

# The Treasury

## Annual Letters of Expectation 2023/24 Information Release

March 2024

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[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

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

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

[23]

Dear Edward

## **ANNUAL LETTER OF EXPECTATIONS**

Firstly, 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.

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 Crown Financial Institutions (CFIs) for the development of their 2023/24 business planning documents. The general expectations applicable across all CFIs are set out in the annex attached to this letter, and I have reiterated my expectation in relation to strategic asset allocation changes that are implemented within the NPF schemes.

### **Responsible Investment framework**

As the Responsible Investment framework becomes increasingly embedded in your work, I expect that enhanced reporting against it will continue to evolve over the next year. You should be working towards full reporting against the framework in your 2025 Annual report.

### **Fit for Purpose**

I recognise that the ability of all CFIs to deliver on their legislated purpose means that investment returns may vary from year to year. 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 long-term 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.

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 schemes' 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.

### **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 continue to proactively work with the Treasury and collaborate with the other CFIs to build resilience in the New Zealand economy to future economic shocks.

The war in Ukraine and its rippling affects throughout the globe show how interconnected New Zealand is with international markets. It is my expectation that you will reflect on the impact that an uncertain geo-political landscape and the investment risks associated with it has on the NPF funds and on New Zealand Inc.

As for all CFIs you should be mindful of your fiduciary responsibilities and statutory duties. Where derivative instruments or leverage are employed in your organisation, I expect that their use is aligned with your entity's purpose and 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.

If you have any questions or require further clarification on any of my expectations, please contact Robert Barton at the Treasury in the first instance.

Your sincerely

Hon Grant Robertson  
**Minister of Finance**

cc: Fiona Morgan  
Acting Chief Executive  
Annuitas Management Limited  
[23]

## **ANNEX 1: Expectations for All Crown Financial Institutions**

The COVID-19 pandemic has had an extensive impact on households and businesses nationwide, with many social and economic uncertainties remaining. While protecting New Zealand and the lives and livelihoods of New Zealanders has been the urgent and abiding consideration of this Government, it does not limit the ambition for what this Government means to do.

### **Government priorities**

In 2020, the Government set out clear priorities to help secure our recovery and improve the living standards and wellbeing of all New Zealanders. The Government has three overarching objectives:

- To keep New Zealanders safe from COVID-19
- To accelerate our economic recovery
- To lay the foundations for a better future.

Problems that are decades in the making are not easily or quickly solved but this Government is committed to relentlessly pursuing progress. Three of the country's longest standing and hardest issues demand continued and determined action: affordable housing and homelessness, child poverty, and the global climate crisis.

Your core role is to efficiently and effectively deliver fiscal strategies that support New Zealanders' financial wellbeing across generations. However, your funds can have significant impacts on human, social and natural capitals as well. I encourage you to consider where you could partner within the public or private sectors to develop investment strategies that can also drive positive environmental or social impacts while delivering the long-term investment returns that are so crucial to the funds.

### **Partnership**

Your organisation is an important asset on the Crown's balance sheet and the aggregate size 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, with a focus on collective outcomes for New Zealanders.

A successful partnership should be built on openness and trust. I encourage your institution to maintain a policy of transparency in its operations, expenses and communications across all of Government, and to adhere to the 'no surprises' convention when dealing with officials and my office.

### **Citizenship**

This Government is committed to acting as a responsible citizen. 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.

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.

The CFIs have a unique role in the future of New Zealand, particularly as we look to accelerate an economic recovery. I encourage you to consider where domestic investments can align with your long-term investment strategies to support the goals of the Government, while remaining consistent with your overarching purpose.

Further to this wider arc of responsibility, CFIs must be seen as 'good citizens' in their home markets; and be cognisant of second order effects that can promote, and certainly not hinder, the development of deep capital markets in New Zealand.