



GOVERNMENT
SUPERANNUATION FUND
AUTHORITY

20
22

Chair's Letter

www.gsfa.govt.nz

Further information

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

Chair's Letter 2022

Tenā koutou katoa

Following the release of the annual reports of the Government Superannuation Fund Authority (**the Authority**) and the Government Superannuation Fund (**GSF or the Fund**) for the year ended 30 June 2022, I am pleased to provide you with this update on the management of GSF.

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 Government Superannuation Fund Act 1956 (**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.

Overview

2022 was another extraordinary financial year as the world continued to deal with the ongoing challenges presented by Covid-19 pandemic.

Like all investors, GSF experienced a rollercoaster ride over the 12-month financial period, with a close to 7% positive return in the first half of the year followed by a loss of slightly greater than 10% in the second half of the year. Much of this volatility in investment markets was driven by the world central banks removing the significant amounts of monetary stimulus provided during the early stages of the Covid-19 outbreak. In New Zealand, like many countries around the world, this stimulus was successful in keeping unemployment low and house prices up. On the downside, there has been a significant increase in inflation in most western economies. Central banks around the world are responding by raising interest rates rapidly in an attempt to bring inflation under control. The rising interest rates have had a significant negative effect on most global markets.

We are pleased to report that during the year significant focus was given to the Authority being able to continue to operate with full functionality and fulfil all its obligations during these difficult times with 100% of authorised annuities being paid accurately and on time.

We remain vigilant as we expect there will be ongoing challenges going forward. 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 very strong investment returns of recent years reversed sharply in the second half of the financial year. After rebounding in 2021, following the Covid-19 induced market collapse in March 2020, the global share market fell sharply again from late 2021. Monetary stimulus was withdrawn globally and interest rates rose sharply in response to the threat of rising global inflation.

The Fund returned -3.7% in the year to June 2022, net of investment management fees and before tax. This is a good outcome given the exceptional -10.3% return for New Zealand Government Bonds and -10.8% return for the Fund's benchmark Reference



Portfolio. The Reference Portfolio comprises 70% global equities, 10% New Zealand equities and 20% global fixed income securities.

Active managers contributed positively to this outcome. Private equity was the largest source of added value, partly because of the time lag in relation to the revaluation of private equity investments. The Fund's investment in alternative assets, such as insurance-linked securities, also contributed positively to the return this year through diversification away from equities and bonds.

Statutory Review

In early 2021, Willis Towers Watson (**WTW**) was appointed by the Government to undertake the five-yearly statutory review of the Authority. The GSFA Board was pleased with WTW's findings. We noted in particular that:

- the Authority meets its statutory obligations
- the Board and investment team are capable and effective
- governance processes are sound
- the investment approach is soundly based on a reference portfolio and well-considered sources of added value, including active management
- operations, compliance processes and the control environment are fit for purpose
- use of independent advice is good practice
- the Fund's investment returns have compensated more than adequately for the risk taken and are ahead of its reference portfolio over all periods to 30 June 2022.

The Board welcomed the reviewer's suggested actions to further improve the overall operation of the Fund and has addressed all matters raised.

In particular, the Board has:

- aligned its governance budget better with the investment portfolio and added resources to the investment team
- reviewed its target portfolio, reduced some complexity, enhanced risk measurement, and initiated an external review of potential alternative strategies that may add value

- reviewed its investment beliefs and decision-making frameworks, documented these fully, and rewritten its Statement of Investment Policies Standards and Procedures.

Implementation of some recommendations and suggestions is part of the Authority's ongoing work plan. The recommendations from the WTW review and the Authority's responses are available on our website.

Climate Change

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

Climate-related risks and opportunities have become a major focus for the Authority. Together with the other Crown Financial Institutions and the National Provident Fund, we committed to the Crown Responsible Investment Framework in October 2021. Those commitments include:

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

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

We have reduced the Fund's carbon exposure in the global equities portfolio by about 30% since 2019, based on independent estimates of scope 1, scope 2 and scope 3 emissions of fossil fuel producers. We are working with our investment managers to achieve a reduction of 50% by 2025 while limiting any impact on the Fund's investment returns.

Our climate-related exposures and actions are disclosed in a separate Climate-related disclosures report published on our website in accordance with the framework recommended by the Task Force on Climate-Related Financial Disclosures.

Schemes

Key outputs for the 2022 year include:

- entitlements of \$920 million paid to around 43,000 GSF pensioners;
- around 630 telephone enquiries responded to each month;
- information received and processed for around 122 payrolls; and
- the business system, used to administer the GSF Schemes, continued to perform well and provide stability and efficiency for the schemes administration area.

The GSF Schemes have been closed to new members since 1992 and as expected the number of contributors continues to decline as members elect to receive their entitlements. As at 30 June 2022, there were 3,610 contributors (June 2021: 4,032 contributors). The age of contributors in the GSF Schemes ranges from 51 years to 77 years. The number of annuitants also continues to decline. As at 30 June 2022, there were 42,688 annuitants and 2,330 deferred annuitants (2021: 43,413 annuitants and 2,629 deferred annuitants).

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

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 (<i>Chair</i>) | 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 (<i>Deputy Chair</i>) | 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 times per year for full Board meetings. During recent extraordinary times it has met more frequently.

Thanks

The Board thanks the Minister of Finance and Government officials for their support, along with the Management team and staff at Annuitas Management for their hard work and commitment to meeting 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



Anne Blackburn
Chair, Government Superannuation Fund Authority Board
7 September 2022