

The Treasury

Annual Letter of Expectations for All Crown Financial Institutions Information Release

December 2019

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<https://treasury.govt.nz/information-release/shareholder-expectations-letters-2020-21>

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Hon Grant Robertson

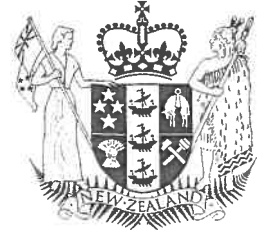
MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage



22 OCT 2019

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

Dear Edward

ANNUAL LETTER OF EXPECTATIONS

I'd like to thank you, as well as the rest of the Board and Annuitas staff 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.

I recognise that the National Provident Fund (NPF) is not a Crown Entity and therefore is 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. Accordingly, I consider it appropriate that you are familiar with my expectations communicated to the CFIs for the development of their 2020/21 business planning documents. The general expectations applicable across all CFIs are set out below and I have reiterated my expectation in relation to strategic asset allocation changes that are implemented within the NPF schemes.

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 in aggregate of the CFIs 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 NPF

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 in the NPF schemes to assure investment performance is able to meet the scheme's policy objectives and obligations.

When making asset allocation changes I expect that you will continue to place appropriate emphasis on minimising the expected cost to the Crown over the long term.

If you have any questions or require further clarification on any of my expectations, please contact Michael Eyre at the Treasury on ^[39] in the first instance.

Yours sincerely

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

Hon Grant Robertson
Minister of Finance

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

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.