Submission on discussion document:
Enabling KiwiSaver investment in private assets

Your name and organisation

Name	Privacy of natural
Date	14th February 2025
Organisation (if applicable)	Harbour Asset Management
Contact details	Privacy of natural persons

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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.
	Harbour Asset Management manages approximately $20bn for a range of institutional and retail clients including the BNZ KiwiSaver Scheme. Our current exposure to private assets is limited to investments made for our non-KiwiSaver funds such as the Harbour Income Fund, the Harbour Active Growth Fund and the Harbour Sustainable Impact Fund. We invest both directly in private credit assets and into private equity and venture capital funds. These investments are small in the context of our funds under management and currently total less than $75mn. We have an eight-year history of investing in both direct private credit and private credit funds for the Harbour Income Fund, and we have an internal credit research and portfolio management capability. Currently we invest in private equity and venture capital principally through externally managed funds. Harbour has a comprehensive Liquidity Risk Management policy which prescribes our approach to managing liquidity risks for each fund. An updated Liquidity Risk Framework considering the FMA's Liquidity Risk Management Guide is being finalised. The framework includes assessments of potential stressed market conditions and the ability to provide liquidity fairly to clients. The liquidity tools we may apply include a range of liquidity management tools (LMT's) depending on the circumstance. Liquidity is described to investors in our offer documentation to clearly communicate the nature of the investment, liquidity constraints, pricing and additional risks associated with the fund offer.
2	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)?
	The main restriction on using liquidity tools is the 10-day transfer period. In extreme market conditions, suspending redemptions, using gates, or our preferred method of side-pocketing could offer better outcomes for investors. We think these tools should be available irrespective of whether a KiwiSaver fund invests in private assets as public markets, and specific public market securities can (and have historically) become both illiquid and be difficult to fairly value. This latter point may reflect, for instance, when a security enters a trading halt without the publication of a reason or sufficient data for market participants to fairly value.
3	For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of: a. your ability to increase investment in private assets b. risks associated with your current allocation of private assets.

	As the manager of the BNZ KiwiSaver Scheme which currently has no exposure to private assets, Harbour is developing a framework for improving expected outcomes for clients through investing in private assets. In our view the proposed changes to regulatory settings will provide an important factor that we will take into account as we calibrate an increase in the strategic allocation to private assets. We will likely continue to partner with external experts in managing private assets reflecting our current capacity and expertise. We currently manage around $6.5bn in the BNZ KiwiSaver Scheme. Private assets are not suitable for all our funds. For example, the First Home Buyer, Default, Conservative, and Cash Funds have short investment timeframes, so clients may still expect high liquidity.
4	Please provide any other comments on the availability of liquidity management tools.
	We strongly support changes to regulations to allow KiwiSaver managers to employ the full range of liquidity management tools available to MIS managers. We support the application of side-pocketing as a tool that would be used rarely, if at all, but could ensure fair treatment of all clients in extreme stressed conditions. We prefer side-pocketing to the complete closure of client access to buying or selling units. While we don't believe ruling out redemption and application gates for KiwiSaver, we are concerned that gates might be seen as a permanent solution to liquidity or pricing issues, which usually affect only one security or a class of securities. Application and redemption gates may pose a number of operational issues for KiwiSaver providers and members. Application gates will impact regular contributions as it would need to be determined where this money would be redirected and how disclosure/consent requirements would be managed. Redemption gates have the potential to cause negative member impacts in relation to retirement withdrawals and other withdrawal types. Our preference is to keep general access to liquidity open for investors as we believe under most circumstances the expectation of KiwiSaver members is to have access their funds.
5	Do you support the proposed approach? Why/why not?
	We support the proposed approach as a tool for the fair treatment of all clients under potentially extreme market environments. We believe that the approach will improve client choice and potentially enhance outcomes for investors. Harbour believes that the approach should be adopted independent of the consideration of private assets. Historically, there have been several stressed market environments where specific securities, sectors, and asset classes have become difficult to value and/or illiquid. We view that approach as a symmetric risk for KiwiSaver managers in both public and private markets. As an example, what if a large equity index exposure — say one of New Zealand's largest companies - received a takeover offer but the value was not provided in public documents and the stock exchange placed the security into a trading halt? This could create a situation where the security could not be valued and buyers and sellers of units (in the absence of a side-pocket capability) were not all fairly treated. We can also imagine a variety of negative shocks to securities, sectors and asset classes. Turning to private assets, in normal market conditions, industry practitioners are well versed in detailing fair valuations for private assets, but again there may be moments in time where specific assets or sectors prove difficult to value. We think side-pocketing could be the appropriate action. It may be the case that side-pockets are never actually used, and instead, buy-sell spreads and other tools could be better action points. However, in our view it would be better to have the full suite of tools available rather than move to the situation of cancelling all KiwiSaver fund liquidity.
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
	Harbour is already developing new products based on private assets. Our key working assumption is that the regulations will be changed to also provide better flexibility for managing KiwiSaver liquidity and pricing risks including the use of side-pocketing.

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?
	Harbour already has extensive costs associated with our liquidity management tools including portfolio manager, product manager, compliance, audit, and Board monitoring. The key additional cost will likely relate to further investment in internal research and portfolio management resources should we chose to migrate private equity management from external suppliers. We have not developed that business case, but this is a likely medium-term significant cost with potential benefits for client investors.
8	Do you have any comments on the detailed design considerations noted above?
	As noted above we are supportive of having a range of liquidity management tools available to all MIS managers, in particular the use of side pockets. We prefer these measures to be specific to the liquidity management tools introduced with general access to liquidity open to meet investor and KiwiSaver member expectations to have access to their funds. Disclosures on the potential use of these tools should form part of the SIPO, OMI and PDS disclosure documents. Communication of proposed changes to an existing fund (new allocation and associated liquidity tools) would be best done prior to updating PDS and other governing documents with a timeframe of 30-60 days given for members to provide feedback or move their investment to another fund. Further communication would be done at the time of updating investors and members with the new fund documentation. If application and redemption gates are considered, there would need to be operational changes made to deal with regular member and employer contributions and potentially negative member impacts relating to withdrawals.
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?
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.
	The lack of asset categories in current legislation does create issues with comparability between other similar diversified or premixed KiwiSaver funds that may or may not hold private assets. Grouping private asset allocations under 'Other' makes it difficult for members to make informed choices and understand differences in fees, performance, and risk ratings..

14	How do think the categories should be described?
	Cash and cash equivalents New Zealand fixed interest International fixed Interest Australasian equity International equity Property (listed, unlisted) Infrastructure (listed, New Zealand unlisted, international unlisted) Private Assets (Equity and Debt) Commodities Other.
15	Please provide any other comments on the lack of private asset categories.
	Additional transparency on the types of asset classes within KiwiSaver funds help members better understand their investments.
16	Which option do you think is best and why?
	Option1 - create a new category for private assets although the additional information in other asset categories is also helpful (see above). This option is the easiest to implement from a reporting configuration perspective while still providing the transparency needed.
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?
	There would be a small impact from an implementation perspective due to reconfiguration of reporting to include the new asset category, this would require resourcing and time to implement but it would not be significant.
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: a. the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds. b. 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.

	The BNZ KiwiSaver scheme does not currently invest in private assets and therefore the valuation methodology in the current governing documents does not specifically include an approach for private assets. Amendments may be required to accommodate private asset classes for the relevant KiwiSaver funds. For our non-KiwiSaver funds that invest in private assets, the valuation methodology in the governing documentation includes our approach to valuing private assets and would not require any changes. We believe that the changes to the valuation methodology within the governing documents to accommodate private assets, in light of the immaterial allocation should be approved by the supervisor with an update provided to investors informing them of this change. We have not made any amendments to valuation methodology in recent years for KiwiSaver or non-KiwiSaver funds and do not have up-to-date experience of this process.
21	Please provide any other comments on the valuation methodologies in governing documents.
22	Do you agree that this is an issue that needs addressing?
	Yes, the current requirement for daily valuation for KiwiSaver funds does present some operational challenges to investing in private assets. Uncertainty of approval pathways or outcomes when updating governance documents detracts from investment in new asset classes. While these can be managed, amendments to the act that allow Supervisor approval of changes to governing document valuation methodologies to support investment in private assets would provide certainty and remove one of the actual or perceived barriers from investing in Private assets.
23	Do you have views on how it should be addressed?
	As noted in our response to Q21 and 22, we support the proposal to clarify the FMC Act to deem a change in valuation methodology as not adverse or materially adverse.
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?
	If the FMC Act is changed as noted in Q23 above we do not expect any significant implementation costs.
25	Please provide any further comments on this issue of valuation requirements.
Total Expense Ratio—questions for KiwiSaver providers or other industry	
26	Do you currently outsource fund management for private assets?
	Yes, we have a small allocation to private equity and venture capital through third-party funds in for instance in our Sustainable Impact fund. As noted in Q3, we are likely to continue to partner with external experts as we increase our allocation to private equity, private credit or other private asset classes.
27	Do you see any issues with the current TER calculation and if so, what are they?

	We are supportive of the current TER approach. We believe that a consistent and transparent approach to fees, returns before fees, and final returns supports better comparability and decision-making for investors. The calculation should include **all fees charged** to investors and we would further support consistent inclusion of transaction costs that are charged to investors such as custody transaction fees.
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	No, we do not see the TER calculation as a barrier when investing in private assets or the use of third-party managers. There are challenges in disclosure of TER when external managers change fees / expenses which can be more common for private asset managers.
29	Are there any other issues you would like to draw attention to on the TER?
	As noted above in Q27 we support including transaction costs that are charged to investors.
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).
	We are very supportive of removing operational headwinds to investing in private assets and congratulate MBIE on this piece of work. While we understand that broader funding and capital mechanisms are not a key focus of this consultation, we would like to highlight the need to provide access to private asset investments in New Zealand. As noted in the Background section of this consultation paper, there are New Zealand-specific infrastructure, productivity, climate-related investment needs that will require funding from both government and private sectors (domestic and offshore). While we are not suggesting restricting private asset investment to New Zealand, increased investment in private assets will require access to both larger infrastructure projects and private equity and venture capital enterprises in New Zealand if we want to get the broader economic benefits of this type of investment. Efforts to support increased allocation to private investors, in particular KiwiSaver providers should include focus on increasing private asset investment availability such as infrastructure funding vehicles.

Final comments—question for all respondents	
	Please use this question to provide any further information you would like that has not been covered in the other questions.
34	New Zealand's KiwiSaver scheme now provides a substantial pool of assets for savers and is a diversified capital base for New Zealand. While that diversification does proscribe a substantial allocation of assets to public local and global asset classes, Harbour believes that private assets can increasingly form a small but effective allocation for some KiwiSaver investors. We recognise that the stability of the "settings" for KiwiSaver investors is a key facet in building trust. Trust in the potential to develop retirement savings, and trust in the providers and regulators. Many commentators have constructively suggested paths to lifting engagement and broadening participation in KiwiSaver. Education is likely the most important element, and as the scheme matures, we are seeing a greater consideration of how to introduce financial skills more broadly at a younger age. The participation of wealth advisers adopting KiwiSaver as part of their practice is likely a positive development. Additionally, most experts and financial advisers would concur that current KiwiSaver contribution rates fall short of providing fully for retirement needs. Proposed solutions range from lifting the default contribution rate to 4% or higher, automatic re-enrolment, gradual increases in both employer and employee contributions towards international standards, extending employer contributions to under-18s and over-65s, and potential changes to the Government contribution approach to improve engagement.