

Submission on discussion document: Enabling KiwiSaver investment in private assets

Your name and organisation

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Responses to discussion document questions

Please enter your responses in the space provided below each question.

Liquidity management tools – questions for KiwiSaver providers or other industry	
1	For KiwiSaver managers: Please describe your current practice around investing in private assets, including levels of exposure you have to these types of assets, how you invest in these assets, and your management of liquidity risk. • Booster Financial Services Limited together with its subsidiaries (Booster) is a New Zealand-owned and operated financial services provider based in Wellington with 28 years' experience in investment, including 22 years as a KiwiSaver provider. Booster was awarded default KiwiSaver status in 2014 and 2021. • Booster is committed to investment in local businesses and Kiwi innovation and is one of the innovators in KiwiSaver investment in NZ direct investment/private equity (<u>Clare Capital Insights</u>). a. The Booster Innovation Fund (BIF) invests in early-stage, cutting edge New Zealand technology and innovation predominately which originates within New Zealand universities and the private sector. BIF is listed on NZX. b. Booster's Private Land and Property Fund (PLP) invests in unlisted productive New Zealand land and property such as orchards and grazing, as well as logistics. PLP is listed on NZX. c. Booster's wholesale Booster Tahi LP (Tahi Fund) also invests directly in New Zealand businesses, including wine, fresh produce and technology. • Our direct investments exist first because they are capable of producing appropriate risk weighted return premia for investors. It is a secondary benefit that such investments support investment within NZ and that such investments assist in engagement of investors understanding the concepts of investments to which their KiwiSaver funds are applied. • We currently invest ~\$550m across private equity (direct business), direct property and private credit. This equates to approx. 7% of our total funds under management (FUM). • Booster supports regulatory changes to enable more KiwiSaver investments in private assets, where appropriate for investors. Booster believes clarification of some rules will be needed, including those around liquidity tools and valuations. In addition, we think that clarification is required on the Financial Markets Authority's (FMA) perspective on both active fund management and direct investment in private assets. • Booster is a participant in the Boutique Investment Group (BIG) which has made a submission on behalf of a number of members of that group. Booster supports BIG's submission. Understandably with any submission made on behalf of a range of industry participants, there are some nuances of views between all BIG members. Where Booster believes that those differences are relevant, we have provided our own perspective on the relevant issue in this submission.
	Do you think that the current legislative framework for KiwiSaver effectively allows for the use of liquidity risk management tools that may impact transfer or withdrawal times (e.g. suspending redemptions or side-pocketing)?
2	No.

	For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of: - your ability to increase investment in private assets - risks associated with your current allocation of private assets.
3	Current legislative setting for KiwiSaver, including portability rules and timeframes mean that side-pocketing and gating is not currently available. Booster assesses that it has some ability to increase the level of its investment in direct assets (e.g. from 7% to 10%) but it expects potential constraints above this level (absent legislative change). We presume the reference here to risk is focused on liquidity (because all investments are assessed for their volatility and this is reported in each PDS). In terms of liquidity, Booster's funds are constructed to comply with a set of investment limits across classes of asset which are recorded in a SIPO that is approved by an independent supervisor. Booster allocates a portion of its exposure to certain asset classes to directly owned assets of that class e.g. investments in NZ businesses represent a portion of the overall allocation of certain funds to Australasian equities. At its current level of investment in direct assets, Booster believes that it can manage the liquidity requirements of those of its funds that have exposures to such assets and it undertakes regular assessments of these requirements against potential scenarios ("stress testing"), but an important part of this process is commonly the holding of assets at levels below their maximum allocation as stated in the SIPO for that fund. This "headroom" means that a fund is unlikely to be invested in direct assets to the full extent permitted by the SIPO, with this "headroom" invested in other complying investments (commonly cash). This amount represents some "deadweight" relative to being able to deploy the full SIPO level allocations.
	Please provide any other comments on the availability of liquidity management tools.
4	General investments funds are not constrained by the same legislation as KiwiSaver, so it is available for a fund to be established with side-pocketing and gating but the use of such tools (or a right of general suspension which will exist in most non-KS funds) would be seen by a manager as a last-resort step. We would expect use of any liquidity tools would be carefully considered before such a step was taken. We would support a regime that required tiered differentiation between funds that could be subject to side-pocketing or gating and those that were not. At low allocations to direct assets (as set within a SIPO), e.g. below 5%, the tools should not be available. Common assessment standards would be required to ensure correct classification of investments are direct or private (as this can apply to unlisted businesses, directly held property and private credit).
	Do you support the proposed approach? Why/why not?
5	Yes, because the removal (or lessening) of any actual or perceived issues with direct investment will allow such investments to be assessed on their merits, as part of a diversified portfolio.
	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
6	Yes, as we believe that there are appropriate return premia available from certain direct assets that justify consideration of them in the interest of long-term return outcomes for investors.
7	Will you face implementation costs if this change is made? If yes how much will they be and will they be one-off or ongoing?

	One-off costs would be incurred as part of initial changes to constituent documents but these should not be a material disincentive provided there is a common approach and understanding at manager, supervisor and FMA levels. The costs may be excessive if borne by only one or two managers, or if each manager's changes were undertaken on a bespoke basis.
8	Do you have any comments on the detailed design considerations noted above? We support the proposed framework, noting that key parameters need to be set. While setting precise limits is inherently attractive (as that should provide more certainty), care will be required to ensure classification of investments as direct/private or not is able to be made on a basis that is commonly acceptable to supervisors and FMA. Circumstances in which the tools might be used need to be defined, e.g. is a substantial fall in value an appropriate circumstance. We suggest not (of itself), unless that fall was more correctly to be classified as one where accepted valuation principles cannot be used to provide a reasonable degree of precision to the value of an asset due to specific circumstances (and it is not fair to incoming and outgoing investors in the relevant fund to transact on the basis of an uncertain assessed valuation).
9	Please provide any further comments on this issue of liquidity management tools.
Liquidity management tools—questions for the public	
10	Do you support more investment by KiwiSaver funds into private assets? Why / why not? We believe it is appropriate for fund managers to also comment on this question. We have noted in para 1 our support of direct investment in the interests of investors. While noting government statements about supporting investment from KiwiSaver funds into NZ assets such as infrastructure, managers must first consider the investment outcomes for the investor. Unless directed otherwise by legislation (which we do not support) or by investors (which could occur*), a manager will look across worldwide investment opportunities to obtain appropriate investment opportunities. *We do see scope for a manager to promote a fund that had a particular focus e.g. infrastructure, which could be selected by investors but we would support this occurring where the investors understood the implications of doing so and, where possible, had the benefit of separate advice when assessing that decision, especially where it involved concentration of that investor's savings.
11	Do you support the use of liquidity management tools like 'side pockets', if they may have an impact on the availability of your KiwiSaver funds? Please explain.
12	Please provide any further comments on the proposed approach.
Private asset categories – questions for KiwiSaver providers or other industry	
13	Do you consider that the current asset classes in the Financial Markets Conduct Regulations 2014 are problematic as they relate to private assets? If yes, please explain.

	Yes, the categories in Reg1(4) of the Financial Market Conduct Regulations are inapt for the discussions around direct/private assets. Booster does not see direct assets as “other assets”; e.g. our direct business investments are part of our Australasian equities allocation (some are listed and some are not) while our PLP fund is classed as “unlisted property”. The distinction could be between listed and unlisted (or private) assets. Note also, that Booster includes “private credit” as a “direct asset”.
14	How do think the categories should be described? We support BIG’s submission.
15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why? See paragraph 14.
17	Will you face implementation costs if this change is made, if yes how much will they be and will they be one-off or ongoing? Costs are most likely to be one-off. As each manager already classifies investments for reporting purposes, there would be an initial requirement to re-point certain investments to different categories for reporting purposes.
18	Please provide any further comments on this issue of including private assets in asset categories.
Private asset categories—question for the public	
19	Do you think it would be useful to have better visibility over how much KiwiSaver funds are investing into private assets?
Valuation requirements – questions for KiwiSaver providers or other industry	
20	For KiwiSaver managers: Do your governing document(s) include a valuation methodology which is challenging to apply to valuing private asset? If you do, can you please explain the impact in terms of: - the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds. - whether you have tried to amend the valuation provisions in the past or not, and why. Include examples of where the supervisor has or has not approved a valuation methodology.

	Yes, our various constituent documents do this (Trust Deeds, SIPO's etc) with the intention of setting a fair exchange between investors entering and exiting each fund. If an asset is priced "too high" or "too low" then withdrawing investors will benefit at the expense of others and vice versa. For fairness, the asset needs to be priced "right" (i.e., "fair value"). We believe the focus should be on setting a fair policy (that is appropriate for the fund in question, including by reference to the assets of that fund and its stated investment horizon) and then applying that policy consistently. It should be accepted that valuations of private assets is a matter of judgment ("an art, not a science"). Listed markets may not be a direct unquestioned input into private asset valuations as quoted prices in such markets reflect prices for small volumes/percentages of an asset and may be based on wide fluctuations in sentiment or levels of information specific to the assets in question.
	Please provide any other comments on the valuation methodologies in governing documents.
21	We note BIG's submission on this point. BIG notes the lack of guidance for MIS managers that undertake or oversee their own valuations as opposed to those that are advised values by an external manager.
22	Do you agree that this is an issue that needs addressing? Yes
23	Do you have views on how it should be addressed? We note that ASIC is considering this issue currently and is proposing industry consultation leading to publication of guidance. We would support wider discussion in NZ (managers, supervisors and FMA and major PE managers) to consider this in the NZ context.
24	Will you face implementation costs if this change is made, if yes how much will they be and will they be one-off or ongoing? Yes, but these will be in the nature of costs that we would regularly incur anyway. There could be excessive costs (to the detriment of investors) if a regime was imposed that required extensive use of external expert valuations (as opposed to involvement in valuing material assets on a 12/24 month cycle)
25	Please provide any further comments on this issue of valuation requirements. Any accepted business valuation methodology should address changes in value across a financial period e.g. in the nature of accrued dividends. Booster applies a methodology to do this, based on probabilistic forward assessments of the performance of a business.
Total Expense Ratio—questions for KiwiSaver providers or other industry	
26	Do you currently outsource fund management for private assets? A minority proportion of private asset exposure is achieved via external fund managers.
27	Do you see any issues with the current TER calculation and if so, what are they? Yes, see the BIG submission.
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?

	Not as such. As an example, when we established the Booster Tahi Fund (for direct business investment), we were concerned about exposing our KiwiSaver members to the usual 2/20 fee structure of external PE funds, especially where that base fee was changed on committed, rather than deployed, capital. It was more the absolute size of these fees, rather than their inclusion within TER, that factored into Booster's decision to in-source. Tahi has no base fee. Its performance fee relates to achieving excess earnings above a common benchmark and increases in asset values.
29	Are there any other issues you would like to draw attention to on the TER? We carry into the TER of our KiwiSaver funds an assessed component of assumed performance fees for the Tahi fund. The way this is done, and the basis on which the fee is capped so as to be reasonable was the subject of direct engagement with FMA when Tahi was established in 2017. We were happy with this outcome.
Total Expense Ratio—questions for the public	
30	Do you look at KiwiSaver scheme fees when deciding which KiwiSaver scheme to put your money with?
31	What do you think should be included in any figure that is called "KiwiSaver scheme fees"?
32	Please share any thoughts you have around the TER (total expense ratio) and its function to inform the public of the expenses involved in KiwiSaver management.
Final comments—question for KiwiSaver providers or other industry	
33	Please provide any further comment on barriers to KiwiSaver investment in private assets that you see (including any comments in relation to issues identified in paragraph 18b-f).
Final comments—question for all respondents	
34	Please use this question to provide any further information you would like that has not been covered in the other questions. Confidentiality

	Confidentiality