



17 DEC 2018

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 the Board to inform me, and my officials at the Treasury, of 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

2018 marked the tenth anniversary of the Global Financial Crisis which had real costs to the people of New Zealand.

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 crises.

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 – this importance 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.

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 and sustainable for all New Zealanders.

Expectations Specific to Guardians:

Statutory Review: Thank you for your proactive and constructive engagement with my officials in the initial stages of the forthcoming statutory review of the Guardians. I expect this level of engagement to continue with the appointed reviewer and officials throughout the review period. As stated in the 'Expectations for all Crown Financial Institutions,' it is important to this Government that CFIs maintain robust ethical investment policies. My expectation is the statutory review will, in addition to your regular reviews, provide the Guardians with the opportunity to consider best practice ethical investment policies and, where appropriate, update your policies to reflect both international and domestic progress in this area.

Crown Policy: While I encourage robust debate and engagement between the Guardians, Ministers and officials around policy decisions that the Crown may take which could have an impact on the Fund, I expect the Guardians to refrain from using public forums to advance any agenda relating to matters of public policy. These decisions are ultimately the sole right and responsibility of the Crown, and the Guardians does not have any advisory or advocacy role with respect of those decisions.

Infrastructure investments: As I highlighted in 'Citizenship'; the Fund and the Guardians have a valuable part to play in New Zealand's capital markets landscape. I'd like to thank you for bringing your Public Public Partnership (PPI) infrastructure model to Government with your proposal on Auckland Light Rail. I encourage you to continue to seek infrastructure investment opportunities within New Zealand, especially new projects that are not under consideration by this Government. I would ask that you consider what other areas of New Zealand's capital markets the Fund can contribute to. Our shared goal should be to make the New Zealand economy more productive and sustainable for all its citizens.

Statement of Intent: I understand you will be delivering a new Statement of Intent in April 2019. I expect you to engage early with my officials in the development of your statement.

If you have any questions or require further clarification on any of my expectations, please contact John Young at the Treasury on 04 890 7403 in the first instance.

Yours sincerely



Hon Grant Robertson
Minister of Finance

cc: Matt Whineray
Chief Executive
New Zealand Superannuation Fund
PO Box 106607
AUCKLAND 1143

Annex 1

Timetable for the Business Planning Process for 2019/20

| <i>Due Date</i> | <i>Key Action</i> |
|-----------------|---|
| 28 February | Board sends strategic issues letter to the Minister |
| February/March | The Treasury to discuss the Letter of Expectations with the Board |
| 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 2019**, setting out the key strategic issues facing the entity. 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 2019**.

The final SPE should be delivered to the Minister on or before **30 June 2019**.

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