



Office of Hon Bill English

Deputy Prime Minister
Minister of Finance
MP for Clutha-Southland

6 March 2012



David May
Chair
Guardians of New Zealand Superannuation
P O Box 106607
AUCKLAND 1143

Dear David

ANNUAL LETTER OF EXPECTATION

I am writing to convey my expectations of the Guardians of New Zealand Superannuation (Guardians) as it begins planning for the 2012/13 Statement of Intent (SOI).

Priority Expectations

- *Shareholder Returns:* A prime focus for shareholding Ministers is that commercial entities should, over time, deliver returns that meet or exceed the company's cost of equity capital. With respect to the CFIs this includes achieving long term performance objectives and where active management or other value adding strategies are employed, achieving returns in excess of benchmarks after allowing for investment management fees and other operational costs. 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 therefore be placed on longer term returns over periods of at least three years. In circumstances where the longer term return is persistently below the benchmark return, we expect the CFI will review the appropriateness of its investment strategy.
- *Investment Review:* We expect SOE/Crown Entity 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 the shareholders. The CFIs are increasing investment in non-listed investments and we think scrutiny by the shareholder for the larger investments is warranted.
- *Joint Ventures:* While shareholding Ministers are supportive of SOEs/Crown Entities 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.
- *Risk tolerance:* The Crown Ownership Monitoring Unit (COMU) will continue to engage with you on its ongoing work around CFI risk frameworks and the Crown's risk tolerance level.

Entity Specific Expectations

The levels of remuneration and investment management costs being incurred by the New Zealand Superannuation Fund (the Fund) are high relative to the other CFIs. While I appreciate that the investment strategy adopted by the Guardians is relatively cost intensive and requires the employment of a number of high calibre investment and operational professionals, I expect the Guardians to ensure that the costs incurred in implementing the Fund's investment strategy are appropriate in the context of managing Crown assets and sufficiently compensated by the performance of the Fund on a net of costs basis.

General Expectations

Expectations in the previous year's expectations letters continue to apply in 2012/13 and the forecast period. Particular regard should be given to the following:

- *Draft Statement of Intent (SOI)/Business Plan:* All SOEs/Crown Entities are expected to provide Ministers with a draft SOI and Business Plan by **1 May 2012**, at the latest.
- *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 will engage with officials from COMU shortly after receiving this letter to discuss my expectations in more detail.

Yours sincerely



Hon Bill English
Minister of Finance

cc Adrian Orr
CEO
Guardians of New Zealand Superannuation