

# Shareholder Expectations Letters Information Release

## Release Document

April 2018

<https://treasury.govt.nz/information-and-services/guidance-state-sector/performance-strategic-intentions/strategic-issues>

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### Key to Redaction Codes

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) – to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [3] 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [4] 9(2)(f)(i) – to maintain the current constitutional conventions protecting the confidentiality of communications by or with the Queen or Governor-General
- [5] 9(2)(f)(iv) – maintain the constitutional conventions for the time being which protect the confidentiality of advice tendered by Ministers of the Crown and officials
- [6] 9(2)(i) – to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [7] 9(2)(j) – to enable the Crown to negotiate without disadvantage or prejudice
- [8] 9(2)(k) – to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above.

# Hon Grant Robertson

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MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Associate Minister for Arts, Culture and Heritage



~9 FEB 2018

Edward Schuck  
Chair  
Board of Trustees of the National Provident Fund  
PO Box 3390  
WELLINGTON 6140

Dear Edward

## ANNUAL LETTER OF EXPECTATIONS

I am writing to convey my expectations of the National Provident Fund (NPF) as it executes its business planning process for the forthcoming year.

I recognise that the NPF is not a Crown Entity and therefore not required to submit a Statement of Intent or Statement of Performance Expectations, however, the Government guarantees the benefits paid by the NPF and minimum investment returns for the funds held by the NPF. Accordingly, I consider it appropriate that you are familiar with my expectations communicated to the CFIs for the development of their 2018/19 business planning documents. The general expectations applicable across all CFIs are set out below.

### Expectations for All Crown Financial Institutions

#### *Performance*

- *Long-Term Performance:* A prime focus for Ministers is that the 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 entity 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.
- *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. I expect that you will ensure full transparency of both external and internal investment management

costs, particularly performance fees, and that you will ensure that internal performance incentives are aligned with the entity's objectives.

### ***Risk Management***

- *Risk Profile:* In the past, particular emphasis has been placed on the CFI's financial returns performance. I expect to see a greater emphasis on the risk-adjusted performance of your entity in order to better reflect the investment strategies that are employed to deliver these returns. Furthermore, I expect to be consulted if you are pursuing any strategic changes that may materially alter the risk profile of your entity. I also ask that you ensure that appropriate emphasis is placed both on quantifiable investment risk as well as the more qualitative non-market risks that are inherent in investment management activity.
- *Complex Products and Activities:* The aggregate funds managed within the CFI portfolio continue to grow as a percentage of the Crown's balance sheet. Within this portfolio there has been an increase in the complexity of the investment activity being undertaken, including an increase in the use of derivative instruments. Consistent with expectations in previous years, it is my expectation that CFIs should use derivatives judiciously and that, where relevant, a strong case is made for their use relative to physical exposures. I expect transparency in the reporting of your derivative use and the way in which you measure and determine it to be 'judicious'. Furthermore, I expect that the CFIs will regularly assess the use of derivative instruments and the extent to which other complex investment activity is undertaken, particularly as market conditions and practices evolve, to ensure alignment with your legislative framework, including any specific approvals that have previously been issued from my office.

### ***Relationship with the Crown***

- *Flow of Information:* Of growing importance for the Crown is the need for adequate independent analysis of financial and other investment risks at an aggregate level across the CFI portfolio and, to a certain extent, across the broader Crown balance sheet. As such, the Crown is focused on establishing a deeper and more frequent flow of information from the CFIs to the Treasury. I expect all CFIs to support the Treasury in fulfilling the Crown's information requirements by providing all requested information and any additional resource that is needed to facilitate this strategy. I anticipate that the first phase of data collection and initial analysis will be completed within this fiscal year, however, ongoing compliance with the Crown's information requirements will be required in 2018/19 and beyond.
- *Board Relationship:* I consider it to be critical for the good stewardship of the CFIs that an open and effective dialogue is maintained between each CFI's Board and the Treasury. This should span all areas of potential shareholder interest, from strategic direction through to material operational matters, and it is my expectation that the relationships extend across the whole of the Board.
- *'No Surprises' Policy:* I expect you to maintain a '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.



### **Ethical Investment**

- *Policy Review:* It is important to this Government that each of the CFIs maintains robust ethical investment policies. You have formulated a policy as part of your investment framework with alignment to your statutory mandate. My expectation is that you will regularly review and, where appropriate, update this policy to reflect both international and domestic progress in ethical investment practice.

### **Expectations Specific to NPF**

- *Risk Management:* As with any scheme that has a mix of stakeholder objectives, there is an inherent potential for conflicting risk appetite. I encourage you to work with the Treasury to consider how the Board can best manage this.

### **Engagement**

The Treasury is continuing its focus on engaging closely with entities to gain a better understanding of the strategic issues, risks and influences on entities' financial performance. In light of this continued emphasis on close engagement, I would like the Board to meet with the Treasury to discuss this Letter of Expectations at an appropriate time.

If you have any questions or require further clarification on any of my expectations, please contact<sup>[1]</sup> at the Treasury on<sup>[1]</sup> in the first instance.

Yours sincerely



Hon Grant Robertson  
**Minister of Finance**

cc Simon Tyler  
Chief Executive  
Annuitas Management Limited  
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