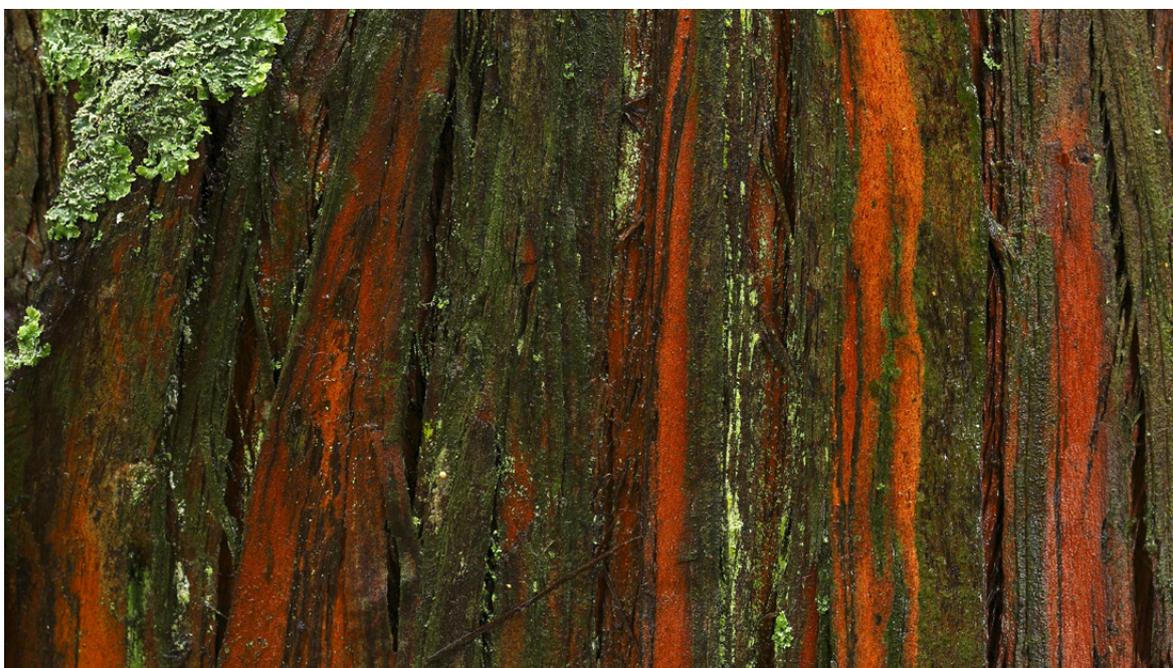




**GOVERNMENT
SUPERANNUATION FUND
AUTHORITY**



**Statement of Performance
Expectations**

1 July 2020

2020

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Statement from the Board



The Government Superannuation Fund Authority (**the Authority**) is an autonomous Crown Entity established under the Government Superannuation Fund Act 1956 (**the Act**).

The functions of the Authority are to manage and administer the Government Superannuation Fund (**GSF or the Fund**) and the GSF superannuation schemes (**the Schemes**) in terms of the Act.

The Fund has an actuarial deficit in that the assets are significantly less than the gross liabilities of the Schemes. The deficit exists primarily because, over the years, successive governments have elected not to pay employer contributions on behalf of their staff. Instead, governments provided funding as entitlements were paid. The Authority relies on the provisions in the Act for the Minister of Finance (**Minister**) to ensure that sufficient funds will be available to the Fund to pay entitlements as they fall due.

In carrying out its functions, the Authority has established two desired outcomes:

1. Contribute to an improvement in the Crown's overall economic position by endeavouring to minimise the Crown's contributions to the Fund.
2. Meet the needs and reasonable expectations of stakeholders.

The Authority seeks to maximise the returns of the Fund without undue risk, controlling costs and ensuring members receive their entitlements in accordance with the Act.

The members of the Schemes and the employer contributors to the Schemes are also key stakeholders of the Fund. The Authority has determined the reasonable expectations of the members and the employers to be as follows:

- Members - for entitlements to be calculated correctly, consistent with the Act and the policies maintained by the Authority, and to be paid on time. Meeting this expectation is a key factor in the Authority's management and administration of the Schemes.
- Employers - for contributions to be minimised.

The Authority takes a long term view when developing its investment strategy because the Fund is expected to pay entitlements for approximately 50 years.

It has adopted an Investment Objective (see page 5) and strategy that involves taking additional investment risk to improve the Crown's position compared to investing solely in New Zealand Government Bonds (**NZ Government Bonds**).

The Authority's investment strategy is also benchmarked against a Reference Portfolio, which is a simple, notional portfolio that would be expected to achieve the Investment Objective by investing only in major, liquid, public markets at low cost. 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 managers.

As part of the strategy the Authority has diversified away from equity risk into alternative sources of additional return and engages skilled active managers as it believes they can add value after allowing for additional fees and costs.

Active investment management has been employed broadly by the Fund since 2008.

The Authority reports on how it has performed relative to its objectives in the Annual Reports of the Authority and the Fund.

More information on the Authority and its policies and operations is available on our website
- www.gsfa.govt.nz.



Anne Blackburn

Chair

June 2020



Shelley Cave

Chair, Audit and Risk Review Committee

The Authority



Nature and Scope

The Authority was established in 2001 to manage and administer the assets of the Fund and the Schemes in accordance with the Act.

The Authority Board (**the Board**), established by the Act and appointed by the Minister, governs the Authority and determines its business either directly or by delegation.

The Authority oversees the management of the Fund and the Schemes and has outsourced the day to day activities in relation to Schemes administration and investment management, including custody of the Fund's assets.

The Authority's organisational structure is set out in Diagram 1 on page 4.

Functions and Operations

The Authority's functions are to manage and administer the Fund and the Schemes in accordance with the Act. All decisions relating to the business of the Authority are made under the authority of the Board, in accordance with section 25 of the Crown Entities Act.

The key activities of the Authority fall into the following two broad categories:

Investment

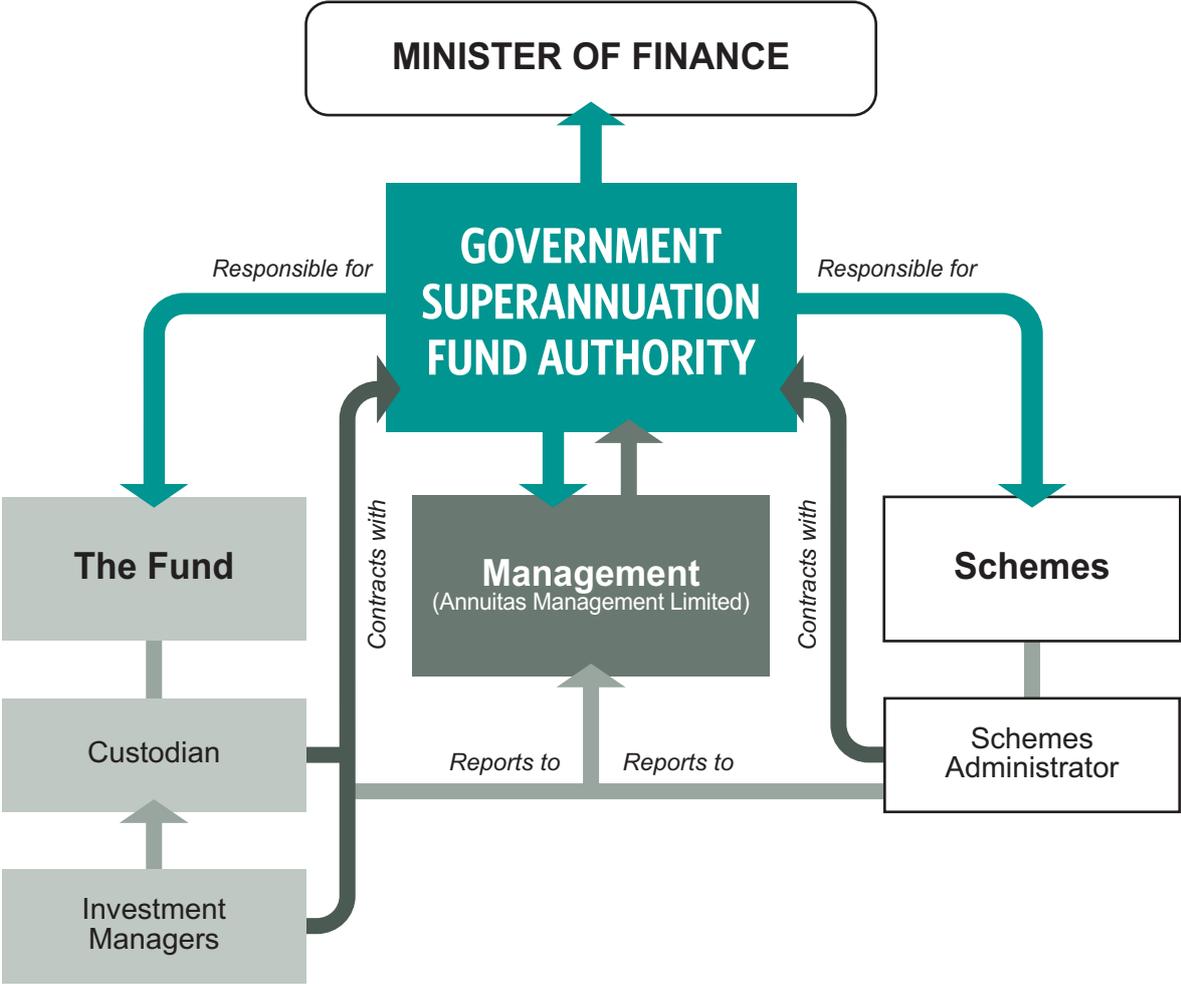
- Management of the investment assets of the GSF.

Schemes

- Management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- Interpretation of the provisions in the Act and exercise of discretionary powers in relation to any Schemes matters.

Details of the outputs and performance measures for these activities are provided on page 7 (Investment) and page 12 (Schemes).

Diagram 1: Structure of the Government Superannuation Fund Authority and its operations





Objectives and Strategy

The Authority's investment responsibilities under the 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 a defined return objective over the long term and 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.

How the Authority does this is described in its Statement of Intent 2020 which covers the period from 2020 to 2024.

Investment Performance Expectations for 2020/2021

The Authority has defined its Investment Objective as follows:

The Authority aims to maximise the Fund's excess return relative to NZ Government Bonds (before NZ tax) without undue risk of underperforming NZ Government Bonds measured over rolling ten year periods.

In line with this, over the next ten years, the Authority expects the Fund to achieve an average return of 5.7% pa, before tax and investment costs, from:

- an expected return of 1.4% pa from NZ Government Bonds;
- an expected return of 3.3% pa from additional risk in the Reference Portfolio; and
- an expected return of 1% pa from alternative market exposures and active management strategies.

The volatility of market prices for risky assets like equities means the actual return in any given year may vary widely from the ten year expected average. Volatility is also expected to be higher in the near term due to the Covid-19 pandemic. The range of potential average returns over rolling ten year periods is much narrower than for any single year however.

The Authority's forecast return for the year ended 30 June 2021 is 5.7% before tax and investment costs (see Table 1 on page 6). This translates to forecast gross investment income, including valuation changes, of \$263 million.

Table 1: Projected Investment Performance for the year ended 30 June 2021

Investment Performance	Actual Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
Gross Investment Income	263	5.7	216	4.7
Total Investment Costs	32	0.7	17	0.4
Net Investment Income	231	5.0	199	4.3
Tax	63	1.4	50	1.1
Forecast Net Investment Income after tax	168	3.6	149	3.2

Investment Costs	Actual Portfolio		Reference Portfolio	
	\$m	Return % pa	\$m	Return % pa
Investment Management Fees	28	0.59	14	0.30
Custody Expenses	1	0.02	1	0.02
Overheads (share of Authority's operating expenses)	3	0.07	2	0.04
Total Investment Costs	32	0.68	17	0.36

Numbers may not add due to rounding.

Outputs and Performance Measures

In addition to setting the Investment Objective, the Authority sets specific outputs and performance measures for investment. These assist the Authority to achieve the investment outcomes it has established. Some outputs are ongoing, while others reflect specific projects that may be completed over a period beyond one year.

For the 2020/2021 year the Authority has adopted the following service performance outputs and performance measures for investment:

Goal	Contribute to an improvement in the Crown's overall economic position by endeavouring to minimise the Crown's contributions to the Fund.		
Performance Expectations	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.	Avoid prejudice to New Zealand's reputation as a responsible member of the world community.
Outputs	Best Practice <ul style="list-style-type: none"> – Clear investment objectives consistent with statutory performance expectations. – Sound investment programme consistent with objectives and the Authority's investment beliefs. – Strong governance with clear assignment of responsibilities. – Transparent communication that promotes accountability to Fund stakeholders. – Investment managers with the appropriate skills aligned to the Authority's goals. – Cost-effective management. – Knowledge sharing with other CFIs, peers and experts. 	Investment Return <ul style="list-style-type: none"> – Portfolio risk level appropriate to meet objective. – Portfolio that out-performs benchmark with similar risk. – Avoidance of material losses beyond expected risk levels. – Investment costs competitive with peer funds and justified by expected returns. 	Avoiding Prejudice <ul style="list-style-type: none"> – All investments consistent with relevant law, New Zealand's international agreements and Government policy. – Engagement with entities that breach the Authority's standards and exclusion when engagement fails. – Collaboration with other CFIs on responsible investment policies and practice. – Publication of list of excluded investments. – Assessment of Fund's exposure to climate related risks and opportunities and alignment with Government policies to reduce global greenhouse gas emissions.
Key Activities	<ul style="list-style-type: none"> – Review Investment Objective, Benchmarks, Investment Beliefs and Operating Model every 5 years. – Review portfolio annually. – Review and evaluate markets, strategies and incumbent asset managers against expected outcomes continuously. – Identify and evaluate new strategies and managers opportunistically and introduce when justified by expected contribution to objectives. – Monitor portfolio and managers' performance monthly against benchmarks. – Review custodian performance against KPIs quarterly. – Compare investment costs against peer funds annually. – Independent review of SIPSP and compliance annually. – Manage Responsible Investment activities in collaboration with other CFIs. – Develop processes and measures to identify, assess, manage and disclose climate-related risks in the portfolio. – Ensure investment policies and excluded investments are implemented. 		
Measures	Best Practice <i>Measured by:</i> <ul style="list-style-type: none"> – Independent Statutory Review every 5 years. – Independent review of SIPSP against best practice and compliance annually. – Independent benchmarking of investment costs versus peers annually. – Custodian's performance v key performance indicators quarterly. – Number and materiality of compliance breaches. 	Investment Return <i>Measured by:</i> <ul style="list-style-type: none"> – Return of Reference Portfolio vs NZ Government Bonds & expected risk level over rolling 10 years. – Return of portfolio vs NZ Government Bonds and Reference Portfolio quarterly, annual, 3 yearly, 10 yearly, since inception. – Risk of actual portfolio vs Reference Portfolio quarterly, annual, 5 yearly, 10 yearly, since inception. – Returns v benchmarks of asset classes and individual managers quarterly, annual, 3 yearly, since inception. – Contribution to risk-adjusted returns of incremental exposures, strategies and managers quarterly, annual, 3 yearly, since inception. 	Avoiding Prejudice <i>Measured by:</i> <ul style="list-style-type: none"> – Alignment of Fund's investments with Government policies with respect to tobacco and global greenhouse gas emissions. – Success of engagements with entities that breach the Authority's standards. – Annual advice to investment managers on policies and exclusions. – Published voting records of contracted managers every six months. – Relative absence of negative publicity relating to Responsible Investment issues. – Rating versus peer funds in PRI annual assessment survey. – No reputational threats to the New Zealand Government or the Board arising from portfolio investments.
Strategic Objectives	Adhere to principles of best practice portfolio management.	Manage an investment strategy within a defined risk limit to achieve a desired return objective over the long term.	Adhere to responsible investment policies.

Significant Assumptions used in the Forecast of the Fund

Table 2 sets out the assumptions used for the asset allocation of the Actual Portfolio and the Reference Portfolio.

Table 2: Assumed Asset Allocations of the Actual Portfolio and the Reference Portfolio as at 30 June 2020

Asset Class	Actual Portfolio (%)	Reference Portfolio (%)
International Equities	61.0	70.0
New Zealand Equities	8.4	10.0
Global Fixed Interest	6.4	20.0
Catastrophe Risk	6.7	n/a
Life Settlements	4.2	n/a
Alternative Risk	10.2	n/a
Commodities	3.1	n/a
Total	100.0	100.0
Foreign Currency Exposure	(17.5)	(20.0)

Notes

- The Reference Portfolio is a simple, notional portfolio, invested passively in liquid public markets only.
- Asset values, as at 30 June 2020, are projected from average values for the 6 months to 31 December 2019.
- The Board's forecast of the performance of the Actual Portfolio depends on assumptions with respect to the returns (before tax) from each asset class. Actual returns from each asset class may vary from the long term return assumptions used and asset class exposures may vary over time.
- The assumed returns for the Reference Portfolio are Management's ten year forecasts including an allowance for current market valuations.
- The assumed returns for the Actual Portfolio include expected added value from active divergences from the Reference Portfolio.
- Actual investment management fees may vary from those projected because asset values may vary significantly from expected levels and performance fees are paid to some managers if agreed performance targets are exceeded.
- Currency hedging to New Zealand dollars is in place for all international assets while leaving an overall level of foreign currency exposure the Board considers is prudent. The net currency exposure benchmark is currently 20% of the Fund's assets. The Fund's foreign currency exposure may vary from 0-40%.
- Projected entitlement payments from the Fund are \$13 million per month.
- Taxation assumptions are summarised in Table 3 on page 9.

Table 3: Taxation Assumptions

Asset Class	Tax treatment
International Equities and most Alternative Assets	28% on 5% of the average value of the portfolios during the year.
New Zealand Equities	28% on dividends, allowing for imputation credits of 80% of the maximum imputation credits.
Global Fixed Interest and some Alternative Assets	28% on accounting profit or loss.



Background

The Schemes were established in 1948 to provide a way for public sector employees to save for their retirement.

The Schemes were closed to new members from 1 July 1992, except for people who were eligible for membership through their employment with certain Pacific Island governments. Membership was closed to these people in 1995.

There are seven Schemes, each of which is deemed to be registered as a superannuation scheme under the Financial Markets Conduct Act 2013 pursuant to section 19H of the Act.

At 30 June 2019, the Schemes had 54,876 members, made up of 10,459 contributory members and deferred annuitants (eg members who have elected to receive their entitlements from a future date) and 44,417 annuitants. It is expected that entitlements will continue to be paid by the Fund for the next 50 years or so.

Contributory members contribute a defined percentage of their superable salaries (which may be different to their total remuneration) to the Fund on a regular basis.

In return, they receive a retiring entitlement based on their average superable salary for the last five years of contributory service, years of service and age at retirement.

Certain non-Government employers contribute the balance of the accruing cost of their employees' retirement entitlements to the Fund. The Government, as an employer, meets its share of members' retirement entitlements as they fall due for payment. Therefore, the Schemes are only partially funded, with the accumulated employee contributions, investment returns and employer contributions (from non-Government employers) being deemed by the Authority's Actuary to be sufficient to meet 24.2% of the entitlements for the 2020/2021 year.

The actual and projected present values of the Unfunded Past Service Liabilities (**UPSL**) of the Fund have been calculated by the Authority's Actuary in the actuarial valuation, as at 30 June 2019. The results are set out in Table 5 on page 11. The UPSL values are estimates of the Crown contributions required to meet the past service liabilities of the Fund.

Table 5: Actual and Projected Unfunded Past Service Liabilities

	Actual 30 June 2019 \$m	Projected 30 June 2020 \$m	Projected 30 June 2021 \$m
Past Service Liabilities	12,585	12,314	12,026
Net Assets	4,536	4,532	4,526
Unfunded Past Service Liabilities	8,049	7,782	7,500

Notes

- Numbers may not add due to rounding.
- The actual and projected unfunded past service liabilities were calculated by the Authority's Actuary using a net of tax investment rate. The UPSL, calculated using a gross discount rate, are recorded in the Crown's financial statements. In estimating the future net assets, the Actuary has assumed there will be no added value from active investment management.
- Investment markets returns have been greater than assumed by the Authority's Actuary since the valuation was undertaken at 30 June 2019.
- The Board projects net assets to be \$4.6 billion as at 30 June 2020 and \$4.6 billion as at 30 June 2021.

In all actuarial valuations since 30 June 2012 the Authority's Actuary has made allowance for continued improvements in mortality (i.e. for annuitants living longer) which has increased the past service liabilities and consequently the UPSL.

The Authority is responsible for managing and administering the Schemes in accordance with the Act. The day to day administration of the Schemes is outsourced to Datacom Connect Limited (**Datacom**).

The overall expected costs for Schemes of \$8.2 million include the expected Schemes administration expenses, estimated actuarial costs and approximately 30% of the Authority's projected expenses (see page 21).

Objectives and Strategy

The Authority aims to ensure sustainable, cost effective management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements. The Authority does this by ensuring:

- contributions are collected and entitlements are calculated and paid correctly, in terms of the Act and the policies maintained by the Authority, and in a cost effective and timely manner; and
- service levels agreed with Datacom are met.

The Business System, used for administration of the Schemes, is fundamental to achievement of this strategy. The Authority developed a new Business System that has been in use by Datacom since December 2016. The Business System is working well and the Authority is confident it will be sustainable over the medium to longer term.

Also key in achieving the Schemes' outcome is the performance of Datacom. The Authority has established and maintains a co-operative relationship with Datacom to ensure all issues relating to the administration of the Schemes are communicated early to the Authority and are managed and resolved in an open and collaborative manner, taking into account the interests of the members of the Schemes and the Crown.

The Actuary appointed by the Authority undertakes actuarial examinations of the Fund on a regular basis. Based on these examinations, the Authority reports to the Crown on the value of the liabilities of the Fund, as required by section 94 of the Act.

In communicating with members and employers, the Authority seeks to ensure information provided is both of a high standard and timely. This includes information on member entitlements and on the activities of the Authority.

The Authority interprets the provisions of the Act and the Policies, and exercises its discretionary powers, in relation to matters raised by members. The Authority seeks to achieve equity and consistency in its application of the provisions of the Act and the Policies.

Forecast Service Performance for 2020/2021

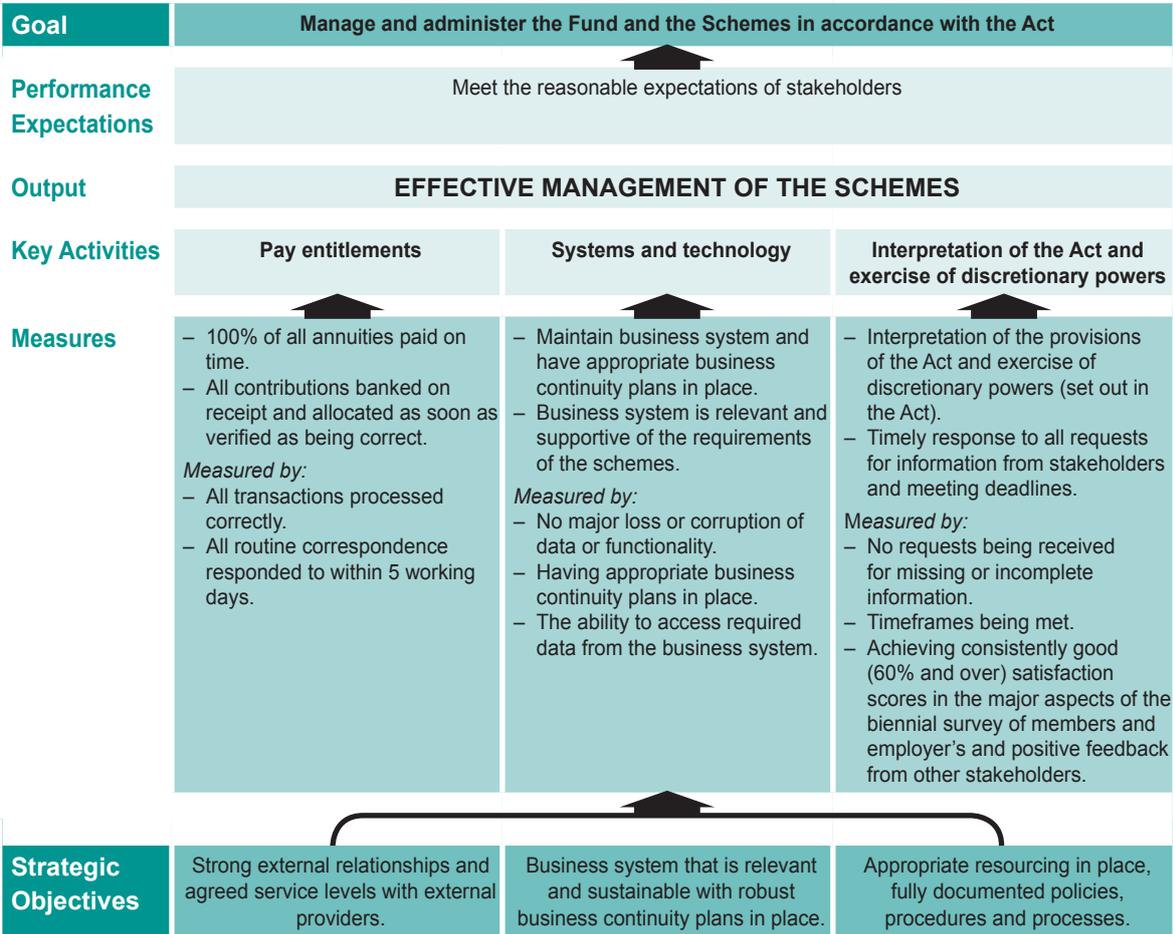
The Authority’s key activities in relation to the Schemes are:

- management and administration of the Schemes, including the agreement between the Authority and the Schemes Administrator; and
- interpretation of the provisions in the Act and the policies and exercising discretionary powers (set out in the Act).

These are described further in the Statement of Intent 2020 which covers the period from 2020 to 2024.

Outputs and Performance Measures

For 2020/2021, the Authority has identified the following outputs and performance measures to assist in achieving the Schemes’ outcome:



Forecast Financial Statements



Forecast financial statements for the year ending 30 June 2021

The Fund

- Forecast Statement of Changes in Net Assets
- Forecast Statement of Net Assets
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows
- Statement of Accounting Policies

The Authority

- Forecast Statement of Comprehensive Revenue and Expense
- Forecast Statement of Financial Position
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Operating Result to Net Cash Flows from Operating Activities
- Statement of Accounting Policies

Government Superannuation Fund

Forecast Statement of Changes in Net Assets

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Increase in assets from:		
Investing activities	359,675	263,058
Operating activities		
Expenses ¹	(40,713)	(40,168)
Surplus before tax and membership activities	318,962	222,890
Tax	(20,000)	(63,295)
Surplus after tax and before membership activities²	298,962	159,595
Membership activities		
Contributions - Crown	702,000	731,000
Contributions - members	19,000	14,000
Contributions – other entities	13,000	13,000
Benefits paid	(905,000)	(917,000)
Net membership activities	(171,000)	(159,000)
Surplus after tax and after membership activities	127,962	595
Opening assets available to pay benefits	4,535,886	4,663,848
Net assets available to pay benefits	4,663,848	4,664,442

Notes

1. Expenses - this amount is transferred from the Fund to the Authority to meet the investment, scheme administration and operating expenses of the Authority (see page 21).
2. The surplus in the Forecast Statement of Changes in Net Assets is lower than the projected Forecast Investment Income in Table 1, (on page 6), as the Forecast Statement of Changes in Net Assets above includes all the costs for the Authority.

Government Superannuation Fund

Forecast Statement of Net Assets

	Estimate as at 30 June 2020 \$000	Forecast as at 30 June 2021 \$000
Investments	4,562,079	4,545,439
Other assets:		
Cash and cash equivalents	201,439	216,465
Receivables, prepayments and other assets	126,740	119,280
	328,179	335,745
Total assets	4,890,258	4,881,184
<i>Less</i>		
Payables	226,410	216,742
Net assets available to pay benefits	4,663,848	4,664,442
Estimated actuarial present value of Promised Retirement Benefits	12,314,000	12,026,000
Deficit ³	7,650,152	7,361,558
Net assets available to pay benefits	4,663,848	4,664,442

Notes

3. Deficit

- The estimated actuarial present value of Promised Retirement Benefits (Gross Liability) 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 estimated by the Authority's Actuary at 30 June 2019 using a net of tax discount rate.
- The Deficit shown in the Forecast Statement of Net Assets differs from that estimated by the Authority's Actuary in the actuarial valuation of the Fund as at 30 June 2019, under NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans (NZ IAS 26), dated August 2019 (refer page 11). The Authority's estimate at 30 June 2020 includes actual investment income to 31 December 2019.
- There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes and the Crown pays its share of the Deficit on a cash flow (pay as you go) 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 that sufficient funds are available, or will be available, to pay entitlements as they fall due.

Government Superannuation Fund

Forecast Statement of Cash Flows

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Cash flows from operating activities		
<i>Cash provided from</i>		
Contributions - Crown	704,758	731,000
Contributions - members	18,971	14,000
Contributions - other entities	12,998	13,000
Interest, dividends and other income	73,463	86,686
<i>Cash disbursed to</i>		
Benefit payments	(905,463)	(916,975)
Income tax	(22,748)	(62,408)
Operating expenses	(41,433)	(39,668)
Net cash (outflows) from operating activities	(159,454)	(174,365)
Cash flows from investing activities		
<i>Cash provided from</i>		
Maturities and sales of investment assets	4,492,746	4,478,333
<i>Cash disbursed to</i>		
Purchase of investment assets	(4,344,566)	(4,288,942)
Capital expenditure	(213)	–
Net cash inflows from investing activities	147,967	189,391
Net (decrease)/increase in cash held	(11,487)	15,026
Opening cash brought forward	212,926	201,439
Closing cash balance	201,439	216,465

Government Superannuation Fund

Forecast Reconciliation of Net Changes in Net Assets to Net Operating Cash Flows

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Net increase in net assets	127,962	595
<i>Add/(less) non-cash items</i>		
Amortisation of Business System	2,575	2,575
Change in deferred tax	–	–
Total non-cash items	2,575	2,575
<i>Add/(less) movements in working capital items</i>		
Movement in receivables and prepayments	(5,064)	4,885
Movement in other payables	(21,488)	(12,219)
Total movement in working capital items	(26,552)	(7,334)
<i>Add/(less) items classified as investing activities</i>		
Movement in net investment assets	(287,749)	(175,372)
Movement in investment receivables	8,148	(5,885)
Movement in investment payables	16,162	11,056
Total movement in investing activities	(263,439)	(170,201)
Net cash (outflows) from operating activities	(159,454)	(174,365)

Government Superannuation Fund

Statement of Accounting Policies

Reporting entity and statutory base

The Fund was established by section 13 of the Act. It consists of the assets held in respect of various defined benefit superannuation schemes prescribed in the Act. Pursuant to section 19H of the Act, each of the Schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The Fund is managed by the Authority. The Authority was established as a Crown entity by section 15A of the Act and became an autonomous Crown entity under the Crown Entities Act 2004.

As the primary objective of the Fund is to make a financial return, the Authority has determined the Fund is a profit oriented entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

Basis of preparation

Statement of Compliance

The forecast financial statements meet the requirements of section 15N of the Act and comply with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**).

The forecast financial statements also comply with New Zealand equivalents to NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures that the financial statements comply with International Financial Reporting Standards (**IFRS**).

These forecast financial statements have been prepared for the Statement of Performance Expectations of the Authority commencing on 1 July 2020 and for the Minister of Finance. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

Measurement Base

The forecast financial statements have been prepared on the basis of historical cost with the exception of investment assets, including derivatives, which have been measured at fair value.

Functional and presentation currency

The reporting currency of the Fund is New Zealand dollars. All values are rounded to the nearest thousand dollars (**\$000**). The functional currency of the Fund is New Zealand dollars.

Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of changes in net assets, net assets and cash flows, have been consistently applied:

a. Reporting requirements

The forecast financial statements have incorporated the requirements of NZ IAS 26 with the provisions of relevant legislative requirements.

b. Investments

Investments projected are stated at fair value.

c. Promised retirement benefits

The actuarial present value of promised retirement benefits is the present value of the expected payments by the Fund to existing and past members, attributable to the services rendered.

d. Financial instruments

The Fund is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, investments, receivables and payables. All financial instruments are recognised in the Statement of Net Assets and all revenues and expenses in relation to financial instruments are recognised in the Statement of Changes in Net Assets. Financial instruments are shown at their estimated fair value.

e. Receivables

Receivables are carried at amortised cost.

Assets that are stated at amortised cost, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the recoverable amount.

f. Other assets

Other assets include the Business System. The Business System is being amortised over ten years. Amortisation is being recovered from the Authority as the user of the Business System.

g. Investment income and expenses

Dividend income is recorded on the ex-dividend date. Interest is recorded on an accrual basis.

Gains and losses on the sale of equities are determined by using the average cost of equities sold and are recorded on the settlement date.

All realised and unrealised gains and losses, at the end of the year (including those arising on translation of foreign currencies), are included in the Statement of Changes in Net Assets.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered from the Crown in accordance with section 15E of the Act.

h. Operating revenue

In terms of section 15E (1) of the Act, the administration expenses of the Authority, including investment management and custody expenses, are reimbursed by the Fund. Employer subsidy payments made to the Fund by the Crown and other employers include a share of the expenses.

i. Contributions and benefits

Contributions are recognised in the Statement of Changes in Net Assets, when they become receivable, resulting in a financial asset for amounts receivable from both members and employers.

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

Contribution and entitlement projection numbers are taken from the *PBE IPSAS 39: Employee Benefits* actuarial valuation prepared for the Crown financial statements as at 31 January 2020.

j. Taxation

For tax purposes, the Fund is classified as a portfolio investment entity (**PIE**). Income taxation expense includes both the current year's provision and the income tax effects of temporary differences (if any).

The Fund is not registered for Goods and Services Tax.

k. Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash and other cash equivalents include cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund and its managers invest as part of its day to day cash management. Only items that have a maturity of three months or less, from balance date, are classified as cash and cash equivalents.
- Investing activities are those activities relating to the acquisition, holding and disposal of investments. Investments include securities not falling within the definition of cash, including cash flows from the settlement of forward foreign exchange contracts.
- Operating activities include all transactions and other events that are not investing or financing activities.

l. Consolidation

The Fund's financial statements include the Judges' Superannuation Account and the Parliamentary Superannuation Account.

Changes in accounting policies

All policies have been applied on bases consistent with those used for the year ended 30 June 2019.

Government Superannuation Fund Authority

Forecast Statement of Comprehensive Revenue and Expense

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Transfer from the Fund	40,713	40,168
Other revenue	15	15
Total revenue	40,728	40,183
Schemes administration	(7,001)	(6,869)
Investment management	(29,744)	(29,091)
Operating expenses	(3,983)	(4,223)
Total expenses	(40,728)	(40,183)
Net operating result	–	–

Forecast Statement of Financial Position

	Estimate as at 30 June 2020 \$000	Forecast as at 30 June 2021 \$000
Taxpayers' equity		
General funds	–	–
Total taxpayers' equity	–	–
<i>Represented by:</i>		
Current assets		
Cash	1,450	1,260
Receivables and prepayments	3,000	3,500
Total assets	4,450	4,760
Current liabilities		
Payables and accruals	4,450	4,760
Total liabilities	4,450	4,760
Net assets	–	–

Government Superannuation Fund Authority

Forecast Statement of Cash Flows

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Cash flows from operating activities		
<i>Cash was provided from:</i>		
Government Superannuation Fund	10,000	9,000
Interest	15	15
<i>Cash disbursed to:</i>		
Operating expenses	(8,820)	(9,205)
Net cash flows from operating activities	1,195	(190)
Net increase/(decrease) in cash held	1,195	(190)
Opening cash brought forward	255	1,450
Closing cash balance	1,450	1,260

Forecast Reconciliation of Net Operating Result to Net Cash Flows from Operating Activities

	Estimate 2019/2020 \$000	Forecast 2020/2021 \$000
Net operating result	-	-
<i>Add/(less) movements in working capital items</i>		
Decrease/(increase) in receivables and prepayments	1,026	(500)
Increase in payables and accruals	169	310
Net cash flows from operating activities	1,195	(190)

Government Superannuation Fund Authority

Statement of Accounting Policies and Significant Assumptions

Reporting entity and statutory base

The Authority was established as a Crown entity by section 15A of the Act. The core business of the Authority is to manage and administer the Fund and the Schemes (see below).

The Fund was established by section 13 of the Act. It consists of various defined benefit superannuation schemes as prescribed in the Act. A separate financial forecast has been prepared for the Fund. Pursuant to section 19H of the Act, each of the schemes must be treated as if it is registered on the register of managed investment schemes under the Financial Markets Conduct Act 2013 as a superannuation scheme, but Part 4 of the Financial Markets Conduct Act 2013 otherwise does not apply to it.

The forecast financial statements have been prepared on the basis that the Authority is a going concern. The Authority is an Autonomous Crown Entity for legislative purposes and, as the primary objective is not to make a financial return, the Authority has designated itself a Public Benefit Entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

Basis of preparation

Statement of compliance

The forecast financial statements have been prepared in accordance with section 142 of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The forecast financial statements comply with other applicable Financial Reporting Standards, as appropriate for Public Benefit Entities.

These forecast financial statements have been prepared for the Statement of Performance Expectations of the Authority commencing on 1 July 2020 and for the Minister. They are not prepared for any other purpose and should not be relied upon for any other purpose.

Actual financial results achieved for the period are likely to vary from the information presented.

Measurement base

The forecast financial statements are prepared on the historical cost basis.

Functional and presentation currency

The reporting currency of the Authority forecast financial statements is New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of the Authority is New Zealand dollars.

Particular accounting policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position, and cash flows, have been consistently applied:

a. Forecast figures

The forecast figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Authority for the preparation of the financial statements.

b. Revenue and expenses

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of consideration received/or receivable. Revenue from the Fund is recognised as earned and reported in the financial period to which it relates.

Expenses paid in foreign currency are recorded at the rates of exchange prevailing at the date of the transactions and there are no currency gains or losses.

c. Goods and Services Tax

The Authority makes principally exempt supplies for Goods and Services Tax (**GST**), as it manages superannuation schemes. GST is imposed on imported services if those services would be a taxable supply in New Zealand. The affected transactions for the Authority are fees incurred in relation to the custody of assets and investment reports undertaken overseas. GST on services is not reclaimable and GST is therefore included in expenditure.

d. Statement of Cash Flows

The Forecast Statement of Cash Flows has been prepared using the direct approach.

e. Taxation

As a Public Authority, in terms of section CW 38(2) of the Income Tax Act 2007, the Authority is exempt from income tax.

f. Accounting for Joint Ventures

The Authority has a 50% ownership in Annuitas Management Limited (**Annuitas**). Staff employed by Annuitas act in management roles on behalf of the Authority. Reimbursement of Annuitas' costs, calculated on a time basis, are included in the operating expenses of the Authority. The Authority does not equity account for Annuitas as this is deemed to be immaterial.

Changes in accounting policies

All policies have been applied on bases consistent with those used in the year ended 30 June 2019.

Investment management expenses

Investment management fees (including custody costs) are forecast to decrease from the estimate of \$29.744 million in 2020 to a forecast of \$29.091 million in 2021. This is predominately due to a significant reduction in the estimated performance fees for some managers.

Schemes administration expenses

The forecast Schemes administration expenses include reimbursement to the Fund for amortised expenditure on the Business System owned by the Fund.

Recovery of expenses

The forecast expenses of the Authority, for the management and administration of the Fund and the Schemes for the 2020/2021 year, are \$40.183 million. These expenses, net of other revenue of \$0.015 million, are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers payments made to the Authority (forecast at \$40.168 million) partly from the Crown under a Permanent Legislative Authority and partly from non-Government employer contributions.

The payments to the Authority by the Fund are recovered from the Crown and from non-Government employer contributions in proportions determined by the Appointed Actuary. The Authority's appointed Actuary has determined that, from 1 July 2020, the Crown's share will be 96% (forecast \$38.561 million) and the share to be met from the non-Government employer contributions 4% (forecast \$1.607 million).

The expenses of the Authority include:

- Management of the GSF assets (**the Fund**).
- Expenses related to investment management, custodial arrangements and responsible investment fees.
- Management of the Schemes, including the agreement between the Authority and the Schemes Administrator (**Datacom**).
- Interpretation of the provisions of the Act and the Policies and the exercising of discretionary powers (set out in **the Act**).
- The fee paid to Annuitas under the management services agreement between the Authority and Annuitas.



**Statement of Performance Expectations
(SPE)**