

ANNUAL REPORT FOR

**TE TUMU WHAKARAE MŌ TE KAWA MATAAHO
PUBLIC SERVICE COMMISSIONER**

State Sector Retirement Savings Scheme

Year ended 30 June 2022

INTRODUCTION

As advised in the previous report, on 7 August 2020 the State Services Commission changed its name to Te Kawa Mataaho Public Service Commission (Te Kawa Mataaho) and the State Services Commissioner changed to Te Tumu Whakarae mō Te Kawa Mataaho Public Service Commissioner following the enactment of the Public Service Act 2020.

This Annual Report to Te Tumu Whakarae mō Te Kawa Mataaho Public Service Commissioner in relation to the State Sector Retirement Savings Scheme (the SSRSS) has been prepared in respect of the year ended 30 June 2022.

The Annual Report has arisen from the requirement within the Terms of Reference of the Advisory Board for the SSRSS, which states:

At the end of each financial year the Board should prepare a report for the State Services Commissioner on the overall performance of the SSRSS, including the providers and investment funds, and the emerging issues and challenges.

ADVISORY BOARD

The Advisory Board was established by the former State Services Commissioner to advise and assist with the ongoing management and development of the SSRSS. The Board adds value by providing advice, information and guidance from individuals with a range of experiences and backgrounds.

A schedule of the Advisory Board members is contained in the Directory at the end of this report.

During the year the Advisory Board met in accordance with the revised Terms of Reference. The meeting following the year-end was attended by each of the providers, to enable the Board to directly question the provider about any relevant matters of concern.

OPERATION OF THE SSRSS

The SSRSS has two service providers, ASB Group Investments (ASB) and AMP Services (NZ) Ltd (AMP). The third provider, National Mutual Corporate Superannuation Services Limited (AXA), merged with AMP from 31 March 2011.

Each provider is party to a Specification Agreement that sets out its role in providing a savings vehicle for employees who have chosen the provider as their investment manager. The Agreements detail the processes associated with all member activities as well as the provider reporting obligations to the Board.

SSRSS membership numbers decreased from 25,382 to 24,392 during the year (a reduction of 3.9%). As the SSRSS is a closed scheme and does not accept new members, the expectation is for the membership to decrease each year. The total decrease of 990 in the year was reasonably well spread over each of the four quarters, with the June 2022 quarter recording the highest number of exits at 298. The most common reasons for exits were again Retirement (479), Resignation for those over age 50 (300) and transferring to KiwiSaver (73).

The total value of members' balances has decreased. The total funds under management in the SSRSS has now dropped to under \$2 billion reaching \$1,933.1 million at 30 June 2022, compared to \$2,140.4 million at 30 June 2021 (a decrease of 10.7%). The main reason for the decrease of \$207.3 million in the year were the significantly negative investment returns since January 2022 of negative \$251 million. Despite this, the investment returns over the three years since 1 July 2019 were \$100 million.

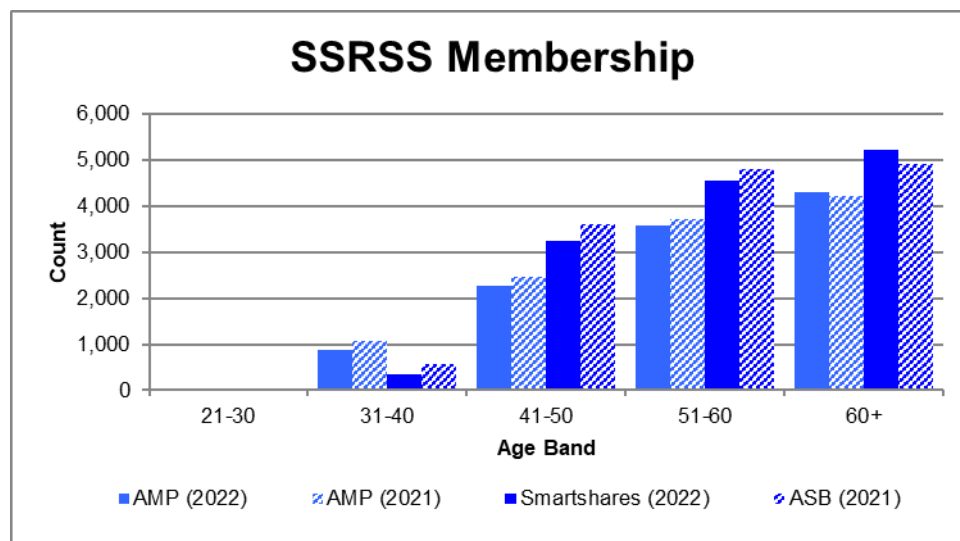
Total contribution amounts averaged \$27.5 million per quarter over the year. This is a decrease from the previous year where total contribution amounts averaged \$29.5 million. Average benefit payment amounts in a quarter rose significantly from \$20.9 in the previous year to \$30.2 million over this year.

MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2022 is given in the following table.

Summary of Membership	AMP	ASB	Total
Members at 1 July 2021	11,480	13,902	25,382
Withdrawals during the year	(454)	(536)	(990)
Members at 30 June 2022	11,026	13,366	24,392

There has been a steady reduction in membership during the year. The count of withdrawals has continued at a fairly regular number each quarter. The following chart shows approximately 70% of the membership at 30 June 2022 is now aged 50 and over so are eligible to withdraw their money from the SSRSS if they leave the State Sector. It is reasonable to expect the number of withdrawals to rise over the next few years.



ASSETS UNDER MANAGEMENT

At the overall SSRSS level, activities in the last year are summarised in the following table.

	AMP \$m	ASB \$m	Total \$m
Fund at 1 July 2021	905.6	1,234.8	2,140.4
Contributions	48.6	61.6	110.2
Withdrawals	(50.4)	(70.4)	(120.8)
Investment returns	(88.3)	(105.2)	(193.5)
Other adjustments (inc. fees and tax)	(1.8)	(1.4)	(3.2)
Fund at 30 June 2022	813.7	1,119.4	1,933.1

Investment returns for the year were negative, heavily affected by the negative returns since 1 January 2022 (-\$193.5 million compared to \$258.7 million in previous year). Member and employer contributions are lower than the previous year (\$110.2 million compared to \$117.8million). The total amount of benefit payments made during the year was significantly higher than the previous year (\$120.8 million compared to \$91.9 million).

Other adjustments primarily comprise the year end PIE tax payments and this year's total of just \$3.2 million is largely due to the taxable component of the poor investment returns since 1 January 2022.

INVESTMENT MARKETS

The first six months of the SSRSS year saw respectable positive returns from share markets both in New Zealand and overseas. However, share prices began to downgrade significantly in 2022. This was due to the emergence of conflict between Russia and Ukraine as well as concern regarding aggressive central bank actions.

The New Zealand share market finished down 13.5% while global developed markets were down 11.1% in local currency terms. A fall in the value of the New Zealand dollar meant that the unhedged global share return was a small loss, down just 3.7%.

Interest rates have continued to climb over the year as central banks have continued to remove stimulus from the economy and to address the increased level of inflation. This has led to losses for bond investors, who have seen the market value of their bonds decrease. New Zealand bonds were down 8.6% for the year while global bonds were down 8.8%. The market return from cash has remained low at 0.9% this year.

The Year Ahead

The outlook for the world's economies has soured considerably over the past year and discussions are prevalent about the prospect of worldwide recessions in the coming year. The lift in interest rates has resulted in larger discounts when investors consider the value of future dividend payments from shares.

Some commentators believe that the worst of equity losses may be behind us, while others believe that investors are yet to factor in the downgrade to earnings that many companies will experience. It remains to be seen which narrative will prove to be correct.

As the tightening phase of the monetary policy cycle has accelerated, the Reserve Bank of New Zealand has continued to increase its projections for the Official Cash Rate. The Reserve Bank is now expecting to lift the rate as high as 4% in 2023 before beginning to lower it.

Some solace to the pain induced by mark-to-market bond losses is that the outlook for fixed interest is the brightest it has been in years. The implied three-year return from cash using the Reserve Bank's projected pathway is 3.6% per annum. Taking the global bond sector as an example, the running yield on a market portfolio has increased from below 2% in late 2021 to a current level of 4.15%.

It goes without saying that the supply chain issues that have caused challenges around inflation will not disappear overnight. In addition to problems caused by the ongoing situation in the Ukraine, the choice of some countries to deemphasise global trade is also straining supply of some goods. The prevailing consensus from our major banks and other forecasters is currently for a gradual decline, with annual inflation expected to reach 2% by the end of 2024.

In spite of the recent and ongoing turbulence in 2022, there are certainly reasons to be more optimistic about markets in the coming year. For investors who are aiming to see results over the medium to long term, our advice is to remain focussed on this longer timeframe and to avoid excessive focus on these shorter-term challenges.

INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2022 for each fund offered under the SSRSS are shown in the following tables.

Conservative and Moderate funds

Provider	Fund Name	Investment return in year to 30 June 2022 %	Investment return in year to 30 June 2021 %
AMP	Declared Rate	3.5	2.6
AMP	Conservative	-8.3	6.2
AMP	Moderate	-9.4	9.5
AMP	ASB Moderate	-8.6	7.6
ASB	Moderate	-7.8	7.8

Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2022 %	Investment return in year to 30 June 2021 %
AMP	Balanced	-10.5	15.5
AMP	Ethical Balanced	-10.4	19.3
AMP	Moderate Balanced	-10.1	12.3
AMP	ANZ Balanced Growth	-9.6	20.7
AMP	ASB Balanced	-8.9	14.3
AMP	Nikko Balanced	-12.4	16.6
AMP	Mercer Balanced**	-8.1	15.8
ASB	Balanced	-8.8	14.3
MJW survey median		-7.5	17.3

Growth funds

Provider	Fund Name	Investment return in year to 30 June 2022 %	Investment return in year to 30 June 2021 %
AMP	AMP Growth	-11.0	21.3
AMP	AMP Aggressive	-11.4	23.9
ASB	ASB Growth	-9.2	20.3

As well, AMP offer the Lifestep Fund, which has asset allocations varying with the age of the member. Lifestep after fees but before tax investment returns for the year to 30 June 2022 ranged between -11.4% and -8.3% (compared to between 5.4% and 2.0% for the year to 30 June 2021).

All funds

Over the year the after fees but before tax investment returns of the three providers have continued to be monitored and compared. The best performing funds in each main category are shown below:

Fund Category	Provider	Investment return in year to 30 June 2022 %	Investment return in year to 30 June 2021 %
Conservative	AMP	3.5	9.5
Balanced	AMP	-8.1	20.7
Growth	ASB / AMP	-9.2 (ASB)	23.9 (AMP)

SERVICE STANDARDS

Each provider has an agreement with the Advisory Board to carry out its role to an agreed level of competence and timeliness. As the service standards are different within each agreement, each quarter the providers report to the Board on how their service levels have fared according to their own standards.

A summary of provider performance against the provider Service Level Agreement (SLA) is given in the following table, with the previous year's percentages in brackets. The table also shows provider performance against best practice SLAs.

Activity	Explanation	Best Practice SLA	AMP			Smartshares		
			AMP SLA	%age met within own standard	%age met within best practice standard	ASB SLA	%age met within standard	%age met within best practice standard
Change member records	Member record updated with notified changes; confirmation letter sent	1 day	5 days	100% (100%)	85% (93%)	1 day	100% (100%)	100% (100%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	96% (98%)	57% (63%)	2 days	100% (100%)	100% (100%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (100%)	100% (91%)	1 day	97% (94%)	97% (94%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	98% (96%)	88% (89%)	1 day	99% (98%)	100% (100%)
Benefit payments: closed accounts						1 day	98% (98%)	100% (100%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	97% (97%)	97% (97%)	1 day	93% (86%)	93% (86%)

The Advisory Board has continued to focus on trying to ensure that the providers meet their service standards. AMP continue to record consistent performance against their own service standards and are starting to record consistent improvements in the levels of performance against best practice standards. Smartshares have also continued their strong performance levels across all service standards.

MINISTRY OF EDUCATION ISSUES

During the year ended 30 June 2015 the Ministry of Education identified some errors in the superannuation contributions made to AMP and ASB, and then remediated employee contributions and subsidies that were not paid. The Ministry is required to reimburse the members' accounts for any investment earnings missed due to underpaid contributions. The Ministry has advised there are approximately 300 SSRSS members involved in this issue.

The Ministry has updated the Advisory Board on the calculation method to determine the level of compensation for loss-of-investment earnings and has worked with the fund managers and external actuarial advisors to finalise the calculations. This method ensured members' accounts were fairly compensated and not adversely affected by the contribution errors. The Ministry made the compensation payments to AMP and ASB members' accounts in April 2022.

The Ministry identified a small number of school payroll members for whom employer superannuation contributions are being split between SSRSS and KiwiSaver. The current SSRSS specification agreements only allow a member's employer superannuation contribution to be made to either SSRSS or KiwiSaver. The Ministry requested that an adjustment be made to the specification agreements to enable currently affected members to retain their existing split arrangement or to choose which scheme to have their Employer contributions directed to. The Ministry has subsequently written to the affected members seeking their choice.

UPDATE ON AMP INVESTMENT REVIEW

Following the completion of their investment management review in late 2020, AMP announced their decision to move their funds from AMP Capital to BlackRock. During this year AMP have successfully completed the funds transfer project.

AMP's move to BlackRock provides SSRSS members with more opportunities for Environment, Social and Governance ("ESG") investment options as well as reduced administration management fees. The Advisory Board agreed with AMP a lower administration management fee across all funds and for the full range of investment funds in the New Zealand Retirement Trust ("NZRT") to be made available to SSRSS members. Each of these changes took effect in October 2021.

UPDATE ON TRANSITION FROM ASB TO SMARTSHARES

In February 2022 Smartshares Limited was appointed as Manager of the ASB Superannuation Master Trust (SMT) which the SSRSS invests into. A carefully planned transition of the scheme to Smartshares will occur over the next two years. While the transition is taking place the focus is on member experience, ensuring that members experience little to no disruption and receive the same or better service as a result.

Smartshares has seen strong recent growth of \$4.7bn of FUM (from \$3.3bn to \$8bn) in last 4 years and continues to be a popular option for investors. Two recent successes include the acquisition of the ASB SMT and the appointment as a KiwiSaver Default Provider in 2021.

The Advisory Board has been kept informed while these changes were progressed and will keep in regular contact with Smartshares while they complete the transition.

Both AMP and ASB give high priority to sustainable investment policies. The Board have asked for increased reporting in this area.

CONCLUSION

The year to 30 June 2022 has been another busy one for the SSRSS and the Advisory Board with the completion of two big projects (the Ministry of Education remediation and the AMP investment review) and the commencement of another one in the transition of ASB into Smartshares .

There have also been changes on the Advisory Board with Dale Farrar stepping down, having left the Public Service Commission, and being replaced by myself. More recently, Ian Dennis has changed roles within the Ministry of Education and has stepped down from the Advisory Board. His replacement is Donna Delaney. Andrew Gane, who provided technical support to Dale, has also stepped down and been replaced by Stacey Coe. The Board would like to thank Dale, Ian and Andrew for their contributions during their time on the Advisory Board.

The recent investment returns and the current market volatility remain the focus of the Advisory Board and its advisers as we navigate through these uncertain times, keeping members' retirement savings at the forefront of our discussions. The Advisory Board were pleased to note another year of good performance from each provider against their service standards. The Advisory Board continues to work to ensure that each member of the SSRSS receives a satisfactory level of administration performance from the providers.

I would like to thank the Advisory Board members for their efforts with the continued monitoring of the two providers during the year. Their continued hard work in monitoring members' interests is appreciated.

Heather Baggott
Chair - Advisory Board

SSRSS DIRECTORY

ADVISORY BOARD

Heather Baggott (Chair)	Te Pou Turuki mō Te Kawa Mataaho Deputy Public Service Commissioner Te Kawa Mataaho Public Service Commission
Kirsten Windelov	Policy Advisor NZ Public Service Association
Gavin Quigan	Principal Adviser - Restricted MIS Financial Markets Authority
Michael Stevenson	General Secretary PPTA
Fergus Welsh	Chief Financial Officer, Finance and Procurement Ministry of Health
Donna Delaney	Associate Deputy Secretary, Education Payroll Ministry of Education

INVESTMENT AND ADMINISTRATION PROVIDERS

AMP	AMP Services (NZ) Ltd P O Box 55, Auckland Central, Auckland City 1140
Smartshares	ASB Group Investments Private Bag 93518, Takapuna, North Shore City, Auckland 0740

INVESTMENT ADVISOR

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SECRETARIAT

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