

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.
	Pathfinder is an NZ-owned and NZ-based fund manager focusing on ethical investment. We manage a total of \$900m of which \$480m is in KiwiSaver.
	Pathfinder KiwiSaver invests in private assets – both equity and debt. These investments are in each of our KiwiSaver funds (Conservative, Balanced and Growth) and must comply with the terms of both our SIPO and our Ethical Investment Policy. Currently around 5% of Pathfinder's KiwiSaver is in private assets. We see private assets as having the potential to both (a) improve the risk/return characteristics of our portfolios and also (b) provide 'real world' positive impact (for example renewable energy, extracting metals from e-waste, microfinance initiatives etc). This aligns with Pathfinder's mission to generate individual wealth and collective well-being by investing ethically.
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)?
	We have proceeded on the basis that side-pocketing and redemption gating are not options under the current legislative and regulatory settings.
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.
	We do not see the lack of these tools as inhibiting our ability to invest in private assets. If these tools were available, we believe any manager opting to use them will significantly undermine client trust and confidence. The result could well be outflows of existing clients and a reduction in new clients joining. Accordingly, whether or not these tools are available we would manage our allocation to private assets in a measured and prudent way to avoid the risk such tools would be required.
4	Please provide any other comments on the availability of liquidity management tools.
5	Do you support the proposed approach? Why/why not?
	On balance we support this approach, unless feedback given by investors clearly shows confidence in KiwiSaver would be undermined.
	We are hesitant with our support because we expect the use (or even existence) of redemption gates or side-pockets could undermine consumer confidence in KiwiSaver (and client confidence in any manager who uses these). However, we acknowledge (a) these tools are already generally available for managed funds and (b) availability of these for KiwiSaver will provide flexibility for unexpected and significant adverse future circumstances. In any event, the threshold for using these tools should be extremely high.
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets?

	It is unlikely that enabling redemption gates for KiwiSaver would see us develop new private asset products.
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?
8	Do you have any comments on the detailed design considerations noted above? Two thoughts: 1) Investors in KiwiSaver expect (and should have) 'access' to their funds when they are entitled to them - this could be when switching to another provider or reaching age 65. We believe that even if an investor "opts-in" to gating, they would have difficulty some years later accepting the gating restriction being applied. This could undermine confidence in KiwiSaver overall. 2) In the example given side-pocketing is expressed to be needed when an asset (a) temporarily loses a lot of value or (b) is not possible to sell. We believe that rather than these 2 categories, a side-pocket should only apply in one category: "if it is not possible to sell an asset within the range of what is considered fair value". Listed shares can "temporarily lose a lot of value" due to, for example, news in relation to a specific company or extremely adverse market conditions (for example through the Covid-19 outbreak). The 'temporary loss of value' is part of investing – it should not in itself differentiate the sale of a private or listed asset and trigger gating.
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.

	Yes. It is unclear if private assets should be in the appropriate asset class category (shares or fixed income) or under the “other” category. Either way, there is no transparency for investors. Similarly, having listed and unlisted property as separate categories means private assets that are property currently have greater transparency than private assets that are debt or equity.
	How do think the categories should be described?
14	Firstly, we believe the focus should be on how investors use the information that is reported – this is critical. Our expectation is that: (a) investors want to understand how much is invested in shares, fixed income and property – trying to incorporate distinctions between private and listed assets in each case is an over-complication. We do not believe that our investors care how much is in direct or listed property, only how much is in the property asset class. (b) Investors are wary of the ‘other’ category as containing something unusual. For this reason putting private assets in this category raises questions from investors (and is not useful transparency). (c) Placing private assets in their asset class (meaning for example that listed equities and private equity are reported together) and then separately disclosing the overall portfolio amount in private assets is useful disclosure.
15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why? The reporting in Option 1 confuses private assets as its own asset class. The reporting in Option 4 is an overload of information – we do not believe this level of disclosure is helpful for investors. Our preference is the suggestions in Options 2 and 3 which we believe provide the most useful information for investors. A separate disclosure around overall % invested in private assets would be useful.
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?
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.
	This does not apply to Pathfinder KiwiSaver.
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?
23	Do you have views on how it should be addressed?
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?
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?
	The large majority is insourced, with a very small outsourced component.
27	Do you see any issues with the current TER calculation and if so, what are they?
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	We believe that full fee transparency for investors and comparability across different managers is of critical importance for investors. Having said that, we recognise that the TER calculation can create a dis-incentive for managers to invest in NZ VC and PE funds – largely because their fee structures charge on committed capital and the ‘outsized’ impact on TER when a VC fund is only part-called. We are not advocating that TER calculations should change (because full fee transparency for investors is paramount) however we point out that fee structures could be one impediment to the adoption of external private asset managers (and in turn an impediment to the adoption of private assets by KiwiSaver providers).

29	Are there any other issues you would like to draw attention to on the TER?
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).
	Valuation of all assets in a KiwiSaver is extremely important, as on any given day valuations must be fair and reasonable to both those investors who are leaving a KiwiSaver and to those investors joining that same KiwiSaver.
	At a manager-by-manager level, each KiwiSaver’s auditors and Supervisor will sign off that KiwiSaver’s valuation approach. However, there is no guidance or industry agreed standardisation of private asset valuation in terms of methodology and frequency – coordination between the FMA, Supervisors, auditors and industry could resolve this. This lack of guidance/standardisation creates uncertainty and ultimately risk for fund managers – and is likely a barrier for KiwiSaver investing in private assets at scale.
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.