

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage



24 OCT 2019



Catherine Savage
Chair
Guardians of New Zealand Superannuation
PO Box 106607
AUCKLAND 1143

Dear Catherine

ANNUAL LETTER OF EXPECTATIONS

I'd like to thank you, as well as the rest of the Board, for all of your work in the last year. Going forward I'd like to build on your good work by setting out my expectations for your Institution.

Expectations for All Crown Financial Institutions

Fit for Purpose

The ability of all Crown Financial Institutions (CFIs) to deliver on their legislated purpose is a key consideration for Ministers in this Government.

I recognise that investment returns may vary from year to year, and it is my expectation that the Board, acting as the Crown's agent, will continue to focus on the appropriate balance of risk and return to assure the Fund's investment performance is able to meet its policy objectives and obligations.

Should investment performance impact your institution's ability to meet its intended purpose, I expect to be informed of this in a timely manner, including any remedial action the Board will take. Such information should include a detailed explanation of risks, financial or otherwise, which may have an impact on the Crown's fiscal position or cause a prejudicial impact on New Zealand's reputation.

Crown Risk

The nature of your mandate is to accept risk, but the Crown must have a good understanding of the potential fiscal implications to the Crown's consolidated balance sheet. To better understand such risks and implications it is my expectation that your organisation will proactively work with the Treasury to help develop a framework that will aid the Government in its consideration of such scenarios, and in so doing, making the New Zealand economy more resilient to future financial shocks.

Where derivative instruments or leverage are employed in your organisation I expect that their use is aligned with your entity's purpose. When such instruments are employed, CFIs should be mindful of their fiduciary responsibilities and statutory duties.

Where derivatives or leverage are employed I expect that the appropriate level of knowledge, skill, transparency and controls are in place throughout your organisation to ensure that negative financial or reputational outcomes do not impact the Crown.

Partnership

Your organisation, along with other CFIs, is an important asset on the Crown's balance sheet – the importance of the CFIs, in aggregate, will increase over time.

For the Crown to be effective there needs to be a collaborative approach across all of Government (including CFIs and other Crown Entities). Your institution can play a part in delivering positive outcomes for New Zealanders through active and constructive engagement. This type of engagement, led by the Board, should permeate throughout your organisation, helping all concerned be more efficient in the use of scarce resources.

The CFI's collaboration on the social media engagement initiative, following the 2019 Christchurch terrorist attack, is a good example of the behaviour I expect. Responsible investing is an important area to this Government and one where I believe further partnership could be beneficial.

A successful partnership should be built on openness and trust. It is my expectation that this policy will continue in the shape of the existing 'no surprises' policy, and I encourage your institution to maintain a policy of transparency in its; operations, expenses and communications across all of Government.

Citizenship

This Government is committed to acting as a responsible citizen. In your role in the investment community you can play an important part by: adopting, sharing and promoting investment policies and practices with other areas of Government that are not only consistent with your mandate, but help lift New Zealand's reputational standing as a responsible investor in the international community. To achieve this, it is my expectation that CFIs maintain robust ethical investment policies which are reviewed regularly, and reflect best practice standards both here in New Zealand and internationally.

As CFIs with domestic investments you have a unique role in the future of New Zealand. While investments are undertaken with regard to purpose and investment mandates, there is a wider arc of responsibility. CFIs must be seen as 'good citizens' in their home markets; and be cognisant of second order effects in their investment activities.

It should be the goal of all CFIs in fulfilling their mandates to give consideration to the part they can play in New Zealand's financial market landscape - helping make the economy more productive, sustainable and inclusive for all New Zealanders.

Expectations Specific to the Guardians

I would like to thank the Guardians for the constructive engagement and partnership you have displayed recently during the independent review and in supporting the development of the Venture Capital Fund (VCF). The VCF is an important initiative in this Government's economic plan for a productive, sustainable and inclusive economy and I expect that the Guardians will continue to adopt this constructive approach to engaging on Crown policy, where we see the Guardians as a trusted delivery organisation.

Venture Capital Fund: The inclusion of the Guardians in the VCF initiative is an endorsement of the capabilities and reputation you have developed in successfully managing the New Zealand Superannuation Fund (NZSF). The VCF is designed to be a

separate pool of assets from the NZSF; this ensures the Guardians' investment independence with respect to the NZSF is not compromised and I expect you to manage and administer both the NZSF and VCF mandates with an appropriate level of focus.

As soon as practicable after the VCF has been established, I expect you to prepare a statement of intent and statement of performance expectations in line with the requirements set out in section 140 and 149D Crown Entities Act 2004.

Independent Review: The positive overall outcome of the independent review provided me with a strong level of assurance that you are carrying out your mandate effectively, which I commend.

I expect that you will continue to strive to operate at these global best practice levels, and I look forward to engaging on the work the Guardians undertake to incorporate the review's recommendations. I will be especially interested in understanding how you will incorporate the findings relating to responsible investing, which is an area of particular importance to this Government.

The New Zealand public rightly take an active interest in the ethical nature of the Fund's investments and so I expect you to adopt the highest standards of responsible investing given this increased public scrutiny.

Reference Portfolio Review: I understand a review of the composition of the NZSF's reference portfolio is due to be completed in 2020, including a review of the investment beliefs and costs of operating the reference portfolio. As I highlighted in 'Fit for Purpose', I expect the Board to place a high emphasis on the consideration of the appropriate balance of risk and return throughout this process to assure investment performance is able to meet the NZSF's policy objectives and obligations. I expect you to keep me, and Treasury officials, informed of the progress of this review.

Infrastructure investments: As I highlighted in 'Citizenship'; the Guardians have a valuable part to play in New Zealand's capital markets landscape, including infrastructure. I encourage you to continue to seek infrastructure investment opportunities within New Zealand, especially new projects that are not under current consideration by this Government.

If you have any questions or require further clarification on any of my expectations, please contact Michael Eyre at the Treasury on 04 831 4689 in the first instance.

Yours sincerely



Hon Grant Robertson
Minister of Finance

cc: Matt Whineray
Chief Executive
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ANNEX 1

Timetable for the Business Planning Process for 2020/21

<i>Due Date</i>	<i>Key Action</i>
February	The Treasury to discuss the Letter of Expectations with the Board.
28 February	Board sends strategic issues/Letter of Expectations response letter to the Minister.
30 April	Board submits draft SOI (if required) and SPE to the Minister and the Treasury.
30 June	Board delivers final SOI (if required) and SPE to the Minister and the Treasury.

All entities are expected to provide the Minister with a strategic issues letter by **28 February 2020**, setting out the key strategic issues facing the entity, this can also include a response to the Letter of Expectations if you wish. Should your entity wish to engage with the Minister to seek clarification of expectations, we would ask that you advise the Treasury as early as possible of such intentions.

All entities are expected to provide the Minister with a draft SPE, consistent with the expectations as detailed in this letter, by **30 April 2020**.

The final SPE should be delivered to the Minister before **30 June 2020**.

The Minister and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met.