



## Office of Hon Bill English

Deputy Prime Minister  
Minister of Finance  
Minister Responsible for HNZC

23 FEB 2015

Keith Taylor  
Chair  
Government Superannuation Fund Authority  
PO Box 3390  
WELLINGTON 6140

Dear Keith

### ANNUAL LETTER OF EXPECTATION

I am writing to convey my expectations of the Government Superannuation Fund Authority as it begins working on its 2015/16 Statement of Performance Expectations (SPE) and, if applicable, its Statement of Intent (SOI).

#### Priority Expectations applicable to all Crown Financial Institutions

- *Returns:* A prime focus for Ministers is that Crown Financial Institutions (CFIs) achieve their long term performance objectives. The Crown has a long term perspective on returns, and acknowledges that returns will vary from year to year, sometimes due to temporary or non-controllable factors. Emphasis will continue to be placed on longer term returns. In circumstances where the longer term return is persistently below the performance objective, I expect the CFI to review the appropriateness of its investment strategy. Furthermore, where active management or other value adding strategies are employed, achieving returns in excess of benchmarks after investment management fees and other operational costs is expected.
- *Crown Risk Management:* The management of financial risks at an aggregate level is of growing importance for the Crown. I have tasked the Treasury to work in this space and I ask that you engage with the Treasury when required to support this work. While work is at an early stage, part of the aim is to determine appropriate risk settings across the Crown balance sheet.
- *Investment Management Expenses:* Notwithstanding the expectation for CFIs to outperform investment objectives after investment management costs, each CFI should also ensure that the costs incurred in implementing its investment strategy are appropriate in the context of managing Crown assets.
- *Investment Review:* We expect CFI boards to review major past investment decisions to assure themselves that the benefits claimed when such decisions were made are in fact being realised. Our expectation is that such reviews are made available to Ministers. The CFIs are increasing investment in non-listed investments and we think scrutiny by the owner for the larger investments is warranted.

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- *Joint Ventures:* While Ministers are supportive of CFIs entering into joint venture (j.v.) arrangements as a way of leveraging expertise and capital, the expectation is that Ministers are informed at an early stage of any j.v. formation, particularly where the j.v. involves another New Zealand government entity or where it includes a foreign government or sovereign wealth fund.
- *Use of derivatives:* The aggregate funds managed within the CFI portfolio continues to grow as a percentage of the overall Crown's balance sheet. There continues to be an increasing use of derivative instruments within the portfolios. Consistent with last year's expectations it is my expectation that CFIs should use derivatives judiciously and that, where relevant, there is a strong case for their use relative to physical exposures.
- *Collaboration:* While the individual objectives and investment strategies differ across the CFI portfolio there is a material level of crossover in the operational investment activities of the CFIs. My expectation is that the CFIs will continue to identify opportunities and implement strategies to achieve operational synergies and cost efficiencies through sharing of resources and intellectual capital.

### **General Expectations**

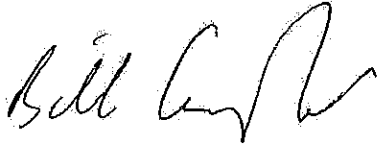
Expectations in previous years' expectations letters continue to apply in 2014/15 and the forecast period. Particular regard should be given to the following:

- *OIA requests:* The Office of the Minister of Finance is to be advised by the entity when it receives a request under the Official Information Act and of the proposed response.
- *"No surprises" policy:* I expect you to maintain the "no surprises" policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

## Engagement

My expectation is that you and your executive will continue to engage openly with the Treasury during the year. With respect to this letter, if you have any questions or require further clarification on any of my expectations, please contact Kirsty Flannagan at the Treasury in the first instance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Bill English". The signature is fluid and cursive, with a large initial "B" and "E".

Hon Bill English  
**Minister of Finance**

cc Simon Tyler  
Chief Executive  
Annuitas Management Limited  
PO Box 1036  
Wellington 6140

