

Enabling KiwiSaver investment in private assets

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| Date | Friday 14 February 2025 |
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Liquidity management tools – questions for KiwiSaver providers or other industry

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| 1 | <p>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.</p> <ul style="list-style-type: none"> • BTNZ does not currently have a strategic allocation to private assets across the Westpac KiwiSaver Scheme funds, although scheme governing documents do allow for investment in this asset class as part of an “other assets” allocation. BTNZ’s appetite to invest in private assets is influenced by several factors, including fee constraints, liquidity, valuation frequency, transparency, and internal capacity and capability constraints. • Within the Westpac KiwiSaver Scheme funds there are two asset classes which may include unlisted assets to a limited extent: Australasian Equities and NZ Fixed Interest. |
| 2 | <p>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)?</p> <ul style="list-style-type: none"> • BTNZ does not believe the current KiwiSaver legislative requirements allow for the effective use of liquidity management tools (LMT) such as side-pocketing, gating of redemptions and suspension of redemptions. • While we note that the current legislation does allow for providers to agree for the slow transfer of a member’s balance, we do not believe that this could practically be implemented. As one of the larger KiwiSaver providers BTNZ deals with thousands of transfers (to and from) various other KiwiSaver providers each month, making it impractical to agree member specific transfer terms. Furthermore, in a stressed liquidity environment it is reasonable to expect a rise in transfer activity making it even more challenging at a time when the tools are most needed. In addition to this, we note that the delayed transfer needs to be agreed by both parties, meaning that a manager runs the risk of the second party not agreeing to transfer, and in that situation, that manager is still exposed to a liquidity mismatch. |
| 3 | <p>For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of:</p> <ol style="list-style-type: none"> a. your ability to increase investment in private assets b. risks associated with your current allocation of private assets. |

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| | <ul style="list-style-type: none"> • The Westpac KiwiSaver Scheme Trust Deed allows for the use of side-pocketing, the suspension of redemptions, and other liquidity risk management tools, with the approval from the Supervisor. As noted in question 2 – the requirement to transfer a member’s balance within 10 days limits a KiwiSaver manager’s ability to deploy liquidity management tools. • BTNZ conducts stress testing on the Westpac KiwiSaver Scheme funds to seek to ensure there is sufficient liquidity even in times of stress. Given the illiquid nature of private assets (even in times of no stress), this will continue to be a constraining factor for the allocation to such assets at an overall portfolio level. |
| 4 | <p>Please provide any other comments on the availability of liquidity management tools.</p> <ul style="list-style-type: none"> • Nothing further to note – see responses in other questions. |
| 5 | <p>Do you support the proposed approach? Why/why not?</p> <ul style="list-style-type: none"> • BTNZ supports the proposed approach to provide flexibility in legislation to the extent necessary for managers to manage liquidity risk including preserving the value of relevant assets. • In line with previous feedback on the Liquidity Risk Management Guidelines in 2024, BTNZ also supports more flexibility and clarity on how liquidity management tools can be effectively used for KiwiSaver schemes. • However, BTNZ would caution that while this proposed approach would provide clarity, it is uncertain whether it will result in a significant increase in private assets exposure by KiwiSaver providers. • The ability to gate investments/redemptions would be a useful cashflow management tool for dedicated private assets funds. However, the use of such tools by diversified funds with a private assets’ allocation, is more difficult in practice as there are questions around whether investments/redemptions would be gated on the whole diversified fund or for only the private assets allocation (and in turn how this would be implemented and managed). |
| 6 | <p>If redemption gates were allowed, would you consider developing new products more focussed on private assets?</p> |

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| | <ul style="list-style-type: none"> • BTNZ is supportive of allowing redemption gates as it allows for managers to have more flexibility when constructing a portfolio. • However, as noted in question 1, even with the ability to gate redemptions, managers would still need to overcome such issues as fee constraints, valuation frequency, transparency, and internal capacity and capability constraints before any such investment could be made. • An increased investment in private assets would potentially require an increased fee to cover the additional research, management and governance costs associated with the private market asset classes. This would be a reason to establish new funds given the difficulty in increasing fees. |
| 7 | <p>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?</p> <ul style="list-style-type: none"> • Yes, there would be one-off costs associated with making these changes (for example, technology changes, legal review, communications with members etc). As per the guidance in the Discussion Document, BTNZ would need to make any required disclosure document changes and inform members of any changes should there be changes to how BTNZ implements liquidity management tools. • In addition to the costs of making the required document changes and informing members, there are likely to be additional operational and governance costs involved with the added complexity of managing private asset investments. The cost of these changes is not yet quantifiable. |
| 8 | <p>Do you have any comments on the detailed design considerations noted above?</p> <ul style="list-style-type: none"> • 48a – Should not be specific, should be to allow general LMT use for more flexibility • 48b – When deemed appropriate by the manager with supervisor approval • 48c – Use of LMTs should not be limited to private assets – this would lead to complexity and distortions and a non-level playing field between assets and different forms of MIS. • 48d – Side pocketed/gated funds should follow the same disclosure requirements as funds. • 48e - Yes – as above, consistency and a level playing field would be preferable |
| 9 | <p>Please provide any further comments on this issue of liquidity management tools.</p> |

- It is unclear whether the intention is that existing funds can allocate a portion of existing money to invest in private market opportunities, or to only allocate new funds and new money to invest in private assets, either via a dedicated private assets fund or via a new diversified fund. If the former, this requires a change in the scheme's disclosure documents that should be notified to all investors and will likely increase costs to members. If the latter, it is unlikely the existing \$120 billion in KiwiSaver will be unlocked for this opportunity, and it will take many years to build scale.
- BTNZ notes that the Discussion Document suggests that publicly listed assets are "more highly liquid and can be sold much more readily". While this is generally true there are still areas of publicly listed assets that suffer from illiquidity. In particular given the size of some KiwiSaver funds, markets such as New Zealand listed equities can pose liquidity risks when assessing the asset class on a portfolio basis, and this may be one of the factors for the low allocation to NZ equities by KiwiSaver funds.
- BTNZ recommends that MBIE provides further clarity on the ability for a member to be in two schemes at the same time due to a liquidity event in one scheme e.g. side-pocketing. Clear guidance on this issue would ensure that firms and the IRD have developed their IT infrastructure to handle this situation.
- While these changes would be disclosed to members, there is a risk that the full implications of these changes may not be truly understood by members – especially those who may be looking to use their KiwiSaver for a first home purchase.
- BTNZ supports the recent Liquidity Risk Management guidance that was issued by the FMA in 2024 and does not see this guidance as an impediment to investment in private assets. BTNZ is of the view that more robust and developed liquidity management frameworks allows firms to better understand and manage their liquidity risks in the listed asset space, thus providing more comfort in investing in private assets.
- Liquidity management of private assets is not only a consideration during a stress environment. Portfolios have an asset allocation that investors expect portfolios to remain consistent with (including dynamic asset allocation tilts). As other asset classes increase and decrease due to market movements the weights of each asset class within the portfolios change, meaning that if for example there is a market sell-off in international equities the weight of this asset class will decrease, and fund managers would normally rebalance the portfolio by reducing the other asset classes and increasing the investment in international equities. Private assets create an issue, where the inability to adjust the asset allocation (due to liquidity) means that the asset class may go overweight and outside desired asset allocation ranges. This liquidity constraint is one factor BTNZ considers when assessing a private market asset allocation.

Private asset categories – questions for KiwiSaver providers or other industry

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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.

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| | <ul style="list-style-type: none"> • Yes. • Existing categories do not provide visibility on the proportion of private asset investments in disclosures. • Currently there is only an option to define “unlisted property” while all other private asset investments would be defined under “other”, followed by a description of what is included in “other”. • We consider the KiwiSaver industry should always aim for more visibility for members of where their money is invested by informing and educating. |
| 14 | <p>How do you think the categories should be described?</p> <ul style="list-style-type: none"> • We suggest categorisation of private asset exposures together, as suggested in Option 1, with the additional requirement to state what is included in the private assets category (see below answer to question 16). • Alternatively, we suggest sub-categories: “private equity” and “private debt” categorisations, to differentiate if the private asset investment in an equity or debt investment. |
| 15 | <p>Please provide any other comments on the lack of private asset categories.</p> <ul style="list-style-type: none"> • Private assets can include a wide range of investments including venture capital, private equity, private real estate, private debt and private infrastructure which can vary materially in their return and risk profiles, which would support having further sub-categories of private assets. |
| 16 | <p>Which option do you think is best and why?</p> <ul style="list-style-type: none"> • Option 1 with the additional requirement to specify what is included in private assets. • This option keeps it clear and simple, while also providing transparency in what assets are held. • Given this is likely to remain a smaller allocation compared to other categories, it doesn’t require any more detailed split at the fund level. |
| 17 | <p>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?</p> <ul style="list-style-type: none"> • One-off costs to change disclosure. |
| 18 | <p>Please provide any further comments on this issue of including private assets in asset categories.</p> |

| Valuation requirements – questions for KiwiSaver providers or other industry | |
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| 20 | <p>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:</p> <ol style="list-style-type: none"> 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. |
| | <ul style="list-style-type: none"> No, other than where a private asset investment fund was set up which may require a valuation frequency different to that in the governing document (currently, at least weekly). |
| 21 | <p>Please provide any other comments on the valuation methodologies in governing documents.</p> |
| 22 | <p>Do you agree that this is an issue that needs addressing?</p> |
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| 23 | <p>Do you have views on how it should be addressed?</p> |
| | <ul style="list-style-type: none"> We support the approach to amend section 139 of the FMCA which means that any trust deed amendments to valuation methodologies (to accommodate private assets) would not be considered materially adverse and therefore would not require prior approval from members (as specified in the FMCA). |
| 24 | <p>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?</p> |
| | <ul style="list-style-type: none"> There would be cost involved in making trust deed amendments, and then considerable further cost if this were required to be communicated to all members. |
| 25 | <p>Please provide any further comments on this issue of valuation requirements.</p> |

- A key challenge will be the potential consequences of different methodologies being applied by different managers, sometimes for the same underlying asset. As was seen in Australia during Covid, “overrides” to the standard valuation approach for private assets are sometimes required to reflect rapid and volatile changes in public market pricing, and different schemes may take different approaches to this leading to challenges for investors to make comparisons between offers.
- Conflicts of interest require consideration and management in relation to valuation, as well as private assets investment generally.
- We note the valuation issues being identified in Australia by the Reserve Bank of Australia, the IMF, as well as regulators including APRA and ASIC, as outlined in response to question 33 below.

Total Expense Ratio—questions for KiwiSaver providers or other industry

26 Do you currently outsource fund management for private assets?

- We do not currently have a dedicated exposure to private assets

27 Do you see any issues with the current TER calculation and if so, what are they?

- We believe full fee transparency of all underlying costs and charges is essential.
- The risk of not having this is a step backwards for the industry and could lead to differences in approaches, hiding of fees, and confusion for investors.
- The current TER calculation would need to be very clear as to exactly what expenses and charges relating to investment in private assets need to be incorporated in the calculation so that all providers have the same approach.

28 Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?

- Yes, as it will mean higher fees to investors and there is currently ongoing industry and regulator focus on fees.
- Some schemes utilise an “all-in” fee, whereby all underlying fees and costs are included in the fee, such as the Westpac KiwiSaver scheme, and all Default Funds. All-in fees are attractive to investors due to their simplicity and clarity. We note that changing the TER calculation methodology would have no impact and provide no relief where all-in fees are used - the higher fees and more variable performance fees associated with private assets would still be fully borne by the manager.

29 Are there any other issues you would like to draw attention to on the TER?

Final comments—question for KiwiSaver providers or other industry

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).

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- The overriding responsibility for all KiwiSaver managers is to act in the best interests of their KiwiSaver members. We are supportive of changes to allow flexibility and for better liquidity risk management, but note that there are a number of hurdles remaining.
- Each of the private asset hurdles (valuation, transparency, liquidity, fees, capacity and capability) are not insurmountable on their own, however together they create a larger hurdle to “move the dial” in terms of private asset investment across KiwiSaver funds.
- The implementation and use of liquidity tools can still come with risks to the scheme and its members. While they can help manage an immediate crisis, members may feel disadvantaged by their deployment and as a result they can ultimately damage confidence in KiwiSaver or the scheme manager, with the risk of ultimately leading to the wind-up of the fund or scheme.
- The large allocation to private assets by Australian superannuation funds has been referenced as being exemplary and yet it is uniquely high for defined contribution schemes on a global basis. Both the Reserve Bank of Australia and the IMF have warned recently about the liquidity risks in the Australian superannuation industry due to the high allocation to private assets. More recently, Australian regulators have stepped up their review and surveillance into private assets investments, including governance processes and practices, including their asset valuation and liquidity management practices. APRA noted following a review of superannuation funds that “In relation to unlisted asset valuation governance, particular weaknesses were observed in the areas of board oversight and conflict of interest management, revaluation frequency and triggers, valuation control, and fair value reporting. In relation to liquidity risk management, particular weaknesses were observed in the areas of liquidity stress trigger frameworks, unlisted asset liquidity risks and liquidity action plans.”

Other comments