

Submission on discussion document: Enabling KiwiSaver investment in private assets

Your name and organisation

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Date	14 February 2025
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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.
	Currently, the Summer KiwiSaver Scheme (Summer) does not have any direct investments in private assets.
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)?
	Summer has a Liquidity Risk Management framework that details the liquidity risk management tools that may be utilised by the scheme. These tools are explained to Summer's members in the scheme's offer documents and Summer's website.
	The liquidity risk management tools of side pockets and the temporary suspension of members' redemptions (as part as business as usual operations) aren't currently available to the scheme. The reason for this is that we believe the current legislation around member transfer and withdrawal requirements makes it impractical to apply side pockets or (temporarily) suspend redemptions, as part of business as usual / normal operation of the scheme.
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.
	See answers to questions 1 and 2. In addition, while the lack of a more comprehensive range of liquidity risk management tools is a potential limiting factor to the scheme's current investment universe, as the Investment Manager (in conjunction with the Manager), we would also need to consider a wide a range of other factors (e.g. overall scheme size, individual fund sizes within the scheme, types / concentrations of investors, risk adjusted return expectations, return volatility, asset / security valuation methodologies, investment strategies and objectives, asset allocation ranges, permitted investments, investment restrictions, etc., etc.) before considering any investment of scheme property into private assets.
4	Please provide any other comments on the availability of liquidity management tools.

	<p>We believe it would be in the interests of KiwiSaver scheme members if Managers / Investment Managers were able to access a wide range of liquidity risk management tools that are currently considered to be good practice and available to non-KiwiSaver schemes. See Financial Markets Authority's Liquidity Risk Management Guide, April 2024.</p> <p>However, offer documents and other marketing collateral provided to investors would need to clearly describe how and when liquidity risk management tools are expected to be used, i.e. as part of business as usual (to ensure private assets are held for the anticipated term / expected pay-back period) and /or in a genuine distress situation (where the private assets are unable to be sold or valued, in a manner initially anticipated by the Investment Manager / Manager at the inception of the investment). There would also need to be a clear explanation if the proposed liquidity risk managements tools could be applied to public investments as part of business as usual or only applied to public assets in the case of distress.</p>
5	<p>Do you support the proposed approach? Why/why not?</p> <p>Yes; we generally agree the rationale outlined in your discussion document under point 47.</p>
6	<p>If redemption gates were allowed, would you consider developing new products more focussed on private assets?</p> <p>In relation to liquidity risk management tools, we would expect to see greater regulatory relief than just the authorisation of redemption gates before considering direct investment into private assets. Also see our response to question 3.</p>
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> <p>The explicit cost of amending our Liquidity Risk Management framework, scheme governing and offer documents to record and explain (to members / investors) additional liquidity risk management tools would be relatively inexpensive. The implicit cost of management, director and scheme supervisor resources would also be non-material.</p> <p>Initial changes would likely be one-off with periodic review, confirmation and / or amendment (if needed) incorporated into business as usual activities (i.e. undertaken by exiting resource, thereby an implicit rather than explicit cost)</p>
8	<p>Do you have any comments on the detailed design considerations noted above?</p> <p>We assume that all KiwiSaver scheme managers should have documentation (e.g. governing and offer documents) that are congruent with good practice and are contemporary. On this basis, the adoption of addition liquidity risk management tools, is logical, straightforward and inexpensive, in our view.</p> <p>Ultimately, we believe it should be up to the Manager and supervisor to determine the more detailed design considerations and to update all documentation and member communication accordingly. Our intention would be to ensure that investors have appropriate information to understand scheme operation as well as the ability to compare operational performance across competing schemes.</p>
9	<p>Please provide any further comments on this issue of liquidity management tools.</p> <p>No further comments.</p>
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	<p>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.</p> <p>We believe the current asset classes are appropriate and do not need amendment.</p> <p>The Financial Markets Conduct Regulations 2014, schedule 4, clause 1(4), allows for Manager discretion to apply the term "other" if the prescribed asset classes are not applicable, as determined by the Manager.</p> <p>Managers are also able to add a footnote to quarterly fund updates, provide additional information in the Product Disclosure Statement (PDS) and Other Material Information (OMI) documents, as well as explain investment decisions and exposures in additional information / marketing collateral made available to scheme members.</p>
14	<p>How do think the categories should be described?</p> <p>We believe the current asset classes are appropriate and do not need amendment.</p>
15	<p>Please provide any other comments on the lack of private asset categories.</p> <p>Private assets, by definition, will need to be more actively managed and monitored than listed assets.</p> <p>This will require greater resource from the Manager / Investment Manager. The KiwiSaver scheme marketplace is extremely competitive and price sensitive. Investments in private assets usually take time to deliver expected returns, meaning that scheme members may observe proportionally higher scheme costs (when compared to schemes that don't undertake investments in private assets) before the commensurate returns in private assets are delivered. On this basis, we believe Managers are / will be motivated to clearly explain investment strategies and exposures to private assets</p>
16	<p>Which option do you think is best and why?</p> <p>We believe the current regulations are sufficient, i.e. use of the "other" category in conjunction with a footnote or a further explanation, if determined necessary by the Manager. We do not prefer the other options presented in your document.</p>
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> <p>N/A, see response to question 16, above.</p>

18	Please provide any further comments on this issue of including private assets in asset categories.
	No further comments.
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	<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> <ul style="list-style-type: none"> 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. <p>Our initial view is that for good order, Summer’s governing documents would likely require a review of the current statements on the valuation of all assets, if a decision was made to directly invest in private assets.</p> <p>If amendments were required, we believe this would be straightforward and inexpensive, based our experience when amendments were made to the governing documents (trust deed and establishment deeds) of another (non-KiwiSaver) fund where we are the Investment Manager.</p> <p>Importantly, the policy and procedures associated with the application of Summer’s valuation methodology (i.e. the how-to) are recorded in a separate internal document, included in the scheme’s Liquidity Risk Management framework. Private asset valuation is a specialist skill (assumptions, model-driven, subjectivity, etc.) and requires independence from the Investment Manager / Manager. On this basis we believe the real cost to the scheme will be the implementation and the on-going business as usual processes rather than any one off or continuing amendments to documentation.</p> <p>However, we do acknowledge that changes to governing documents require a number of authorities – primarily recommendations from management, approval from the Manager’s board and agreement from the supervisor – before enactment. All straightforward and logical from our view, which should be undertaken by the Manager and supervisor, if determined (by the Manager) to be in the best interests of scheme members.</p>
21	Please provide any other comments on the valuation methodologies in governing documents.
	No further comments.
22	Do you agree that this is an issue that needs addressing?

	<p>No.</p> <p>We believe that it is up to each Manager and supervisor to determine all documentation (including governing documents) that are consistent with the investment strategy and objectives, asset allocation, permitted investments and investment restrictions of their scheme(s) and in the interest of their members.</p>
23	<p>Do you have views on how it should be addressed?</p> <p>See response to question 22, immediately above.</p>
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> <p>See response to question 20.</p>
25	<p>Please provide any further comments on this issue of valuation requirements.</p> <p>No further comments.</p>
Total Expense Ratio—questions for KiwiSaver providers or other industry	
26	<p>Do you currently outsource fund management for private assets?</p> <p>Currently, we do not directly invest in private assets.</p>
27	<p>Do you see any issues with the current TER calculation and if so, what are they?</p> <p>No. Market participants are familiar with the calculation and when considered alongside (1) fund after fees and after tax returns, (2) fund after fees and before tax returns and (3) actual dollar returns as displayed in members' annual tax statements, we believe that members have the information required to assess the performance of their investments as well as the ability to compare their scheme's performance against the performance of other schemes.</p>
28	<p>Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?</p> <p>No.</p>
29	<p>Are there any other issues you would like to draw attention to on the TER?</p> <p>No, other than we believe that the regulations do not include transaction costs (brokerage, buy / sell spreads, etc.) in the calculation of TER. See Financial Market Conduct Act Regulations, clause 53(3) of Schedule 4 which expressly excludes trading expenses from the total synthetic expense ratio calculation.</p>
Total Expense Ratio—questions for the public	
30	<p>Do you look at KiwiSaver scheme fees when deciding which KiwiSaver scheme to put your money with?</p>
	<p>What do you think should be included in any figure that is called "KiwiSaver scheme fees"?</p>

31	
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	
	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).
33	<p>In our view, private assets are not automatically higher returning than public assets. Any increased return potential needs to be commensurate with the risk taken, particularly where periodic valuation and associated return of private assets could be marketed / positioned as low volatility.</p> <p>We would expect Managers / Investment Managers to take a very vigorous approach to determining the return volatility (along with the explicit or implicit risk indicator number) of any private assets. We believe that many private assets are inherently more risky than public assets when viewed through either an operating or financial leverage lens. Explanation of these risks, along with the other more general risks, when investing in private assets needs to be well explained in scheme offer documents (PDS and OMIs), as well in other client marketing collateral.</p>
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.
	No further comments.