

7 April 2014

Hon Bill English
Minister of Finance
Parliament Building
Private Bag 18888
WELLINGTON

Dear Minister

ANNUAL LETTER OF EXPECTATION

Thank you for your letter of 12 March 2014 setting out your expectations of the Guardians and for the content of our 2014/15 Statement of Intent.

Shareholder returns

We note the Minister's focus on the importance of Crown Financial Institutions (CFIs) achieving long-term performance objectives.

The Fund's returns in recent years have been very strong (18.51% p.a. over the last five years)¹, and the Fund is currently ahead of all its long-term performance benchmarks. For example, the Fund has returned more than double the cost of debt (as measured by the 90 day Treasury Bill return) since investing began in September 2003, a benefit to tax payers and the net Crown accounts of some \$8.725 billion.

In particular, we appreciate your acknowledgement that Fund returns will vary from year to year. In keeping with its long-term investing horizon and certain liquidity, the Fund is heavily weighted towards growth assets, and acts as a contrarian, counter-cyclical investor when appropriate opportunities arise. This means investment performance can and will be volatile in the short and medium terms.

In the event that the Fund does sustain losses in the future, it is important Ministers and taxpayers understand that the Guardians remain committed to long-term investment strategies, and that some of the best investment opportunities arise when the market is dropping and other investors are moving away from growth and illiquid assets.

CFI Collaboration

We note your expectation that the Crown Financial Institutions (CFI) will continue to collaborate in order to drive operational synergies and cost efficiencies. CFI collaboration remains an important focus for us with ongoing collaboration amongst both the investment and non investment parts of the business.

¹ As at 28 February 2014; returns are unaudited and quoted after costs and before NZ tax.

Use of derivatives

Thank you for your acknowledgement of our cooperation with Treasury in relation to the use of derivatives. We will continue to provide information and support to Treasury as part of the work-stream to understand and test the resilience of the Crown balance sheet.

New Zealand Superannuation and Retirement Income Amendment Bill

Thank you for sponsoring the introduction of the Bill to the House. We look forward to its passing within the year.

Independent Performance Review of the Guardians

We note that the Request for Proposal for the Independent Performance Review of the Guardians has been issued. We look forward to contributing to the review process.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gavin Walker', written in a cursive style.

Gavin Walker
Chairman