Members' contributions	**535**	164
Other employers' contributions – benefits	**372**	133
Other employers' contributions – expenses	**–**	627
Total trade and other payables	**107,121**	79,374

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 2020. The report was tabled in Parliament on 12 March 2021. 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 2021 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 2020

Details of the statutory actuarial valuation, as at 30 June 2020, 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	5.0% per annum (2019:5.0%)
Consumer Price Index/pension increase (long term)	2.0% per annum (2019:2.0%)
Salary growth	2.5% per annum (2019:2.5%)

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

11. Statistical actuarial valuation as at 30 June 2020 *(continued)*

The results of the 30 June 2020 statutory actuarial valuation are:

	2020 $ million	2019 $ million
Past service liabilities		
Armed Forces contributors	4	4
General Scheme contributors (excluding Islands)	1,476	1,640
General Scheme contributors (Islands only)	63	65
Police contributors	139	160
Prisons Service contributors	9	9
Judges and Solicitor-General, and Parliamentary	2	2
Pensioners	9,776	10,015
Deferred pensioners	611	691
Total past service liabilities*	12,080	12,585
Less value of Fund assets	4,270	4,536
Unfunded past service liability*	7,810	8,049

* *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	2020 As a percentage of past service liability	2020 $ million	2019 $ million
Vested Benefits			
Contributors:			
Armed Forces	100%	4	4
General Scheme-excluding Islands	109%	1,603	1,787
General Scheme-Islands	105%	66	69
Police	99%	138	157
Prisons Service	100%	9	9
Judges and Solicitor-General and Parliamentary	100%	2	2
Total Contributors	**108%**	**1,821**	**2,028**
Pensioners:			
Pensioners	100%	9,776	10,015
Deferred pensioners	100%	611	691
Total Pensioners	**100%**	**10,387**	**10,706**
Grand total	**101%**	**12,209**	**12,734**
Less net assets		4,270	4,536
Shortfall		7,939	8,198

* *The above figures are rounded and so may not appear to add exactly.*

11. Statutory actuarial valuation as at 30 June 2020 *(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 2020. 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 2020, the Government pays 77.4% of each benefit paid (2019 valuation, from 1 July 2020: 75.8%) less any amounts received from funding employers.

Employer contribution rates effective 1 July 2021, including employer superannuation contribution tax (**ESCT**) at 33% (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 16.5% 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 follow table by age and gender:

Age	Males	Females
55	16.3%	16.4%
57	16.6%	16.7%
59	16.8%	16.9%
61	16.9%	16.9%
63	16.7%	16.9%
65	16.1%	16.2%
67	15.9%	15.8%

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 recommended in the statutory actuarial valuation report as at 30 June 2020, effective from 1 July 2021 and after smoothing, are as follows:

11. Statutory actuarial valuation as at 30 June 2020 *(continued)*

- for the Armed Forces Scheme: a rate of 16.1% of contributor salaries;
- for the General Scheme: a rate of 14.7% of contributor salaries;
- for the Police Scheme: a rate of 14.5% 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 2021

The Actuary has valued the promised retirement benefits in accordance with NZ IAS 26, as at 30 June 2021, for the purposes of the Fund's Financial Statements.

Significant assumptions, used in the valuation, were:

Discount rate/return on assets	5.0% 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	**2021 $ million**	**2020 $ million**
Opening gross promised retirement/past service benefit liability	**12,080**	12,585
Movements in liability		
Expected changes	**(311)**	(271)
Experience (gains)/losses	**189**	68
Assumption changes:		
Change in discount rate, Consumer Price Index and salary assumption	**403**	(302)
Change in demographic assumption (including mortality improvement)	**–**	–
Closing gross promised retirement/past service benefit liability	**12,361**	12,080

Vested benefits – 30 June 2021

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 2021, are shown in the following table, where contributors include the inactive members.

Vested benefits	**2021 $ million**	**2020 $ million**
Contributors	**1,719**	1,821
Pensioners:		
Current pensioners	**10,156**	9,776
Deferred pensioners	**612**	611
Total pensioners	**10,769**	10,387
Total vested benefits	**12,488**	12,209
Less net assets	**(5,218)**	4,270
Shortfall*	**7,270**	7,939

* *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 7). The Authority reviews the cash requirements and funding of the GSF Schemes, each month, 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.

	2021 $000	**2020 $000**
Financial assets at fair value	**5,105,903**	3,874,523
Financial liabilities at fair value	**81,847**	20,535
Financial assets at amortised cost	**385,388**	486,297
Financial liabilities at amortised cost	**107,121**	79,374

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
- 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).

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the Statement of Net Assets (continued)

2021	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets at fair value				
Derivative financial assets	**–**	**13,663**	**–**	**13,663**
Insurance-linked assets				
North America	**–**	**115,425**	**219,488**	**334,913**
Investments in cash				
Asia & Australia	**34,691**	**–**	**–**	**34,691**
Europe	**849**	**–**	**–**	**849**
New Zealand	**139,974**	**–**	**–**	**139,974**
North America	**3,721**	**–**	**–**	**3,721**
Rest of world	**1,143**	**–**	**–**	**1,143**
Investments in equities				
Asia & Australia	**379,445**	**–**	**–**	**379,445**
Europe	**382,882**	**–**	**–**	**382,882**
New Zealand	**197,528**	**–**	**184,422**	**381,950**
North America	**1,401,592**	**809,432**	**–**	**2,211,024**
Rest of the world	**25,731**	**–**	**–**	**25,731**
Investments in bonds				
Asia & Australia	**44,658**	**–**	**–**	**44,658**
Europe	**50,369**	**–**	**–**	**50,369**
New Zealand	**49**	**–**	**–**	**49**
North America	**199,423**	**–**	**–**	**199,423**
Rest of the world	**22,042**	**–**	**–**	**22,042**
Investments in global private equity				
North America	**–**	**–**	**513,420**	**513,420**
Investment in Style Premia Fund				
North America	**–**	**365,956**	**–**	**365,956**
	2,884,097	**1,304,476**	**917,330**	**5,105,903**
Financial liabilities at fair value				
Derivative financial liabilities	**–**	**81,847**	**–**	**81,847**
	–	**81,847**	**–**	**81,847**

13. Financial instruments *(continued)*

13.5 Fair value measurements recognised in the Statement of Net Assets (continued)

2020	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets at fair value				
Derivative financial assets	–	146,367	–	146,367
Insurance-linked assets				
Asia & Australia	–	114,037	–	114,037
North America	–	–	304,542	304,542
Investments in cash				
Asia & Australia	5,041	–	–	5,041
New Zealand	47,022	–	–	47,022
Rest of world	308	–	–	308
Investments in equities				
Asia & Australia	323,724	–	–	323,724
Europe	293,838	–	–	293,838
New Zealand	183,938	–	152,678	336,616
North America	907,051	546,178	–	1,453,229
Rest of the world	8,918	–	–	8,918
Investments in bonds				
Asia & Australia	14,473	–	–	14,473
Europe	33,447	-	–	33,447
North America	122,133	–	–	122,133
Rest of the world	9,403	–	–	9,403
Investments in global private equity				
North America	–	–	337,156	337,156
Investments in property				
New Zealand	–	–	194	194
Investment in Style Premia Fund				
North America	–	324,075	–	324,075
	1,949,296	1,130,657	794,570	3,874,523
Financial liabilities at fair value				
Derivative financial liabilities	–	20,535	–	20,535
	–	20,535	–	20,535

Movement of assets

There were no transfers of assets between level 2 and level 3 during the 2021 financial year (2020: one).

13. **Financial instruments** *(continued)*

13.5 Fair value measurements recognised in the Statement of Net Assets (continued)

Transactions during the year, within level 3 investments are outlined in the table below.

2021 Level 3 Investments	**Insurance Linked $000**	**Property $000**	**Private Equity $000**	**Total $000**
Opening balance Level 3	**304,542**	**194**	**489,834**	**794,570**
Purchases during the year	**362**	–	**143,891**	**144,253**
Gains/(losses) for the year*	**(13,382)**	**(194)**	**128,856**	**115,280**
Less return of capital	**(72,034)**		**(64,739)**	**(136,773)**
Closing balance at 30 June 2021	**219,488**	–	**697,842**	**917,330**

2020 Level 3 Investments	**Insurance Linked $000**	**Property $000**	**Private Equity $000**	**Total $000**
Opening balance Level 3	269,276	1,442	337,453	608,171
Transfer from Level 2 Investments	–	–	95,108	95,108
Purchases during the year	5,423	–	92,141	97,564
Gains/(losses) for the year*	39,235	352	(2,565)	37,022
Less return of capital	(9,392)	(1,600)	(32,303)	(43,295)
Closing balance at 30 June 2020	304,542	194	489,834	794,570

* *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 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.

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 2021**		**Fair Value as at 30 June 2020**		**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	**13,663**	**–**	146,367	–	Valuation is derived using forward pricing and swap models using present value calculations	Not applicable	Not applicable
Style Premia Fund	**365,956**	**–**	324,075	–	Discounted cash flow techniques, forward contracts, spot rates and advice from specialised advisers	Not applicable	Not applicable
International equities	**809,432**	**–**	546,178	–	Discounted cash flow techniques using account comparable markets and advice from specialised advisers	Not applicable	Not applicable
Insurance linked assets	**115,425**	**75,955**	114,037	148,413	Discounted cash flow techniques, option pricing models and comparable market valuations Internal Valuation Committee pricing through the utilisation of Broker dealer pricing sheets	Not applicable Seasonality curves provided by independent third-party modelling software	Not applicable The higher the curve the greater the Fair Value (and greater the risk)
Insurance linked assets - North America (Life Settlements)	**–**	**143,533**	–	156,129	Discounted cash flow techniques	Mortality multiples and market rates for life settlements practices	The lower the mortality multiple the higher the Fair Value

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 2021		Fair Value as at 30 June 2020		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			
Property	**–**	**–**	–	194	Independent qualified value assessments taking into account market trends and yields	Local market conditions	The higher the latest sale return the higher the Fair Value
Private equity	**–**	**184,422**	–	152,678	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. The higher the discount rate the lower the Fair Value.
Global private equity	**–**	**513,420**	–	337,156	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. The higher the discount rate the lower the Fair Value.
Total	**1,304,476**	**917,330**	**1,130,657**	**794,570**			

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, which 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 86% of the value of its investment assets (including cash) in a portfolio of equities and bond interest securities (2020: 76%).

Exposure to market risks is diversified by direct investment in private equity, insurance linked assets and the Style Premia Fund. 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 2021, the Fund has two investments exceeding 5% of the net assets (2020: 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 2021, the Fund had approximately $323 million (2020: $95 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 102% (2020: 102%) at the borrower level. The Fund has direct access to the collateral in the event of default.

13. Financial instruments *(continued)*

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
2021				
Unsettled purchases	**97,299**	**–**	**–**	**97,299**
Derivative liabilities	**79,938**	**611**	**1,298**	**81,847**
Other financial liabilities	**9,822**	**–**	**–**	**9,822**
Total	**187,059**	**611**	**1,298**	**188,968**

	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2020				
Unsettled purchases	69,222	–	–	69,222
Derivative liabilities	18,142	978	1,415	20,535
Other financial liabilities	10,152	–	–	10,152
Total	97,516	978	1,415	99,909

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.

13. Financial instruments *(continued)*

13.9 Market risk (continued)

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.

Financial assets: Interest rate instruments

	Weighted average interest rate %	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2021					
Cash and cash equivalent	**0.24**	**269,394**	**–**	**–**	**269,394**
Bond securities	**2.44**	**23,505**	**115,281**	**177,755**	**316,541**
Total		**292,899**	**115,281**	**177,755**	**585,935**

	Weighted average interest rate %	Less than 12 months $000	1-5 years $000	5+ years $000	Total $000
2020					
Cash and cash equivalents	0.19	429,136	–	–	429,136
Bond securities	3.01	6,416	58,149	114,891	179,456
Total		435,552	58,149	114,891	608,592

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 7.50 years (2020: 7.30 years) and at the end of the year the portfolio was valued at $317 million (2020: $179 million). A 1% rise in interest rates would devalue the portfolio in the order of $24 million (2020: $13 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 $35 million (2020: $26 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% (2020: 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%
Catastrophe insurance	100%
Global bonds	100%
International equities	80%
Life settlements	100%
Global private equity	0%

The Fund's total exposure to foreign currencies at the reporting date (after hedging) before tax was $1,308 million (2020: $947 million). The Fund's foreign exchange exposure, before taking into account hedging was $4,587 million (2020: $3,534 million).

Foreign currency sensitivity

The Fund is mainly exposed to the United States dollar (**USD**), Hong Kong dollar, and the Australian dollar. (2020: USD, Hong Kong dollar and Pound sterling).

For international equities, Insurance linked assets and the Style Premia Fund 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 surplus/ (deficit) after-tax and before membership activities	
		2021 $000	**2020 $000**
Exchange rate risk	- 5%	**47,078**	34,075

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.

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	
		2021 $000	**2020 $000**
Market price risk	+ 5%	**153,375**	110,792

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 2021, the Fund transferred $67,060,000 (2020: $41,048,000) 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 96% being $64,377,000 (2020: 96% being $39,406,000) and other employers for 4% being $2,683,000 (2020: 4% being $1,642,000). As at 30 June 2021 $3,953,000 was payable by the Fund to the Authority for expenses incurred but not yet paid (2020: $2,179,000).

15. Actual versus forecasts

The Fund recorded a gain (before expenses and membership activities) of $1,255.054 million for the year ended 30 June 2021. This is against forecasted revenue of $263.058 million. 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 the investment assets. Covid-19 continues to be the major factor in influencing this volatility. Operating expenses were higher than that forecast. This was predominantly due to higher performance fees paid to investment managers. The surplus before tax and membership activities was $1,187.994 million. This is against a forecasted surplus of $222.890 million.

Membership activities resulted in a deficit of $131.031 million against a forecast deficit of $159.000 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 $948.068 million against a forecasted increase of $0.595 million.

16. Contingent assets, liabilities and capital commitments

As at 30 June 2021 capital commitments were in place for multiple investment managers. These are summarised as follows:

	2021 $000	2020 $000
Non-cancellable contractual commitments		
Less than one year	**285,633**	331,622
Between one and two years	**272,754**	328,336
Between two and five years	**–**	76,970
Total non-cancellable contractual commitments	**558,387**	736,928

There are no contingent assets or liabilities (2020: 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.

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.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

Benefits

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

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.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

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.

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 $750.944 million of investments which have been valued using 31 March 2021 valuations as opposed to 30 June 2021 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.

18. Statement of Accounting Policies *(continued)*

18.6 Accounting policies (continued)

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.

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 2020 Statement of Performance Expectations, being for the period 1 July 2020 to 30 June 2021. 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 2021 reporting periods and have not been adopted early by the Board. Initial assessment of these standards shows that none of these will materially affect the Fund.

18. Statement of Accounting Policies *(continued)*

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 2020.

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 2021

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 29 to 61, that comprise the Statement of Net Assets as at 30 June 2021, the Statement of Changes in Net Assets, Statement of Cash Flows and Statement of Changes in Deficit for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Fund on pages 29 to 61:

- present fairly, in all material respects:
  - its net assets as at 30 June 2021; 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 2021. 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. On 13 August 2021, as disclosed in Note 12 of the financial statements, the Fund obtained an actuarial valuation as at 30 June 2021 which estimated the gross promised retirement benefit at $12,361 million and a vested benefit shortfall of $7,270 million. The unfunded deficit at 30 June 2021 amounted to $7,143 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of level 3 investments As disclosed in Note 13.5 of the financial statements, the Fund has investment assets measured at fair value on level 3 fair value measurement consisting of insurance linked assets and private equities. These investment assets are managed by fund managers in accordance with the Fund's investment policies, standards and procedures. At 30 June 2021, the fund reported level 3 investment assets of $917 million. Level 3 investment assets are those derived from 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 2021 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); including obtaining updated valuations from the fund managers. The reasonableness of any movements between the last valuation date and 30 June 2021 was assessed; and • Assessing the reasonableness of the disclosures required for level 3 financial instruments in the financial statements.

Responsibilities of the Board for the financial statements

The Board is responsible on behalf of the Fund for preparing financial statements 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 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 Board's responsibilities arise from the Crown Entities Act 2004 and Government Superannuation Fund Act 1956.

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, 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 pages 3 to 28, 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 in our capacity as auditor, we have no relationship with, or interests, in the Fund.

Silvio Bruinsma

Silvio Bruinsma, Partner

For Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

Statement of Responsibility

The Financial Statements of the Authority, for the year ended 30 June 2021, 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 18-20 clearly reflects the objectives of the Authority. The attached Financial Statements for the financial year fairly present the financial position, as at 30 June 2021, and the operations and cash flows of the Authority for the year ended 30 June 2021.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

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

6 September 2021

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Revenue				
Interest received		**3**	15	**14**
Transfer from the Government Superannuation Fund	1	**67,060**	40,168	41,048
Total revenue		**67,063**	40,183	41,062
Expenses				
Schemes administration		**6,404**	6,869	6,923
Investment management and custody	2	**56,428**	29,091	30,062
Operating	3	**4,231**	4,223	4,077
Total expenses		**67,063**	40,183	41,062
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 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Equity				
General fund		**–**	–	–
Total equity		**–**	–	–
Represented by:				
Current assets				
Cash and cash equivalents		**287**	1,260	1,314
Trade and other receivables	4	**4,029**	3,500	2,264
Total current assets		**4,316**	4,760	3,578
Total assets		**4,316**	4,760	3,578
Current liabilities				
Trade and other payables	5	**4,316**	4,760	3,578
Total current liabilities		**4,316**	4,760	3,578
Net assets		**–**	–	–

The Financial Statements were approved by the Board on 6 September 2021.

Anne Blackburn
Chair
Government Superannuation Fund Authority Board

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

6 September 2021

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 2021

	Note	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Cash flows from operating activities[1]				
Cash was provided from:				
Government Superannuation Fund[2]	1	**7,000**	9,000	10,000
Interest		**3**	15	14
		7,003	9,015	10,014
Cash was disbursed to:				
Total expenses[2]		**8,030**	9,205	8,955
Net cash flows from operating activities		**(1,027)**	(190)	1,059
Net (decrease)/increase in cash held		**(1,027)**	(190)	1,059
Opening cash and cash equivalents		**1,314**	1,450	255
Closing cash and cash equivalents[3]		**287**	1,260	1,314

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

	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $000 Actual
Net operating result	**–**	–	–
Movements in working capital items:			
Trade and other receivables	**(1,765)**	(500)	1,762
Trade and other payables	**738**	310	(703)
Net cash flows from operating activities	**(1,027)**	(190)	1,059

[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 a bank in New Zealand, used in the day to day cash management of the activities of the Authority.*

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

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Changes in Equity

For the year ended 30 June 2021

	2021 $000 Actual	2021 $000 (unaudited) Forecast	2020 $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 2021

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

	2021 $000	2020 $000
Custody expenses	**1,266**	1,125
Investment management expenses	**55,162**	28,937
Total investment management and custody expenses	**56,428**	30,062

3. Operating expenses

	2021 $000	2020 $000
Audit of financial statements	**248**	237
Board fees and expenses	**290**	305
Management fees – Annuitas	**2,741**	2,770
Other expenses	**952**	765
Total operating expenses	**4,231**	4,077

4. Trade and other receivables

	2021 $000	2020 $000
Government Superannuation Fund	**3,953**	2,179
Other receivables and prepayments	**76**	85
Total trade and other receivables	**4,029**	2,264

5. Trade and other payables

	2021 $000	2020 $000
Annuitas Management Limited	**151**	120
Investment management and custody expenses	**3,399**	2,925
Professional services and operating expenses	**753**	507
Other creditors	**13**	26
Total trade and other payables	**4,316**	3,578

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*:

	2021 $	2020 $
Anne Blackburn, Chair	**57,493**	59,546
Murray Brown	**35,892**	31,544
Shelley Cave, *retired 5 September 2020*	**6,776**	32,751
Angela Foulkes	**28,747**	29,773
Alison O'Connell	**35,625**	32,751
Michael Sang	**29,157**	–
Michelle van Gaalen, *retired 31 July 2020*	**2,567**	37,217
Sarah Vrede	**26,693**	–
Total Board fees	**222,950**	223,582

** Board fees were decreased by 20% from 1 May 2020 to 31 October 2020 as part of the Covid-19 response.*

The Authority also met Board members' direct travel and other related expenses. Travel and other expenses totalled $28,286 in 2021 (2020: $52,766). 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 $17,408 (2020: $20,033).

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 2021, the Authority received $67,060,000 (2020: $41,048,000) for operating expenses as detailed in the Statement of Comprehensive Revenue and Expense. As at 30 June 2021, $3,953,000 was due from GSF for expenses incurred (2020: $2,179,000).

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 2021 the Authority had appointed the Board Chair, Anne Blackburn, and the Deputy Chair, Alison O'Connell, 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 $2,741,000 (2020: $2,770,000). The amount owed by the Authority to Annuitas at year end was $151,000 (2020: $120,000).

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 2021, the Transfers from the Fund were $67.060 million compared to a forecast of $40.168 million. The main reason for the higher than budgeted number is the higher performance fees paid to Investment Managers. These fees are linked to the increase in Investment Asset values which, in the current year, rebounded significantly.

10. Contingent assets and liabilities

There are no contingent assets or liabilities at 30 June 2021 (2020: 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:

	2021 $000	2020 $000
Non-cancellable contractual commitments		
Less than one year	**5,851**	6,002
Between one and two years	**5,777**	5,685
Between two and five years	**6,233**	9,019
Total non-cancellable contractual commitments	**17,861**	20,706

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 (2020: 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.

13. Statement of Accounting Policies *(continued)*

13.2 Reporting entity (continued)

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.

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 2021 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.

13.4 Accounting policies (continued)

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 main function of Annuitas is to provide staff (**Management**) who act in management and secretarial roles on behalf of the Authority and the NPF. 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. Statement of Accounting Policies *(continued)*

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 2020. 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 2021

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 68 to 78, that comprise the Statement of Financial Position as at 30 June 2021, the Statement of Comprehensive Revenue and Expense and Statement of Cash Flows 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 18 to 20.

In our opinion:

- the financial statements of the Authority on pages 68 to 78:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; 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 18 to 20:
  - presents fairly, in all material respects, the Authority's performance for the year ended 30 June 2021, 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 2021. 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.

From the matters communicated to 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 not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefit 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 in 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 2021

Government Superannuation Fund Authority Board

Anne Blackburn *(Chair)*
Murray Brown
Angela Foulkes
Alison O'Connell *(Deputy Chair)*
Michael Sang
Sarah Vrede

Management

Annuitas Management Limited

Simon Tyler	Chief Executive
Fiona Morgan	Chief Financial Officer
Hadyn Hunt	Chief Risk Officer
Philippa Drury	General Manager, Schemes
Paul Bevin	General Manager, Investments

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)

Directory *(continued)*

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

Style Premia

AQR Capital Management, LLC

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 *(appointed 1 December 2020)*
Arrowstreet Capital, Limited Partnership
Hyperion Asset Management Limited *(appointed 1 October 2020)*
Lazard Asset Management, LLC
Marathon Asset Management, LLP *(terminated 14 September 2020)*
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

Directory *(continued)*

New Zealand Private Equity

Direct Capital Management Limited
HRL Morrison & Co Limited
Pencarrow Private Equity Management Limited
Pioneer Capital Management Limited
Willis Bond and Company Management Limited

Foreign Exchange Hedging

ANZ Bank New Zealand Limited *(terminated 1 September 2020)*
State Street Global Advisors, Australia, Limited

All correspondence relating to the GSF Schemes should be addressed to:

Datacom Connect Ltd
GSF Schemes Administration
PO Box 3614
Wellington 6140

or

Chief Executive
Government Superannuation Fund Authority
PO Box 3390
Wellington 6140

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement of Investment Policies, Standards and Procedures

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 6 September 2021 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.

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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; and
- 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 centred on maximising return over the long term 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.

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; and
- 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; and
- 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; and
- 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; and
- 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; and
- 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; and
- 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; and
- 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.

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 tolerance, 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 limits. The Board has adopted the reference portfolio set out in Table 1 (**Reference Portfolio**).

Table 1: Reference Portfolio and benchmarks

Asset Class	Weight as at 30 June 2021 (%)	Benchmark
International equities	70	MSCI All Country World
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 Unhedged minus Hedged

Ownership of predominantly international asset classes exposes the Fund to exchange rate risk, i.e. 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.

Procedures

While the Fund's risks and returns are long term 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'. 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.

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, style premia and insurance-linked risks;*
- *capturing returns attributable to investment managers' skill rather than systematic risk bearing (i.e. 'alpha'); and*
- *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 A1.

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 A2.

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 A1-A3.

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 (i.e. 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 avoiding prejudice to New Zealand's reputation as a responsible member of the world community, the GSF Act requires the Authority to follow best practice portfolio management and to have an ethical investment policy. Climate-related risks and opportunities are also a major focus for the Authority.

These matters are encompassed under the heading Responsible Investment (RI) which also address environmental, social, and governance considerations and climate-related risks and opportunities.

These issues affect economies and company values and therefore portfolios. As well as presenting investment risks and opportunities to enhance returns, they may present reputational risk. They are addressed by the Authority both in terms of its RI policies (below) and their implications for the Fund's investment risk and return.

The Authority also has regard to the practical impact it can have as a modest-sized minority investor with limited ability to influence corporate behaviour directly.

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.

The Authority will work with other CFIs to reduce the carbon exposure of our portfolios to align with the Government's commitments to international climate change accords.

The Authority will exclude from the Fund securities of companies involved in certain activities or breaches of the Authority's standards.

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.

Standards

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; and
- likelihood of success of alternative courses of action (such as engagement).

The Authority also excludes companies for breaches of the Fund's RI standards 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 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 will instruct its investment managers to limit exposure to carbon-intensive investments to align with New Zealand Government's policies to help limit global warming. We believe actions to reduce the Fund's carbon exposure can be done progressively through our investment managers without significant risk to investment performance and may provide opportunities to enhance returns.

Our investment managers are charged with maximising investment returns relative to a representative market benchmark. Where ESG or climate-related issues are material to their security valuation and selection process we expect them to reflect that in their portfolios. We evaluate their investment processes in terms of how they generate investment value and integrate ESG considerations. Different managers have different approaches to how they engage with companies depending on their management style.

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 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 NZ Super, 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;
- excluding securities as appropriate;
- communicating the Authority's policies and decisions to investment managers;
- participating in collaborative engagements with other investors;
- monitoring investment managers' voting records; and
- 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; and
- 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; and
- 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.

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 A3 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 A1 reflects the Authority's appetite for market risk when read in conjunction with DAA limits in Table A2 and rebalancing limits in Table A3.

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 A1.

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. Table 1 in section 4 specifies the net foreign currency exposure in the Reference Portfolio for benchmarking purposes. Table A1 in the Appendix specifies the Fund's target currency exposure while Tables A2 and A3 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; and
- 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; and
- 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 A3.

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 section 5 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; and
– 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; and
- 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; and
- 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 A1);
- 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 A3 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; and
- 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; and
- 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; and
- 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 A5.

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 (see Appendix Table A4).

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 A4. 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; and

- 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; and
- 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 A1: Target Allocation as at 1 September 2021

Asset class	Weight (%)
International equities	60.0
NZ equities	9.5
Fixed interest	9.0
Style premia	6.0
Global private equity	9.5
Catastrophe risks	3.0
Life Settlement risks	3.0
Total Assets	100.0
Foreign currency exposure	20.0

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 A2: 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
Foreign currency majors 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 A3: Rebalancing limits

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

Private equity limit

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

Table A4: Benchmarks

Asset class	Benchmark
International equities[1]	MSCI All Country World Index
NZ equities	S&P/NZX50 Gross Index including imputation credits
Fixed Interest	Bloomberg Barclays Global Aggregate Index
Style premia[2]	US 3-month Treasury Bills plus 6%pa
Global private equity	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 Equity Index unhedged minus hedged.

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

[2] *Style premia are expected returns from various factors (e.g. value and momentum) obtained by constructing long-short portfolios of equities and other asset classes to remove the market exposure and capture the residual factor exposures.*

Table A5 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	Each Board Meeting
Responsible Investment Policy	Each Board Meeting
Custodian Review	5-yearly
Dynamic Asset Allocation Review	3-yearly

Operational Reviews	
Quarterly Investment Report	Quarterly
Global Public Equities	Yearly
NZ Public Equities	Yearly
Global Fixed Interest	Yearly
Currency Management	Yearly
Global Private Equities	Yearly
NZ Private Equities	Yearly
Style Risk Factors	Yearly
Life Settlement	Yearly
Catastrophe Risk	Yearly
Benchmarks for returns, risks and costs	Yearly
Investment Committee Self Review	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

GOVERNMENT
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AUTHORITY

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Te Pūtea Penihana Kāwanatanga