

Chair's Letter 2021

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 2021, 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.

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 be 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.

The Fund is invested in a diversified range of asset classes. I am pleased to report the Fund has outperformed New Zealand Government Bonds by 2.2% p.a. net of investment management fees since inception of the Authority and by 5.5% p.a. 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 significantly to reduce the investment risk to any particular asset class.

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 our published 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 (Chair)	<i>1 July 2021 to 30 June 2024</i>
Murray Brown	<i>1 July 2021 to 30 June 2024</i>
Angela Foulkes	<i>1 July 2021 to 30 June 2024</i>
Alison O'Connell (Deputy Chair)	<i>1 August 2020 to 30 April 2023</i>
Michael Sang	<i>1 August 2021 to 30 June 2023</i>
Sarah Vrede	<i>1 August 2021 to 30 June 2023</i>

The Board formally meets eight times 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



Anne Blackburn

*Chair, Government Superannuation Fund Authority Board
6 September 2021*



**GOVERNMENT
SUPERANNUATION FUND
AUTHORITY**



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