



GOVERNMENT
SUPERANNUATION FUND
AUTHORITY

Chair's Report 2020

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.

www.gsfa.govt.nz

Chair's Report 2020

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 2020.

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 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, appointed by the Board, carries out these functions under delegation from the Board.

Covid 19 Response

By the time the first case of Covid-19 in New Zealand was confirmed on 28 February 2020, the Authority had already started to consider the implications for its operations. As the Government response swung into action, the needs of the 51,000 GSF members was at the forefront of our minds. A particular concern was that there be no disruption to the payment of pensions.

The following actions were taken:

- our schemes administrator, Datacom, was fully equipped to work from home and respond to all our members' requests on an uninterrupted basis;
- all Annuitas staff who oversee the schemes administration and investment activities had full functionality through lockdown levels 1, 2, 3 and 4;
- communication with key stakeholders such as Treasury and other Crown Financial Institutions (**CFIs**) was increased;
- the Authority's website – www.gsfa.govt.nz – was continually updated with comprehensive information on both the Authority and the Fund.

During the financial year to 30 June 2020, \$901 million was paid out to members of the GSF Schemes. The business system, used to administer the GSF Schemes, performed well and brought further efficiency and stability to the schemes administration area.

However, given the ongoing threat the virus poses to the world community, and the ever-present risks of another incursion, the Board continues to monitor the situation closely.



Investment Activity

Commentary is provided below on investment activity with respect to the Fund for the information of members. As always, it is important to note that the investment performance of the Fund does not impact on member entitlements.

Returns from equity markets were more volatile in the last two years following a long period of strong returns since the global financial crisis. Returns fell sharply in late 2018, amid fears of recession and trade wars, rebounded through 2019 as central banks reacted to avert a slump, then dropped more sharply in March 2020 as governments locked down economies to control the Covid-19 pandemic. Government and central bank stimulus in the June 2020 quarter helped share prices recover to near previous highs but the outlook for economic recovery remains very uncertain.

For the financial year to 30 June 2020, the Fund returned -1.7% before tax and after investment management fees, compared to its benchmarks being 4.5% for the Reference Portfolio and 5.7% for New Zealand Government bonds. Global equity returns lagged those from bonds overall. In addition, returns from active management lagged returns from equity market indices almost entirely due to increasing prices paid for technology stocks. Except for the technology rally, investment risk has not been well rewarded over the last two years.

Whilst the under-performance for the last two years has reduced the Fund's average investment return over the last 10 years back to 8.6% per annum net of fees, 1.0% behind the Reference Portfolio, it remains ahead of that from New Zealand Government bonds by 3.2%.

The Board believes its investment strategy remains appropriate. Nevertheless, given recent performance of the Fund and in the light of heightened economic uncertainty and recent market turbulence, the Board has commissioned an independent review of its investment strategy. This review will also provide information for the Government's five yearly statutory review of the Fund in 2021.

Climate Change

Reducing the impact of climate change presents society with the challenge of adapting to less carbon-intensive ways of living, which will impact businesses and investment portfolios significantly. New Zealand has committed to the Paris Accord and aims to become a net zero society by 2050, via the Zero Carbon Act.

Around 90% of the Fund is invested overseas, mostly in equities. The Authority considers financial markets to be fairly efficient in reflecting information in the prices of market securities, including climate-related risks and opportunities. There are opportunities for skilled active managers to add value over time and the Authority engages more than 20 professional investment managers to invest the assets of the Fund on its behalf. 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.

The Authority aligns with global efforts to reduce greenhouse gas emissions but is a small investor compared to the size of world markets. Each of our managers invests on behalf of many investors and has correspondingly more influence than the Authority alone. They also have more direct contact and influence over the investee companies.

To manage climate-related risks and opportunities and maximise risk-adjusted returns effectively:

- we encourage our investment managers to engage with companies on the disclosure and management of climate change risks and opportunities;
- we exercise our global voting obligations through our investment managers to influence change;
- we have started to measure the Fund's overall exposure to carbon emissions and fossil fuels to ensure consistency with the Government's policy and meet our New Zealand and international obligations;
- we are working with our investment managers on the best way to limit exposure with the least risk to performance; and

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

We also leverage off the larger resources and investment influence of our fellow CFIs, the NZ Super Fund and Accident Compensation Corporation. The Authority shares research resources and collaborates with the other CFIs where we can usefully do so. All three CFIs are members of the PRI.

The Board is committed to reporting regularly on progress by making ongoing and regular disclosures on our website and in our annual reports and by aligning disclosure of our climate-related exposures and actions with the requirements of the Task Force on Climate-Related Financial Disclosures. The Board monitors progress on climate change work at its regular meetings.

The Board

Michelle van Gaalen retired from the Board at the end of July 2020. Ms van Gaalen was initially appointed to the Board in November 2012 and became Deputy Chair in September 2017. Shelley Cave retired from the Board on 5 September 2020. Ms Cave was originally appointed to the Board in July 2014 and became Chair of the Audit and Risk Review Committee in July 2017. Ms van Gaalen and Ms Cave made significant contributions to the Authority during their respective tenures and I would like to thank them both for all their work.

Alison O'Connell, a Board member since May 2017, was appointed Deputy Chair from 1 August 2020. Dr O'Connell is also on the boards of the Earthquake Commission, the Christchurch Art Gallery Foundation, Resolution Life NZ Limited and Annuitas Management 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.

Sarah Vrede joined the Board on 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 NZ 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.

Michael Sang also joined the Board on 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.

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 as it works closely with Management to provide comfort to the Board that due process is documented and implemented by Management prior to bringing a recommendation to the Board. 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 1956. This committee is chaired by Michael Sang and the other Board member on this subcommittee 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 high level of 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 very difficult year.



Anne Blackburn

*Chair, Government Superannuation Fund Authority Board
21 September 2020*

