

The Treasury

Annual Letter of Expectations for All Crown Financial Institutions Information Release

March 2021

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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
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing



22 DEC 2020

Catherine Savage
Chair
Guardians of New Zealand Superannuation
PO Box 106607
AUCKLAND 1143

Dear Catherine

ANNUAL LETTER OF EXPECTATIONS

I'd like to thank you, as well as the rest of the Board, for all of your work in the last year, particularly the pivoting that was required due to the COVID-19 pandemic. Going forward I'd like to build on your good work by setting out my expectations for your Institution.

Government priorities and the response to COVID-19

The Government has set out clear priorities to respond to an unparalleled international public health and economic shock. In this year of crisis, protecting New Zealand and the lives and livelihoods of New Zealanders has been the urgent and abiding consideration. Allied to this, 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.

On each of these areas there is a need to do more and go further. Problems that are decades in the making are not easily or quickly solved but this Government is committed to relentlessly pursuing progress. The Government will have three overarching objectives:

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

An overview of the programme to achieve these objectives was laid out in the Governor-General's Speech from the Throne.¹ I encourage you to familiarise yourself with these areas of priority, including the Government's five point economic plan to foster jobs and growth. I expect you to consider the confluence of interests with your organisation in areas for social, sustainable and/or infrastructure investments that can also be beneficial for long-term investment strategies.

¹ <https://www.beehive.govt.nz/speech/speech-throne-3>

A core element of the objective 'to lay the foundations for a better future' is the particular focus on sustainability, and pursuing carbon neutrality. Every part of the economic apparatus has a role to play now in meeting the 2050 goals and I expect this to be a focus as your organisation develops its strategic plans.

Expectations for All Crown Financial Institutions

Fit for Purpose

I recognise that the ability of all Crown Financial Institutions (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 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 continue to proactively work with the Treasury and collaborate with the other CFIs 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 joint statement on climate change was a positive example of the partnership I expect. However, while it emphasised the importance the CFIs place on responding to climate change, this is a priority area for this Government. I expect more urgency and consistency in making progress on this issue.

I appreciate that you require clarity on the Government's expectations, so I am asking all CFIs to proactively work with my officials as they develop a framework that provides this transparency. Ultimately, my expectation is that Government funds are leaders in New Zealand's achievement of our shared target of being carbon-zero by 2050.

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.

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.

As CFIs with domestic investments you 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 your long-term investment mandate can support the goals of the Government, while remaining consistent with that mandate and 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.

Finally, I expect CFIs to disclose climate-related financial risks and opportunities in line with the Task Force on Climate-related Financial Disclosures recommendations in your annual reports.

Expectations Specific to the Guardians

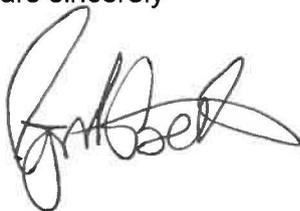
Responsible investing: utilise the expertise that the Guardians has developed in this complex area by: continuing to partner with other CFIs to ensure evolving global best practice continues to be understood and applied into responsible investment policies; and lending support to officials' development of a framework to support the transparency, and application, of the Government's responsible investment priorities.

Venture Capital Fund (VCF): The Guardians should continue to apply best practice investment management processes and should be proactive in your engagement with the Government prior to any significant decisions or communications.

Policy Discussions: Consistent with expectations I have set in the past, I welcome discussion with you on optimal policy settings to deliver on your mandate. It is important that these discussions take place through official channels, not through the lens of the media. I ask that you and your staff are consistent with this expectation.

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: Matt Whineray
Chief Executive
New Zealand Superannuation Fund
PO Box 106607
AUCKLAND 1143

Annex 1

Timetable for the Business Planning Process for 2021/22

<i>Due Date</i>	<i>Key Action</i>
February	The Treasury to discuss the Letter of Expectations with the Board
26 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 **26 February 2021**, 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 2021**.

The final SPE should be delivered to the Minister before **30 June 2021**.

The Minister and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met.