



Office of Hon Bill English

MP for Clutha-Southland
Deputy Prime Minister

Minister of Finance
Minister for Infrastructure

16 FEB 2011

Catherine Savage
Chair
National Provident Fund
PO Box 1036
WELLINGTON 6140

Dear Catherine Savage

ANNUAL LETTER OF EXPECTATION

I am writing to you as the Minister responsible for the Board of Trustees of National Provident Fund. As you are probably aware, the Crown Financial Institutions (CFIs) as Crown entities are required to prepare annual Statements of Intent (SOIs).

I recognise that the National Provident Fund (NPF) is not a Crown Entity, however, the Government guarantees the benefits paid by the NPF and minimum investment returns for the funds held by the NPF. Accordingly, I consider it appropriate that you are familiar with my expectations communicated to the CFIs for the development of their 2011/12 SOIs. The priority and general expectations applicable across CFIs are set out below.

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 Boards and entities to continue to, in order of priority:

- 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 liabilities the Fund has been established to meet; and
 - close monitoring of the Fund's performance relative to its Benchmark and / or 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 encourage CFIs to consider implementation of a Reference Portfolio. I note that Reference Portfolios have been implemented by the Guardians of the New Zealand Superannuation and the Government Superannuation Fund Authority in place of their passive benchmarks.

I invite CFIs to provide me with a letter, by 16 March 2011, setting out the boards' views on how their CFIs undertake investment activity to continue to add value to the Crown, and the key strategic issues facing their CFIs.

The Crown Ownership Monitoring Unit (COMU) will be engaging with CFIs 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.

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 or other responsible Minister 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 their governance role I expect the boards of the CFIs to work constructively with the Treasury, as I am sure the Board of the NPF will also continue to do.

Yours sincerely



Hon Bill English
Minister of Finance

cc Alan Langford, Chief Executive, National Provident Fund