

# Chair's Letter 2023



*Tenā koutou katoa*

On behalf of the Government Superannuation Fund Authority Board, I am pleased to present this overview of the activities of the Authority and the Government Superannuation Fund for the year ended 30 June 2023.

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

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

## Overview

The Fund returned 10.0% in the year to 30 June 2023, net of investment management fees and before tax. This was well ahead of our primary benchmark of outperforming New Zealand Government Bonds but behind our secondary benchmark of outperforming our Reference Portfolio.

Climate-related risks and opportunities have become a major focus for the Authority. We have reduced the carbon exposure in the Fund's global equities portfolio by about 33% since 2019. This puts us on track to achieve a reduction of 50% by 2025 while limiting any impact on the Fund's investment returns.

We continue to ensure that all pension entitlements are paid accurately and on time to over 42,000 GSF pensioners. In doing this we, together with our administrator Datacom, processed around 150 payrolls and responded to over 6,000 telephone enquiries.

We said goodbye to Dr Alison O'Connell from the Board and welcome Hugh Stevens. We also welcomed Tim Mitchell as the new Chief Executive of Annuitas.

## Economic and market environment

The year to 30 June 2023 continued the volatility of recent years. Despite global central banks maintaining a rapid tightening phase for monetary policy, and interest rates rapidly rising, equity markets generally achieved a reasonably strong return.

Like 2022 this was a year of two halves, with the first half characterised by fears of recession amidst tightening monetary policy and markets falling. From October, however, markets began a strong recovery, even though inflation remains too high around the world.

Market concerns about a recession triggered by elevated interest rates have not materialised thus far. Inflation has been showing a downward trend in many parts of the world and global employment and GDP indicators are holding up well. As a result, markets overcame their anxieties and continued to rise steadily in the latter half of the year.

## Fund performance

The Fund returned 10.0% in the year to 30 June 2023, net of investment management fees and before tax. This is a strong outcome relative to the -0.8% return for New Zealand Government Bonds but lagged behind the 12.2% return for the Fund's benchmark Reference Portfolio<sup>1</sup>.

Despite the relative performance in this financial year, the Fund's returns are comfortably ahead of the Reference Portfolio over the last 3 years. We manage the Fund to have a similar risk profile to the Reference Portfolio with more diversification and better returns. When global equities rise strongly, the Fund may underperform the Reference Portfolio but is more likely to outperform New Zealand Government Bonds, which is the primary goal. The Reference Portfolio is expected to outperform New Zealand Government Bonds by 2.3% pa over the next ten years.

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

The investment assets of the Fund are reviewed regularly to confirm they remain fit for purpose. We also regularly review our investment managers to confirm they are performing in line with expectations. The Board is satisfied the overall risk level remains acceptable.

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<sup>1</sup> The Reference Portfolio comprises 70% global equities, 10% New Zealand equities and 20% global fixed income securities.

## Climate Change

As well as maximising returns without undue risk, we are required to avoid prejudice to New Zealand's reputation as a responsible member of the global community.

Climate-related risks and opportunities have become a major focus for the Authority. Together with the other Crown Financial Institutions we committed to the Crown Responsible Investment Framework in October 2021.

We have reduced the Fund's carbon exposure in the global equities portfolio by about 33% since 2019. This puts us on track to achieve a reduction of 50% by 2025 while limiting any impact on the Fund's investment returns.

Our climate-related exposures and actions are disclosed in a separate Climate-Related Disclosures report published on our website.

## Working with our stakeholders

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

Our website - [www.gsfa.govt.nz](http://www.gsfa.govt.nz) - contains comprehensive information on the Authority and the GSF Schemes. It explains how we operate and gives all stakeholders access to the published information, including our Statement of Intent, Statement of Performance Expectations, Annual Reports and Statement of Investment Policies, Standards and Procedures, GSF Schemes booklets and member forms.

## Schemes

Our administration systems continued to perform well. For the 2023 year we:

- paid entitlements of \$958 million accurately and on time to over 42,000 GSF pensioners
- responded to over 6,000 telephone enquiries

- received and processed information for around 150 payrolls

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

The number of annuitants also continues to decline. As at 30 June 2023, there were 41,710 annuitants and 2,057 deferred annuitants.

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

## Governance

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

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

The Board has two permanent committees - an Investment Committee and an Audit and Risk Review Committee. The Investment Committee works closely with Management to provide comfort to the Board that good process is documented and implemented. The Board members on the Investment Committee are Murray Brown (Chair), Sarah Vrede and Hugh Stevens.

The Audit and Risk Review Committee's purpose is to assist the Board with oversight of financial reporting and risk management. This committee is chaired by Michael Sang and he is joined by Angela Foulkes.

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

## Thanks

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

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

*Ngā mihi*



**Anne Blackburn**

*Chair, Government Superannuation Fund Authority Board*

6 September 2023



GOVERNMENT  
SUPERANNUATION FUND  
AUTHORITY

# Chair's Letter

## 2023

### 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.**