B.20 SOI (2017)

GOVERNMENT SUPERANNUATION FUND AUTHORITY

Statement Of Intent

1 July 2017 to 30 June 2021

2017

Contents

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 its 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 improve the Crown's overall economic position and meet its reasonable expectations as a key stakeholder of the Fund by maximising the returns of the Fund within acceptable levels of 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 needs and 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 need and reasonable 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 the next 50 years.

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

The Authority believes diversifying away from equity risk into alternative sources of additional return and engaging skilled active managers is worthwhile, where they can add value after allowing for additional fees and costs.

The Authority's investment strategy is 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.

Active investment management has been employed broadly by the Fund since 2008 and has added value net of incremental fees.

The Authority reports on how it has performed relative to its objective 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 at *www.gsfa.govt.nz.*

Cecilia Tarrant
Chairman

Craig Ansley
Chairman, Investment Committee

May 2017

The Authority

Nature and Scope

(section 141(2)(a) of the Crown Entities Act)

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.

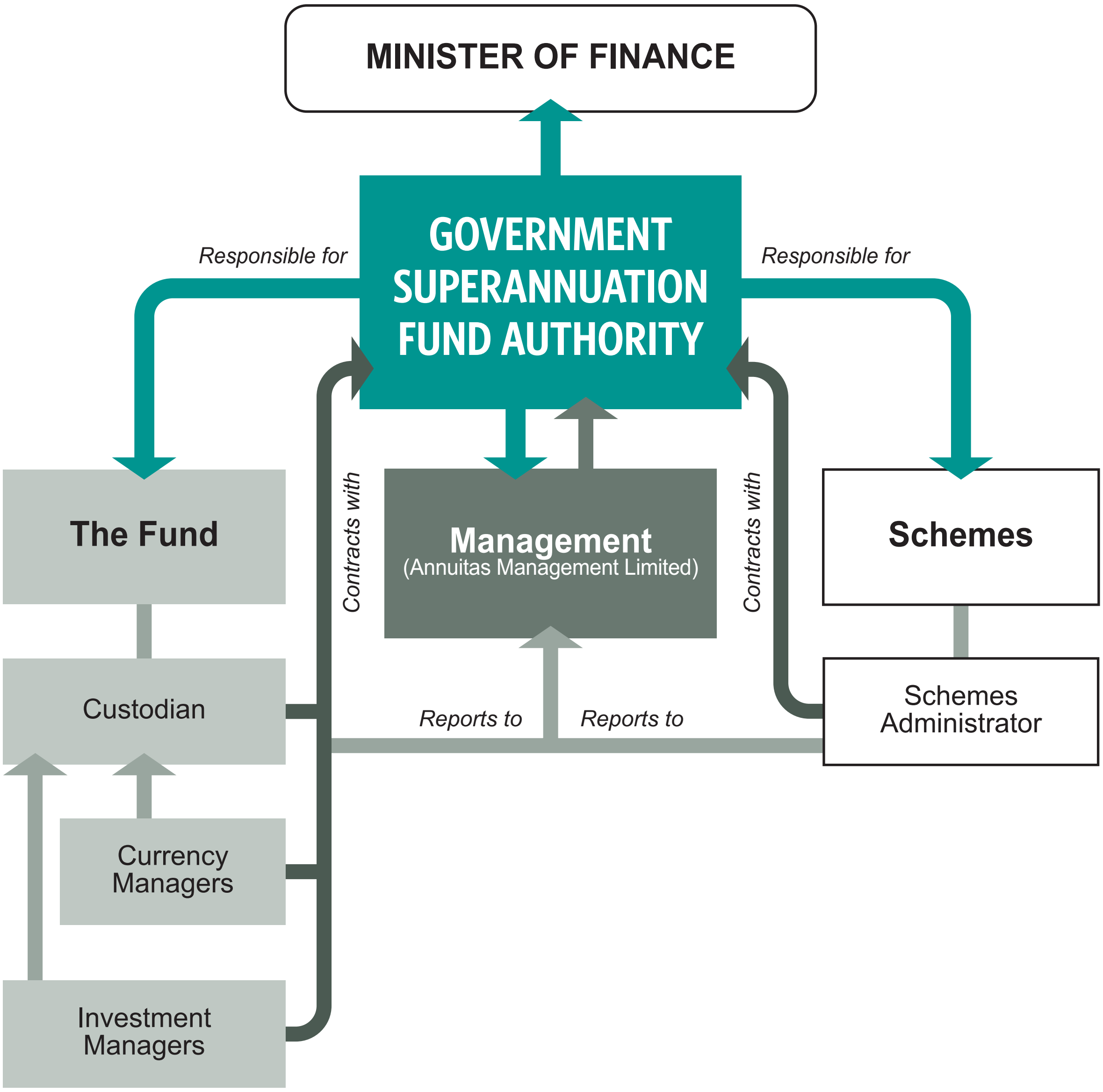
The Authority oversees the management of the Fund and the Schemes but has outsourced the key activities of Schemes administration and investment management, including custody of the Fund's assets.

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

This Statement of Intent (**SOI**) is prepared pursuant to part 4 of the Crown Entities Act 2004 (**Crown Entities Act**) and the Crown Entities Act: Statement of Intent Guidance published by the Treasury. In addition, Section 15N of the Act requires the Authority to include in its SOI specific comments on the expected performance of the Fund, the key risks to the performance and the steps taken to manage those risks (see pages 27-31).

This SOI covers the four financial years ending 30 June 2018 to 30 June 2021.

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



Functions and Operations

(section 141(2)(b) of the Crown Entities Act)

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 Minister has the power to add to the Authority's functions and may issue formal directions to the Authority on Government policy relating to its objectives and activities. The Minister may also issue formal directions to the Authority on the Government's expectations as to the Fund's performance, including the Government's expectations for risk and return, or not to invest in a specified investment or class of investments to which the Crown already has a direct or indirect exposure, for the purpose of limiting that exposure. No directions have been received from the Minister in terms of these powers.

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 (set out in the Act).

Details on the outputs and performance measures for these activities can be found on pages 11-13 (**Investment**) and page 20 (**Schemes**).

Investment

Objectives and strategy

(section 141(1) of the Crown Entities Act)

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.

Best practice portfolio management

The Authority interprets best practice portfolio management as:

- having a clear investment objective that reflects its statutory responsibilities and desired outcomes;
- maintaining a sound investment strategy consistent with that objective and the Authority's Investment Beliefs (**Beliefs**);
- having strong governance with clear assignment of responsibilities that promotes accountability, clear reporting and effective communication with the Fund's stakeholders;
- engaging external managers with the requisite skills to implement desired investment strategies on terms that align with the Authority's goals;
- ensuring cost-effective management of investments by robust monitoring of performance; and
- encouraging the sharing of relevant knowledge and resources with other Crown Financial Institutions (**CFIs**), peer funds and experts.

The Authority's outputs and performance measures for investment are designed to achieve these elements and measure success.

The Authority's Beliefs provide a foundation for its investment strategy. They represents the Authority's views with regard to the sources of investment return and risk and how these can be captured cost effectively, having regard to the following attributes to:

- take a long term view for its investment strategy and tolerate short term volatility in market prices and a degree of illiquidity, due to the nature of the GSF's pension obligations; and

- to promote the Crown's interests, the Fund's investments focus on returns after foreign taxes but before New Zealand taxes;

Implementation of the investment strategy is out-sourced to third parties. The Authority determines investment strategy, selects and monitors external managers. Investment operational risk is managed by robust contractual arrangements with an independent custodian and the out-sourced managers.

The Authority's Beliefs are set out below. They are reviewed at least every four years.

Investment Beliefs	Investment Strategy
a) Risk and return are strongly related. Investment returns in excess of the risk-free rate are derived primarily from accepting risks of capital loss.	The Authority seeks returns in excess of the returns from NZ Government Stock by accepting additional investment risk.
b) An easily accessed source of additional return is the expected reward for bearing risk from owning equities whose values fluctuate and may decline significantly.	Because the Fund has a long horizon and meets only part of the GSF's pension obligations it can tolerate the volatility associated with a high level of equity risk.
c) There are other investment risks that provide return as compensation independent of equity risk. These include, for example: the risk of inflation shocks, real interest rate shocks, and currency shocks, credit default, insurance risks and risks arising from investor aversion to heavily discounted assets, going against the crowd and illiquidity.	The Authority seeks exposure to these other risks to the extent it can instead of relying solely on equity risk. For example, the Fund has significant investments in private, i.e. illiquid, markets and insurance-linked assets.
d) Diversification among various uncorrelated risks and return sources improves the overall reward- to-risk ratio.	The Authority aims to maximize reward for risk by capturing diversification benefits across and within asset classes.
e) Broad market exposure is the main source of risk and return and can often be obtained cheaply. Isolating additional return sources is more costly.	Attention is paid to ensure costs are appropriate for the incremental value added and managers' incentives align with the Fund's interests.
f) Asset prices do not always reflect all available information immediately. Although this provides opportunity to enhance returns with active management, real skill is rare and it is difficult to find active managers that can capture excess returns, net of their incremental fees and costs.	Active management is used where there is a high conviction that it offers a prospective return above passive investment in the broad market after allowing for incremental costs and risks. Multiple active managers are avoided where their active exposures compound total risk unduly.
g) Returns are partly predictable over the long term but vary unpredictably in the short term. Extreme discrepancies between price and value provide opportunities occasionally to enhance risk-adjusted returns.	The Authority reviews the Fund's Reference Portfolio periodically to ensure its risk and return align with the objectives and adjusts the Fund's risk exposures in the interim in response to extreme price-value discrepancies.

Investment Beliefs	Investment Strategy
h) Responsible Investment encompasses not only maximising return for risk, but also acting in accordance with broadly accepted global standards of ethical conduct in relation to business governance, environmental and social risks.	The Authority does not invest in entities acting contrary to New Zealand's laws or international agreements and excludes direct tobacco investments. It is a member of the UNPRI and collaborates with other investors to avoid investing directly in companies that breach its standards of environmental and social behaviour and with whom engagement is unlikely to improve outcomes.

The Authority's Statement of Investment Policies, Standards and Procedures (**SIPSP**) sets out how these risks are managed. The SIPSP is reviewed and updated at least annually by the Board.

Maximising return without undue risk to the Fund as a whole

The Authority seeks to develop and maintain a diversified and efficient investment portfolio that will meet the Investment Objective described below. It is implemented by allocating the Fund's assets across a mix of exposures to broad categories of market risk and return and supplementing this with active, skill-based sources of return.

Investment Objective (output)

Maximise the return on the assets of the Fund over the long term, without undue risk to the Fund as a whole, in a manner consistent with best practice portfolio management.

The Authority has defined this objective as follows:

> *"The Authority aims to maximise the Fund's excess return relative to NZ Government Stock (before New Zealand tax) with a one in four chance of under-performing NZ Government Stock by a cumulative 10% measured over rolling ten year periods."*

Under current assumptions, this level of risk is consistent with an expected excess return of 2.5% per annum over the next 10 years.

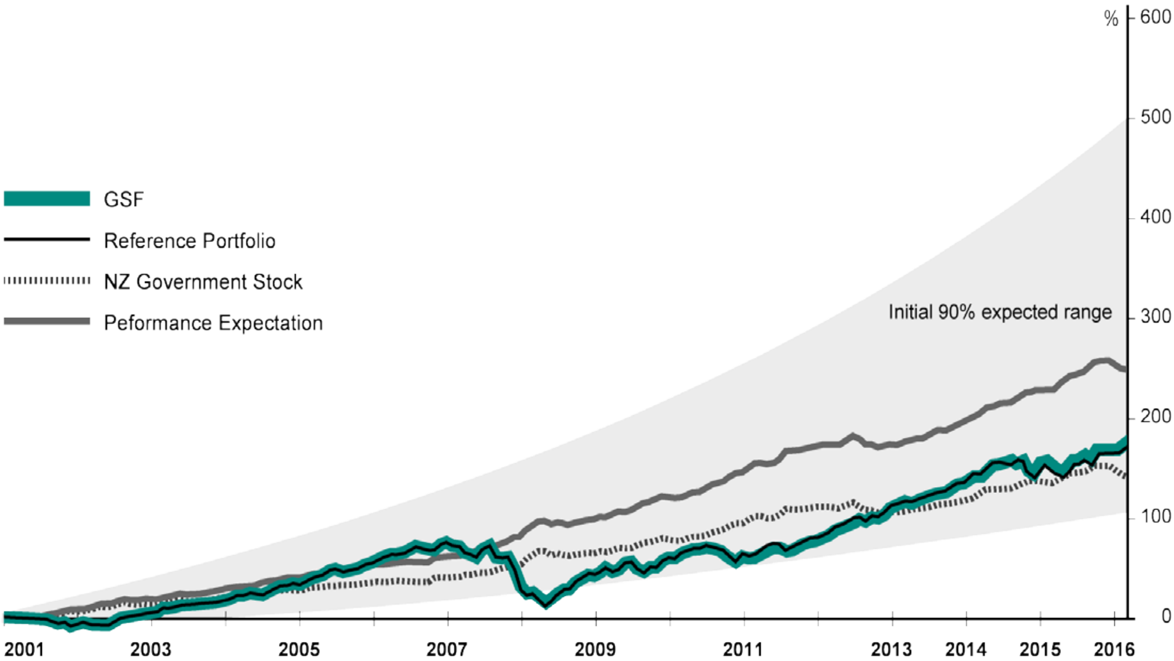
Since 2009, the Authority has benchmarked its investment performance against a Reference Portfolio as well as against the investment objective. The Reference Portfolio is a simple, notional portfolio that would be expected to achieve the investment objective by investing only in major, liquid, public markets at low cost. Most of the Fund's performance will be attributable to the market risk factors captured in the Reference Portfolio.

In addition, the Authority believes certain alternative market exposures and active management can add value to the Fund by improving the ratio of return to risk consistent with best practice portfolio management. The extra cost and the potential added value are considered carefully before investing. Examples of alternative exposures include investing in private markets that offer illiquidity premia and certain risk exposures other investors are less willing to bear, such as catastrophe insurance, life settlements and various style premia or risk factors. The Authority also adjusts the risk and asset allocation of the Fund when expected returns vary significantly from those assumed in setting the Reference Portfolio.

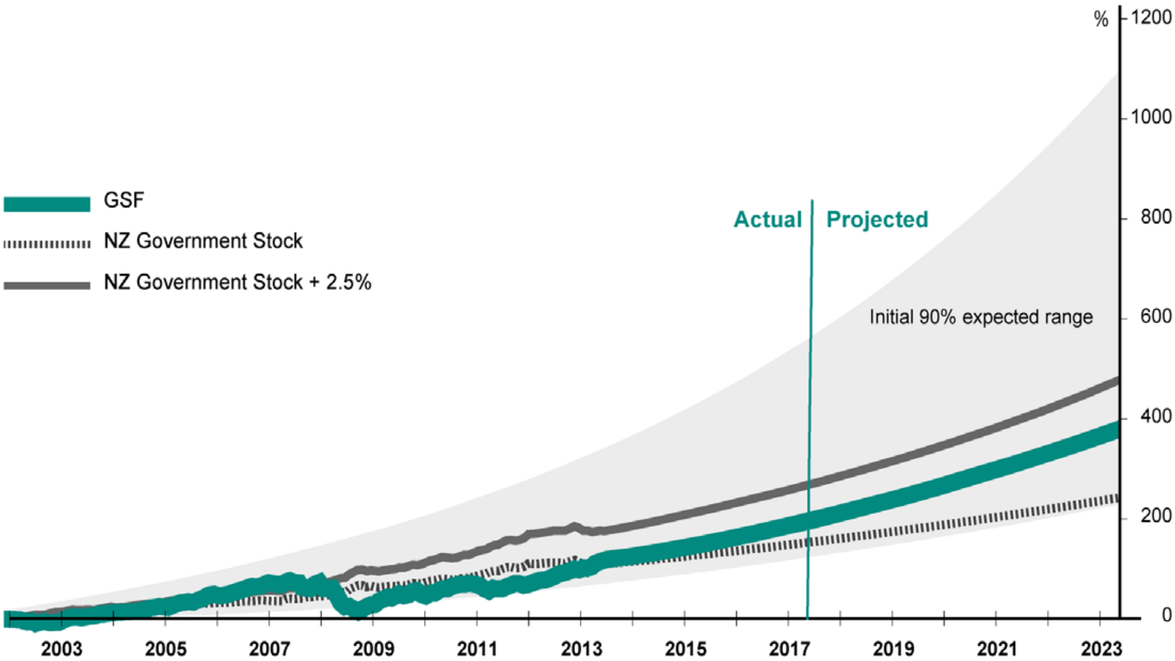
The Fund's investment return since October 2001, when the Authority assumed responsibility for managing the Fund, is compared with the investment objective and Reference Portfolio in

Graph 1 below. The projected return for the next ten years and the expected range of outcomes are illustrated in Graph 2.

Graph 1: GSF Cumulative Return since Inception (before tax and after fees)



Graph 2: GSF Return Projection (before tax and after fees)



Because the Fund will pay entitlements for the next 50 years, the Authority takes a long term view in setting the investment strategy. Investment performance is measured over rolling ten year periods. Although market returns were below target since inception, they were within the expected range.

The Authority reviews its investment strategy regularly and believes the current strategy and risk profile are appropriate to achieve the investment objective over the Fund's long term horizon.

Avoid prejudice

The Authority has developed programmes to monitor the risk of investments to New Zealand's reputation, exclude prejudicial investments where practicable, engage companies on environmental, social and governance (**ESG**) issues and generally support greater integration of material ESG issues into investment processes. The Authority's Responsible Investment Policies can be viewed on our website *www.gsfa.govt.nz.*

The Authority is a signatory to the United Nations Principles for Responsible Investment (**UNPRI**). Signatories seek to address six aspirational principles established by UNPRI where they are consistent with each signatory's fiduciary duties. The principles can be viewed on *unpri.org/principles*.

The Authority has entered into a resource sharing agreement with other CFIs to help it meet its 'avoid prejudice' obligations and implement its policies, including its UNPRI commitments, efficiently.

Forecast Service Performance For 2017/2018

(Sections 141(2) (d) of the Crown Entities Act

Investment Performance Expectations for 2017-18

The Board's forecast investment return is based on expected average ten year returns for each asset class held (see Significant Assumptions used in the Forecast of the Fund on page 14). The volatility of market prices for risky assets like equities, however, means that the actual return in any given year may vary widely from the ten year average. The range of potential annual returns over rolling ten year periods is also much narrower than for any single year.

The Board's forecast return for the Fund for the year ended 30 June 2018 is 6.8% before tax and investment costs (see Table 1 on page 11). This translates to forecast investment income, including valuation changes, of $275 million[1].

The Reference Portfolio is forecast to have a 25% chance of returning 10% less than NZ Government Stock over the next 10 years.

The forecast return includes added value from alternative market exposures and active management strategies. These increase the Fund's expected return compared with the Reference Portfolio with a comparable degree of risk. The Target Portfolio is forecast to return 1.4% ($55 million) more than the Reference Portfolio, before tax and investment costs.

[1]*The $223 million shown in the Forecast Income Statemen*t on page 33 is a*fter deducting taxation and Schemes expenses.*

Table 1: Projected Investment Performance for the year ended 30 June 2018

Investment Performance	Target Portfolio 2017/18 $m	Target Portfolio 2017/18 %	Reference Portfolio 2017/18 $m	Reference Portfolio 2017/18 %
Gross Investment Income	**275**	**6.8**	**220**	**5.4**
Total investment costs	35	0.8	15	0.4
Net Investment Income	241	6.0	205	5.0
Tax	(54)	(1.3)	(46)	(1.1)
Forecast Investment Income after tax	**187**	**4.7**	**159**	**3.9**

** NZ Government Stock is projected to return 3.7% gross of tax for the year to 30 June 2018.*

Investment Costs	Target Portfolio 2017/18 $m	Target Portfolio 2017/18 %	Reference Portfolio 2017/18 $m	Reference Portfolio 2017/18 %
Investment management fees	30	0.73	12	0.29
Custody expenses	1	0.03	1	0.02
Overheads (share of Authority's operating expenses)	3	0.07	2	0.05
Total Investment Costs	**35**	**0.83**	**15**	**0.36**

- *Numbers may not add due to rounding.*
- *The Authority manages the Fund to a 'Target Portfolio', which includes investment activities aimed at improving risk-adjusted return compared to the Reference Portfolio.*
- *Table 2, on page 14, shows the assumed asset allocations for the Target Portfolio and the Reference Portfolio.*
- *The assumed returns from each asset class are set out in Table 3 on page 15 and include, where appropriate, half of the added value expected from active management of the asset class.*
- *Total investment costs include the projected investment management fees and custody expenses and 70% of the Authority's projected operating expenses. The other 30% of the Authority's expenses is allocated to Schemes. For the Reference Portfolio assumptions, the Authority's expenses are allocated 50:50 between the Investments and the Schemes.*

Outputs and Performance Measures

In addition to setting the Investment Objective, the Authority sets specific outputs and performance measures for investment. These will 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 2017/2018 year the Authority has identified the following service performance outputs and performance measures for investment:

Outputs	Measures
Manage investments to maximise returns over the long term, without undue risk to the Fund as a whole, in accordance with best practice portfolio management.	• Fund return and Reference Portfolio return compared to the return on NZ Government Stock over rolling 10 year periods. • Volatility and drawdown of Fund returns compared to expected levels. • Fund return and assessed risk compared to the Reference Portfolio over rolling 3 years to determine the added value of alternative risk exposures and active management (net of additional fees and costs). • All measured with reference to independent market valuations by the custodian and assessed by the Authority's management staff.
Endeavour to achieve competitive investment costs justified by value added.	• Comparison of expected and actual value added, in terms of excess return, net of additional costs, and/or reduced risk, versus the Reference Portfolio. • Comparison of investment managers' actual performance against contracted mandates and representative benchmarks, measured monthly by management staff, with quarterly reporting to the Board. • Annual comparison of the Fund's performance and cost structure with those of similar organisations, prepared by independent party. • Independent statutory review every 5 years.
Monitor individual investment managers to ensure compliance with contracted mandates and, where appropriate, out-performance against benchmarks.	• Regular reviews by management and periodic review by independent adviser.
Maintain a SIPSP that meets best practice.	• Periodic review by independent adviser to assess whether the SIPSP meets best practice and is relevant.

Outputs	Measures
Comply with the SIPSP.	• No unauthorised variations from the SIPSP (which may be varied by the Board from time to time). • Actual asset allocation rebalanced monthly to within rebalancing tolerances set out in the SIPSP. • Investment manager risk remains in line with expectation by comparing investment managers' actual risk profiles against expected risk. • Review of custodian's performance against key performance indicators quarterly to determine that it meets its Service Level Agreement. • No direct investments that breach the Responsible Investment policies set out in the SIPSP. • All investments in collective investment vehicles (**CIVs**) in accordance with Responsible Investment policies in the SIPSP. • CIVs notified of the Board's Responsible Investment policies. • Compliance with the SIPSP reviewed annually by independent adviser reporting to Board.
Put in place a sound investment strategy consistent with the SIPSP and the Authority's Beliefs.	• Board review of the investment strategy, including the key investment and taxation assumptions, at least annually, that confirms the strategy is consistent with the SIPSP and the Authority's Beliefs.
Collaborate with other CFIs to monitor ESG risks of investments, engage with companies with negative ESG issues, encourage integration of ESG issues into investment arrangements where consistent with financial objectives, and maintain a list of excluded investments.	• Avoidance of any negative ESG issues. • Annual advice to investment managers on policies and exclusions. • Maintenance of current exclusion list. • Participation in engagements with companies that may lead to positive change in behaviour.
Ensure the Authority complies with the Act.	• Conclusions of in-house legal compliance programme developed with advice from the Authority's legal firm.

Significant Assumptions used in the Forecast of the Fund

Table 2 sets out the assumptions made for the asset allocations for the Target Portfolio and the Reference Portfolio. The Authority seeks to enhance the Fund's performance by investing in certain alternative market exposures, such as pivate equity, catastrophe insurance, life settlements, style risk premia (risk factors) and active management strategies. These exposures and strategies are reflected in the Target Portfolio and expected to increase returns and/or reduce investment risk compared to the Reference Portfolio, after allowing for incremental costs.

Table 2: Assumed Asset Allocations (%) of the Target Portfolio and the Reference Portfolio as at 30 June 2017

Asset Class	Target Portfolio	Reference Portfolio
International Equities	56.0	60.0
New Zealand Equities	8.6	10.0
Global Fixed Interest	14.5	30.0
Multi-Asset Class	4.2	n/a
Catastrophe Risk	6.0	n/a
Life Settlements	3.7	n/a
Style Premia	5.0	n/a
Commodity Futures	2.0	
Foreign Currency Exposure	(20.0)	(20.0)
Total	**100.0**	**100.0**

- *The Reference Portfolio is a simple, notional portfolio, invested passively in liquid public markets only.*
- *The actual asset allocation for the Fund is rebalanced if required to the Target Portfolio.*
- *The Board's forecast of the performance of the Fund depends on assumptions with respect to the returns (before tax) from each asset class in the Target Portfolio. Actual returns from each asset class over the next period i.e. 4 four years may vary significantly from the long term return assumptions used.*

Table 3: Assumed Returns (%) and Risk (%) for each Asset Class (before tax and before fees)

Asset Class	Target Portfolio	Reference Portfolio	Risk
International Equities	7.6	6.5	16.6
New Zealand Equities	8.5	7.2	18.8
Global Fixed Interest	3.1	2.6	4.3
Multi–Asset Class	8.4	n/a	8.0
Catastrophe Risk	5.4	n/a	n/a
Life Settlements	6.0	n/a	n/a
Style Premia	6.9	n/a	13.0
Commodity Futures	5.0		15.7
Total Portfolio	**6.8**	**5.4**	**12.7**

- *The assumed returns for the Reference Portfolio have been provided by Russell Investment Group Limited (**Russell**) based on simulation modeling that is globally integrated, sensitive to market conditions and allows for extreme outcomes.*
- *The assumed returns for the Target Portfolio are adjusted by the Authority for risk and/or added value by active investment managers as appropriate.*
- *The risk measure is the assumed annual volatility of return for each asset class. The annual volatility is not an appropriate risk measure for Catastrophe Risk and Life Settlements.*
- *The assumed returns for the Reference Portfolio and Target Portfolio are lower in general than those used in the 2014 Statement of Intent.*
- *Actual investment management fees may vary significantly from those projected. Actual returns from each asset class in the year may vary significantly from expected returns. In addition, performance fees are paid to some managers if agreed performance targets are exceeded.*
- *The assumed returns for each asset class in the Target Portfolio include, where appropriate, half of the added value expected from active management of the asset class.*
- *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, which is used for the Target Portfolio. The Fund is allowed to have foreign currency exposure anywhere between 0% - 40%.*
- *Asset values, as at 1 July 2017, are projected from actual 31 January 2017 asset values.*
- *Projected entitlement payments from the Fund are $12 million per month.*
- *Taxation assumptions are summarised in Table 4 on page 16.*

Table 4: 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 20% imputation credits
Global Fixed Interest and some Alternative Assets	• 28% on accrued profit or loss

Schemes

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 9H of the Act.

At 30 June 2016, the Schemes had 59,203 members, made up of 13,568 contributory members and deferred annuitants (eg. members who have elected to receive their entitlements from a future date) and 45,635 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 22.4% of the entitlements for the 2017/2018 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 2016. The results are set out in Table 5. 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 2016 $m	Projected 30 June 2017 $m	Projected 30 June 2018 $m
Past Service Liabilities	12,835	12,595	12,349
Net Assets	3,961	3,965	3,968
Unfunded Past Service Liabilities	8,874	8,630	8,381

- *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 have improved since the Authority's Actuary carried out the valuation.*
- *The Board projects net assets to be $4,115 million as at 30 June 2017, and $4,157 million, as at 30 June 2018.*

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 Employer Services Limited (**Datacom**).

The overall expected costs (Schemes) of $7.66 million include the expected Schemes administration expenses, estimated actuarial costs and approximately 30% of the Authority's projected operating expenses (see page 37).

Objectives and strategy

(sections 141(1) of the Crown Entities Act)

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 (**Policies**), and in a cost effective and timely manner; and
- service levels agreed with the Schemes Administrator are met.

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

Also key in achieving the Schemes' outcome (see next page) is the performance of the Schemes Administrator, Datacom. The Authority has established and maintains a partnering relationship style 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 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 2017/2018

(sections 141(2) (d) of the Crown Entities Act)

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.
- Interpretation of the provisions in the Act and the Policies and exercising discretionary powers (set out in the Act).

Outputs and Performance Measures

For 2017/2018 the Authority has identified the following outputs and performance measures to assist in achieving the Schemes' outcome:

- To meet the needs and reasonable expectations of the members and employers as stakeholders.

Outputs	Measures
Accurately calculate and pay entitlements, process contributions correctly and on time.	• Performance is in line with the key performance indicators (**KPIs**) set out in the Management Agreement between the Authority and Schemes Administrator. KPIs are: – 100% of all annuities are paid on time; – all contributions are banked on receipt and allocated as soon as verified as being correct; – all transactions are processed correctly; – all routine correspondence is responded to within 5 working days; and – all non-routine correspondence is responded to within 7 working days. Performance against the KPIs is measured through monthly reporting by the Schemes Administrator, monitored by Management. • The Business System is relevant and supportive of the requirements of the Schemes. • Assessed by: – no major loss or corruption of data or functionality; – having an appropriate Business Continuity Plan in place; – the ability to access required data from the Business System.
Respond appropriately to stakeholders' inquiries and provide relevant information.	• Timely responses to all requests for information from Treasury and meeting deadlines measured by: – no requests being received for missing or incomplete information; and – timeframes being met. • Regular updating of website information on Schemes and Investment, sending the annual Chairman's letter to members by the end of September each year and sending member and employer updates. • Achieving consistently good satisfaction scores in the major aspects of the biennial survey of members and employers and positive feedback from other stakeholders. • Timely processing of appeals. On receipt of an appeal, complete papers are provided to the Appeals Board at least 14 days before each scheduled hearing.

Organisational Health and Capability

(section 141(2)(c) of the Crown Entities Act)

Governance

The Board is the governing body of the Authority and is responsible for making all strategic decisions relating to the Fund and the Schemes. The Board has all the powers necessary for managing, and for directing or supervising the management of, the business of the Fund.

The Minister appoints the members of the Board. The Board has a wide range of experience and expertise in the investment, financial and business sectors.

The Board has prepared a Governance Manual and a Corporate Governance Statement. The documents incorporate legislative and regulatory requirements as well as the policies and practices developed by the Board. The Authority's Corporate Governance Statement is available on our website *www.gsfa.govt.nz.*

The key policies and practices developed by the Authority are set out below:

- The Authority's obligations with respect to the Fund and the Schemes are supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on at least an annual basis.
- The Board reviews, on at least an annual basis, its own activities and the activities of Management, to ensure that clear and proper sets of accountabilities remain in effect, delegations are properly implemented, and reporting is comprehensive.
- The Board reviews its own performance annually and, at all times, aims to achieve best practice.
- The Board has established two committees:
  - Audit and Risk Review; and
  - Investment

  to perform and exercise the functions and powers of the Board delegated to each committee, as applicable. The committees have written terms of reference and ensure their activities remain consistent with the Crown Entities Act. Each committee reviews its performance annually and their performance is also reviewed by the Board.
- The Board meets at least eight times per annum and ensures that it receives appropriate and reliable reporting on the Fund and the Schemes, and on the actions of its Management and other service providers.
- The Board regularly considers the resources required for the effective and proper management of the Fund and the administration of the Schemes and acts to ensure that resources available to the Authority, both internally and externally, align with these requirements. The Board aims to use resources of appropriate quality and capacity for its needs, at a reasonable cost. The Board ensures that comprehensive service level agreements are entered into with the major external service providers, which specify reporting and compliance standards.

- The Board has a systematic compliance programme with its service providers and any breaches of compliance are reported to the Board.
- The Board has established a risk management programme, which is implemented and reviewed regularly by Management. The Audit and Risk Review Committee monitors matters of risk management and reports to the Board.

Organisational Structure

The Authority has adopted an outsourced model for the key activities of Schemes administration and investment management (including custody of the Fund's assets).

The Authority and the Board of Trustees of the National Provident Fund (**NPF**) have formed a joint venture company, Annuitas Management Limited (**Annuitas**). Each organisation has entered into a management services agreement (**MSA**) with Annuitas.

The main function of Annuitas is to provide staff (**Management**) who act in management and secretarial roles on behalf of the Authority and NPF. The MSA between the Authority and Annuitas contains delegations of authority to enable Management to carry out the day to day management of the Authority's investment, custody and Schemes administration functions. At each meeting the Board receives reports from Management on all significant decisions made and matters determined under the delegations of authority.

The joint venture with NPF is seen to be the most appropriate way of providing the management and support required by the Board. The Schemes and the NPF schemes are closed to new members and both organisations have adopted an outsourced model for the major activities of investment, custody and Schemes administration. Annuitas allows economies of scale and higher quality resourcing than could be justified if each organisation operated on a stand-alone basis.

The Authority has appointed:

- Datacom as the Schemes Administrator. Datacom is responsible for the collection and processing of contributions to the Schemes, maintenance of member records, calculating, notifying, processing and paying of all entitlements under the Schemes, maintaining toll free lines and a help desk to log and process all oral and written enquiries, and maintaining the financial records of the Schemes. All interpretation issues and determinations, arising under the Act and the Policies, must be referred by Datacom to the Authority for decision;
- JP Morgan Chase Bank as the global custodian for the Fund. The custodian is responsible for the safekeeping of the assets of the Fund, settling transactions, and reporting on the performance and compliance of the investment managers appointed by the Authority;
- Specialist management organisations to undertake day to day investment decisions and trading, currency hedging and investment advice; and
- Towers Watson (Australia) Pty Limited to provide specialist actuarial advice.

Organisational Development

Board members are appointed for three years and often serve two or more terms.

The Board, through the Chairman, advises the Minister to help ensure an appropriate balance of skills and experience is maintained in the membership of the Board.

The Board generally sets aside a session each year for strategic planning and holds investment workshops from time to time. During the strategic planning session the Board reviews its outcomes, outputs and performance measures (**Objectives**) in the context of the investment and superannuation environment. The Board assesses whether its strategies remain appropriate and the capabilities of the organisation to achieve its Objectives. In particular, the Board reviews the robustness and sustainability of systems and technology, and assesses whether appropriate resources and skills are in place for the Authority and Management to achieve their accountabilities and responsibilities.

Investment workshops provide an opportunity for the Board and Management to receive presentations and discuss contemporary issues and new approaches relating to investment management, or other parts of the Authority's business. Board members are also encouraged to take advantage of training and development opportunities available in superannuation and investment.

The Authority maintains close working relationships with other CFIs. A formal collaboration process is in place to facilitate sharing of information and strategies with other CFIs where appropriate, including joint evaluation of investments.

Management of the Fund's assets and the administration of the Schemes will continue to be outsourced to specialist organisations. A key element of an outsourced model is to ensure each contracted manager, where appropriate, has in place a well planned and tested business continuity plan (**BCP**), including a disaster recovery programme (**DRP**). This is particularly important in the key areas of custody and Schemes administration. The DRPs for the custodian and the Schemes Administrator are tested on a regular basis and reported to the Board.

The Management team is responsible for overseeing the key roles and responsibilities – investment, Schemes administration and finance. Key person risk is reduced by maintaining appropriate back-up support in the three key areas. Annuitas is committed to being a 'good employer' and offering equal employment opportunities to prospective and existing staff. Each year Annuitas has programs focused on the following elements:

- Leadership, accountability and culture
- Recruitment selection and induction
- Employee development, promotion and exit
- Flexibility and work design
- Remuneration and recognition conditions
- Harassment and bullying prevention
- Safe and healthy environment

Consultation and Reporting to the Minister

(section 141(2)(f)(2) of the Crown Entities Act)

Matters requiring consultation with the Minister

The Authority is required to consult with the Minister on the following matters:

- The method for calculating interest on contributors' contributions, where the contributor is discharged or released from the regular forces in circumstances where no retiring allowance is payable (section 71K(b) of the Act).
- Approval of any class of transactions which involve:
  - borrowing money;
  - mortgaging or charging any of the real property of the Fund, whether present or in the future, as security; or
  - entering into a derivative transaction, or amending the terms of that transaction (where derivative transaction includes swaps, options, futures and any combination of those things).
- Approval to operate bank accounts outside the provisions set out in section 158 of the Crown Entities Act.

Approvals have been sought and granted for some of the matters outlined above.

With regard to derivative transactions, the Minister has given approval for the Authority to enter into such transactions where the use is consistent with the SIPSP.

No approvals from the Minister have been necessary with respect to section 71K(b), or with respect to borrowing of money or mortgaging of real property.

Reporting to the Minister

The financial statements of the Authority and the Fund are maintained and reported in accordance with the Act and the Crown Entities Act. The Act requires the Authority to report to the Minister on the Fund at intervals and include any information that the Minister requires. In addition to the annual reports of the Authority and the Fund, information is provided to the Minister for inclusion in the Crown's budget and economic updates. The Actuary appointed by the Authority calculates the Unfunded Past Service Liabilities for inclusion in the Crown's financial statements.

Treasury, through the Crown Operations Group, also reports to the Minister on a six monthly basis, following consultation with the Authority, on the Fund's investment performance and on key operational issues. Commentary on the investment activities of the Authority is also included in the Crown's annual Investment Statement.

The Authority has introduced a Reference Portfolio (see page 14) against which the added value (before and after tax and investment management fees) of implementing alternative investment market exposures and the performance of active managers can be measured and reported quarterly. This assists the Authority in ensuring that investment management fees represent the optimal level of fees to meet the Investment Objective.

The Act requires that an independent review, by an independent consultant appointed by the Minister, must be conducted every five years of how effectively and efficiently the Authority is performing its functions under the Act. Reviews were undertaken in 2006, 2011 and 2016. It is expected the next review will be undertaken in 2021.

Processes in Relation to Acquisitions

(section 141(2)(e) of the Crown Entities Act)

Section 141 of the Crown Entities Act requires the Authority to report on any processes to be followed for the purpose of section 100 (Acquisitions of shares or interests in companies, trusts and partnerships).

The Authority believes the intention of section 100 is to cover situations where the Authority buys shares to facilitate an acquisition strategy. The Authority has no plans to acquire shares for this purpose.

Risk Management

(section 141(2)(f)(1) of the Crown Entities Act and section 15N of the Act)

A summary of the Authority's assessment of the key risks to the business, including the key risks to the performance of the Fund, and actions being taken to manage those risks is set out below.

Investment Risks

Risk	Action to Manage
Investment strategy and asset allocation are inappropriate.	• Establish quantified investment objectives in terms of risk, return and horizon reflected in a Reference Portfolio. • Diversify the risk exposures, assets and management techniques of the Fund. • Seek professional advice on the investment strategy and asset allocation. • Compare the investment strategy and asset allocation with peer funds. • Peer reviews of advice and regular consultation with other CFIs and large investment funds. • Independent statutory review every 5 years. • Review the SIPSP annually, as required by section 15L of the Act.
Poor performance of active investment managers.	• Robust selection process for all investment managers, based on demonstrated ability. • Diversification among strategies and managers where appropriate. • Avoid investment in strategies with low likelihood of adding value. • Mandates for active investment managers with clearly prescribed risk limits. • Regular monitoring and review of manager performance. • Management agreements, which provide for dismissal at the discretion of the Authority.

Risk	Action to Manage
Overall investment management risk.	• Adoption of a Reference Portfolio that reflects an appropriate investment horizon and desired level of risk. • Specific mandate for each investment manager, based on best practice portfolio management. • Constraints to govern credit and liquidity risks. • Regular rebalancing of the Fund to approved risk exposure limits, and use of strategic tilts. • Use of a custodian to hold securities, settle and record transactions, report on performance and monitor compliance of investment managers with mandates. • Operational risk review of commingled investment vehicles, including robust due diligence of managers, and monitoring of their prior and ongoing contractual obligations. • A comprehensive SIPSP, reviewed annually and enforced by the Authority. • Clear separation of functions between investment management, custody, and overall supervision. • Appropriate resourcing of the Management team to conduct the oversight function.
Currency risk, for example the risk that the Fund will lose value through adverse exchange rate movements.	• Maintaining an overall level of foreign currency risk that is prudent in the context of the total Fund. • Limiting external managers' ability to add currency risk.
The assumed gross pre tax investment returns for each asset class are not achieved.	• Adopting a diversified asset allocation for the Fund, reflected in the Reference Portfolio, and governance arrangements that ensure adherence to the strategy through time. • Appointing investment managers based on demonstrated ability, with benchmarks relevant to total portfolio risk. • Shifting asset or risk allocation to limit losses from extreme market events when asset values are extreme.
Major structural changes to investment markets and/or taxation environment.	• Neither of these risks is within the control of the Authority. However, the Authority takes into account changes in these risks in its reviews of the investment strategy and asset allocation.

Reputation Risk

Risk	Action to Manage
Prejudice to New Zealand's reputation.	• Determination of authorised investments (which may include authorised markets) in investment mandates. • Exclusion of direct investment in certain activities that are illegal in New Zealand, contrary to international obligations and/or widely discouraged in New Zealand, such as nuclear weapons, landmines, cluster bombs, tobacco and whaling. • Implementing the Responsible Investment policies in collaboration with other CFIs and with support from the Guardians of New Zealand Superannuation and the UNPRI. The Authority monitors securities with significant responsible investment risks, engages with high risk entities and may exclude those with unacceptable risks. • Encouraging external investment managers to consider the Authority's responsible investment policies.
The Authority's reputation risk.	• Robust selection process for contracted managers. • Comprehensive management and service level agreements and clearly defined and agreed mandates and reporting standards. • Informing contracted managers of the Authority's responsible investment policies, as set out in the SIPSP, and excluded investments. • Maintenance of an internal governance framework for appropriate fiduciary oversight, performance management and control of functions carried out by the Board and Management. • Implementation of a comprehensive risk management programme. • Sustainable management of the Schemes to enable accurate calculation, payment and reporting of members' entitlements. • Clear communication with stakeholders.

Schemes Risks

Liabilities

The Fund's liabilities arise from the defined benefit schemes specified in the Act. Factors that may affect the liabilities include:

- Movements in the consumer price index (**CPI**) (all retiring allowances and spousal annuities are CPI indexed).
- The rate of increase in contributors' salaries, especially as it affects the last five years of contributory service.
- The discount rate used to value the liabilities.
- Factors affecting retirement or cessation of service by contributors, including state sector restructuring and privatisations.
- Patterns of entitlement selection on retirement.
- Mortality rates.
- Quality of information (data) received from employers.

None of the above factors are within the control of the Authority. The Authority will, however, ensure that accurate and timely information is provided to the Actuary to enable preparation of actuarial projections of the liabilities in accordance with the provisions of the Act.

Risk	Action to Manage
The provisions of the Act relating to the Schemes are not complied with and discretions relating to the Schemes are inappropriately applied.	• Monitoring the performance of the Schemes Administrator and resolving any issues of interpretation of the Act. • Ensuring all discretionary decisions are exercised in accordance with the Act and the Policies. • Ensuring any changes to the Policies are made only after taking into account the interests of relevant persons, including the Crown, in accordance with the Act. • Appropriate resourcing of the Management team to conduct the oversight function.

Administration

The Authority is responsible for the management and administration of the Schemes. Day to day administration duties are carried out by the Schemes Administrator, Datacom in accordance with an agreement that continues through until 31 July 2017. Negotiations are underway for a schemes administration agreement post 31 July 2017.

In administering the Schemes, heavy reliance is placed on the Business System owned by the Authority. Support is provided for the Business System by ClearPoint Limited (**ClearPoint**).

Risk	Action to Manage
Poor performance by Datacom.	• Having a detailed scheme administration management agreement in place with Datacom, backed by a parent company guarantee. • Maintaining a close liaison with Datacom. • Monitoring Datacom's performance against the KPIs. • Carrying out a biennial survey that assesses, amongst other things, the level of satisfaction of members and employers with the service provided by Datacom. • Taking remedial action on any issues identified in the survey.
Serious information technology problems.	• Ensuring any system modifications to the Business System are approved by the Authority and that the system is well maintained. • Ensuring that Datacom and ClearPoint have in place back-up procedures in place and a fully tested business continuity plan and disaster recovery plan, systems reliability is regularly monitored.

Forecast Financial Statements

Forecast financial statements for the four years ending 30 June 2020

The Fund

(section 15N of the Act)

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Changes in Net Assets to Net Operating Cash Flows
- Statement of Accounting Policies.

The Authority

(section 142(1)(a) of the Crown Entities Act)

- Forecast Income Statement
- Forecast Balance Sheet
- Forecast Statement of Cash Flows
- Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows
- Statement of Accounting Policies.

Government Superannuation Fund

Forecast Income Statement

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
	Increase in assets from:				
406,489	Investing activities	275,384	285,645	291,599	297,828
	Operating activities				
(39,946)	Expenses[1]	(41,921)	(47,803)	(49,595)	(50,593)
366,543	**Surplus before tax and membership activities**	**233,463**	**237,842**	**242,004**	**247,235**
(59,589)	Tax	(53,724)	(54,948)	(56,192)	(57,493)
306,954	**Surplus after tax and before membership activities[2]**	**179,739**	**182,894**	**185,812**	**189,742**
	Membership activities				
706,331	Contributions - Crown	729,000	733,000	737,000	739,000
29,000	Contributions - members	20,000	18,000	15,000	13,000
18,000	Contributions – other entities	16,000	15,000	13,000	12,000
(906,000)	Benefits paid	(902,000)	(905,000)	(908,000)	(909,000)
(152,669)	Net membership activities	(137,000)	(139,000)	(143,000)	(145,000)
154,285	**Surplus after tax and after membership activities**	**42,739**	**43,894**	**42,812**	**44,742**
3,960,879	Opening assets available to pay benefits	4,115,164	4,157,903	4,201,797	4,244,609
4,115,164	**Net assets available to pay benefits**	**4,157,903**	**4,201,797**	**4,244,609**	**4,289,351**

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 40).

2. The surplus in the Forecast Income Statement is lower than the projected Forecast Investment Income in Table 1 as the Forecast Income Statement includes all the costs for the Authority.

Government Superannuation Fund

Forecast Balance Sheet

Estimate as at 30 June 2017 $000		Forecast as at 30 June 2018 $000	Forecast as at 30 June 2019 $000	Forecast as at 30 June 2020 $000	Forecast as at 30 June 2021 $000
4,098,944	**Investments**	**4,165,231**	**4,249,123**	**4,343,569**	**4,441,769**
	Other assets				
86,206	Cash and cash equivalents	71,710	77,707	81,345	72,402
58,050	Receivables, prepayments and other assets	41,947	43,334	37,742	32,728
144,256		113,657	121,041	119,087	105,130
4,243,200	**Total assets**	**4,278,888**	**4,370,164**	**4,462,656**	**4,546,899**
	Less				
128,036	Other payables	120,985	168,367	218,047	257,548
128,036		120,985	168,367	218,047	257,548
4,115,164	**Net assets available to pay benefits**	**4,157,903**	**4,201,797**	**4,244,609**	**4,289,351**
12,595,000	Estimated actuarial present value of promised retirement benefits	12,349,000	12,081,000	11,789,000	11,477,000
8,479,836	Deficit	8,191,097	7,879,203	7,544,391	7,187,649
4,115,164	**Net assets available to pay benefits**	**4,157,903**	**4,201,797**	**4,244,609**	**4,289,351**

Note – 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 calculated by the Authority's Actuary using a net discount rate.*
- *The Deficit shown in the Forecast Balance Sheet differs slightly from that calculated by the Authority's Actuary in their actuarial valuation of the Fund, as at 30 June 2016, under NZ IAS 26, dated August 2016. The Authority's Actuary projected a lower value for the assets of the Fund compared with the forecast made by the Authority.*
- *There is no requirement on the Crown to fully fund the Deficit in relation to the Schemes.*
- *The Crown pays its share of the Deficit on a cashflow (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.*

Forecast Statement of Cash Flows

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
	Cash flows from operating activities				
	Cash was provided from				
711,261	Contributions - Crown	729,361	738,332	737,323	738,884
28,356	Contributions - members	20,135	17,993	14,950	13,249
18,117	Contributions - other entities	15,950	15,030	13,050	12,050
78,272	Interest	92,785	95,714	97,550	100,390
	Cash was disbursed to				
(905,642)	Benefit payments	(902,000)	(905,000)	(908,000)	(909,000)
(59,544)	Income tax	(67,816)	(53,856)	(55,941)	(57,226)
(40,425)	Operating expenses	(42,031)	(48,136)	(49,792)	(50,440)
(169,605)	**Net cash (outflows) from operating activities**	**(153,616)**	**(139,923)**	**(150,860)**	**(152,093)**
	Cash flows from investing activities				
	Cash was provided from				
2,741,976	Maturities and sales of investment assets	2,530,198	2,539,370	2,627,873	2,730,199
	Cash was disbursed to				
(2,795,108)	Purchase of investment assets	(2,391,078)	(2,393,450)	(2,473,375)	(2,587,049)
(53,132)	**Net cash (outflows)/ inflows from investing activities**	**139,120**	**145,920**	**154,498**	**143,150**
(222,737)	Net (decrease)/increase in cash held	(14,496)	5,997	3,638	(8,943)
308,943	Opening cash brought forward	86,206	71,710	77,707	81,345
86,206	**Closing cash balance**	**71,710**	**77,707**	**81,345**	**72,402**

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

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
154,285	**Net increase in net assets**	**42,739**	**43,894**	**42,812**	**44,742**
	Add/(less) non cash items				
1,351	Amortisation of Business system	2,644	3,019	3,448	3,948
	Add/(less) movements in working capital items				
12,584	Decrease/(increase) in receivables and prepayments	10,458	(4,407)	2,144	1,067
6,394	Increase/(decrease) in other payables	(6,969)	47,381	50,041	39,752
18,978		**3,489**	**42,974**	**52,185**	**40,819**
	Add/(less) items classified as investing activities				
(2,624)	(Increase)/decrease in accrued interest portion of fixed interest securities	422	2,404	(3,538)	(3,264)
(331,715)	(Decrease) in net investment assets	(183,589)	(190,430)	(194,399)	(198,552)
(6,486)	(Increase)/decrease in investment receivables	(9,405)	4,897	(1,964)	(439)
(3,394)	(Decrease)/increase in investment payables	(9,916)	(46,681)	(49,404)	(39,347)
(344,219)		(202,488)	(229,810)	(249,305)	(241,602)
(169,605)	**Net cash outflows from operating activities**	**(153,616)**	**(139,923)**	**(150,860)**	**(152,093)**

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 Intent of the Authority commencing on 1 July 2017 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 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 that certain assets and liabilities are 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 been drawn up in accordance with *NZ IAS 26: Accounting and Reporting by Retirement Benefit Plans*, and with the provisions of relevant legislative requirements.

b. Investments

Investments are recorded on a trade date basis and are stated at fair value. Projected Investment assets are calculated using 31 January 2017 actuals.

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. Financial instruments, including derivatives that are hedges of specific assets, are recognised on the same basis as their underlying hedged assets.

All financial instruments are recognised in the Balance Sheet and all revenues and expenses in relation to financial instruments are recognised in the Income Statement.

Investments are recorded at fair value and all other 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 Income Statement.

Costs of administration of the Fund, including investment management and custodian fees, are paid out of the Fund and recovered 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 includes a share of the expenses.

i. Contributions and benefits

Contributions are recognised in the Income Statement, when they become receivable, resulting in a financial asset for amounts receivable from both employees and employers.

Entitlements are recognised in the Income Statement when they become payable.

Contribution and entitlement projection numbers are taken from the Actuarial valuation as at 30 September 2016.

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).

Since the Fund became a PIE there have been no temporary differences. 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 includes 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. All balances have an original maturity of less than three months.
- 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

There are no significant changes in accounting policies.

Government Superannuation Fund Authority

Forecast Income Statement

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
39,946	Transfer from the Fund	41,920	47,803	49,595	50,593
24	Other revenue	20	20	20	20
39,970	**Total revenue**	**41,940**	**47,823**	**49,615**	**50,613**
6,258	Schemes administration	6,500	6,694	7,125	7,629
29,638	Investment management	31,373	37,025	38,270	38,703
4,074	Operating expenses	4,067	4,104	4,220	4,281
39,970	**Total expenses**	**41,940**	**47,823**	**49,615**	**50,613**
-	Net operating result	-	-	-	-

Forecast Balance Sheet

Estimate as at 30 June 2017 $000		Forecast as at 30 June 2018 $000	Forecast as at 30 June 2019 $000	Forecast as at 30 June 2020 $000	Forecast as at 30 June 2021 $000
	Tax payers' equity				
-	General funds	-	-	-	-
-	**Total tax payers' equity**	**-**	**-**	**-**	**-**
	Represented by				
	Current assets				
288	Cash	284	292	254	260
4,340	Receivables and prepayments	4,230	3,897	3,700	3,853
4,628	**Total assets**	**4,514**	**4,189**	**3,954**	**4,113**
	Current liabilities				
4,628	Payables and accruals	4,514	4,189	3,954	4,113
4,628	**Total liabilities**	**4,514**	**4,189**	**3,954**	**4,113**
-	Net assets	-	-	-	-

Government Superannuation Fund Authority

Forecast Statement of Cash Flows

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
	Cash flows from operating activities				
	Cash was provided from				
40,425	Government Superannuation Fund	42,031	48,136	49,792	50,440
24	Interest	19	20	20	20
32	Other				
	Cash was disbursed to				
(40,652)	Operating expenses	(42,054)	(48,148)	(49,850)	(50,454)
(171)	**Net cash flows from operating activities**	**(4)**	**8**	**(38)**	**6**
(171)	Net (decrease)/increase in cash held	(4)	8	(38)	6
459	Opening cash brought forward	288	284	292	254
288	**Closing cash balance**	**284**	**292**	**254**	**260**

Forecast Reconciliation of Net Operating Result to Net Operating Cash Flows

Estimate 2016/17 $000		Forecast 2017/18 $000	Forecast 2018/19 $000	Forecast 2019/20 $000	Forecast 2020/21 $000
-	**Net operating result**	-	-	-	-
	Add/(less) movements in working capital items				
511	Decrease/(increase) in receivables and prepayments	110	333	197	(153)
(682)	(Decrease)/increase in payables and accruals	(114)	(325)	(235)	159
(171)	**Net cash flows from operating activities**	**(4)**	**8**	**(38)**	**6**

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 Intent of the Authority commencing on 1 July 2017 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 a 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. 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 2016.

Investment management expenses

Investment management fees (including custody costs) are forecast to increase from the estimate of $29.638 million in 2017 to a forecast of $31.373 million in 2018. This is primarily due to an increase in forecast management fees.

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 2017/2018 year, are $41.940 million. These expenses, net of other revenue of $0.020 million are recovered from the Fund in accordance with section 15E of the Act.

The Fund then recovers payments made to the Authority (forecast $41.920 million), partly from the Crown, under a Permanent Legislative Authority (**PLA**), 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 2017, the Crown's share will be 90% (forecast $37.728 million) and the share to be met from the non Government employer contributions 10% (forecast $4.192 million).

The expenses of the Authority include:

- Management of the GSF assets (**the Fund**).
- Expenses related to investment management, custodial arrangements and fees for implementing processes for avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- Management of the Schemes, including the agreement between the Authority and the Schemes Administrator.
- 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 Intent
(SOI)