



Office of Hon Bill English

MP for Clutha-Southland
Deputy Prime Minister

Minister of Finance
Minister for Infrastructure

16 FEB 2011

Tim McGuinness
Chair
Government Superannuation Fund Authority
PO Box 3390
WELLINGTON 6140

Dear Tim McGuinness

ANNUAL LETTER OF EXPECTATION

I am writing to convey my expectations of the Government Superannuation Fund Authority as it begins planning for the 2011/12 Statement of Intent (SOI). This letter builds on the expectations set out in similar communications for 2010/11.

Priority Expectations

The Government continues to face fiscal deficits for a number of years to come. In line with the fiscal context and continuing on the previous year's expectations, I expect your Board and entity to continue to:

- Ensure that investment activity is carried out with a primary focus on adding value to the Crown as the Fund's investor by:
 - ensuring that the Fund's portfolio is efficiently constructed to meet the Fund's objective, including both the return objective and, to the maximum extent possible, covering and matching the expected future liabilities the Fund has been established to meet; and
 - close monitoring of the Fund's performance relative to its Reference Portfolio, ensuring that at least this level of return is achieved and that all activities add value after costs and associated portfolio expenses.
- Ensure that the level of your fund management fees represent the optimal level of fees to meet your investment objectives.
- Carefully scrutinise all portfolio expenses and be able to demonstrate that these expenses are justified by the value added.
- Have realistic pay and employment conditions.
- Enhance transparency by increased disclosures (including but not limited to strategic asset allocations, non-listed assets held, active securities selection).

I invite you to provide me with a letter, by 16 March 2011, setting out your views on how the GSFA's investment activity adds value to the Crown, and the key strategic issues facing the GSFA.

The Crown Ownership Monitoring Unit (COMU) will be engaging with you in the next few months on a number of initiatives, such as:

- CFI risk frameworks and Crown risk tolerance level for individual CFIs to improve the certainty of investment objectives of the CFIs and the Crown's aggregate financial portfolio.
- Improvement in transparency and focus on performance through increased public disclosure and a wider range of monitoring tools. In particular, publishing a set of financial performance measures for the CFIs on COMU's website.
- CFIs benchmarking their performance and providing comparison of their performance to benchmarks.

Entity Specific Expectations

The Government Superannuation Fund Act 1956 section 19B sets out a requirement for performance reviews to be carried out every five years. The next review is due by July 2011. COMU will be engaging with you over the next few months regarding the review process, which is likely to be similar to the process for the 2006 review.

General Expectations


Expectations in the previous year's expectations letters continue to apply in 2011/12 and the forecast period. Particular regard should be given to the following:

- *Draft Statement of Intent (SOI):* All Crown Financial Institutions are expected to provide Ministers with a draft SOI by **14 April 2011**, 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.

In undertaking your governance role I expect your entity to continue to work constructively with the Treasury.

I look forward to receiving your draft 2011/12 SOI by 14 April and I encourage you to openly engage with COMU on this.

Yours sincerely



Hon Bill English
Minister of Finance

cc Alan Langford, Chief Executive, Government Superannuation Fund Authority