

Submission on discussion document: Enabling KiwiSaver investment in private assets

Your name and organisation

Name	Matt Macpherson
Date	24 January 2024
Organisation (if applicable)	Sharesies
Contact details	matt.macpherson@sharesies.co.nz

Privacy and publication of responses

[To tick a box below, double click on check boxes, then select 'checked'.]

The Privacy Act 2020 applies to submissions. Please check this box if you do not wish your name or other personal information to be included in any information about submissions that MBIE may publish.

MBIE intends to upload submissions received to MBIE's website at www.mbie.govt.nz. If you do not want your submission to be placed on our website, please check the box and provide an explanation in the box below.

Please check if your submission contains confidential information

I would like my submission (or identified parts of my submission) to be kept confidential, and **have stated below** my reasons and grounds under the Official Information Act that I believe apply, for consideration by MBIE.

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	
	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.
1	Sharesies KiwiSaver Scheme does not directly invest in private assets. Our Scheme invests in a number of underlying NZ managed funds, some of which hold private assets directly or through wholesale fund structures. Tracking exposure to private assets via a fund of funds model is complex given the private asset categorisation limitations pointed out in the consultation documents. Sharesies has, since its inception, had requests from Investors to provide access to Venture (VC) and Private Equity (PE) Funds. Retail Investors have not traditionally been able to access PE and VC Funds. They have been limited to High Net Worth Investors and Institutional Funds. Sharesies is seeking to give someone with \$5 the same opportunity as someone with \$5 million. PE and VC Funds can provide strong returns and diversification for Investors. The ability for individuals to invest into these high growth/risk sectors has been limited to whether you have significant investable funds rather than knowledge or portfolio based reasons. Investors have shown a strong interest to access investment opportunities in private companies that are driving the most promising technological and product advances. We believe that PE/VC Funds/Infrastructure could provide important portfolio diversification to our Investors.
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)? Not effectively, for almost all KiwiSaver managers the KiwiSaver Act withdrawal / transfer timelines and the design of their schemes rules out the use of side pocketing and redemption gates.
3	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.

	Sharesies can use the tools because we have developed our systems and governing documents from the outset to support side-pocketing. Many KiwiSaver schemes only allow their members to invest in a single fund, to implement side pocketing correctly managers would need to be able to create a side pocket fund for each illiquid asset but to still report holdings/performance/fees etc at member level and to limit contributions to non-side-pocketed funds. Most systems would not cater for this type of structure. Compliance with KiwiSaver Act withdrawal/transfer timelines and the obligations to treat all members equitably makes it challenging for many diversified funds to invest in private assets. Side pocketing only works for managers with the ability to run an PIE investor class, single asset model (Sharesies) or non-PIE direct holdings model (Craigs), the non-PIE model has less efficient tax for members and is unlikely to be a sustainable option.
4	Please provide any other comments on the availability of liquidity management tools.
5	Do you support the proposed approach? Why/why not? Yes, we support explicitly enabling all KiwiSaver managers to override the scheme transfer and withdrawal requirements when it is a necessary step for them to manage liquidity risk of investments.
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets? Yes, because redemption gated funds will provide members with more control over where their KiwiSaver invested. We believe giving members the choice to invest in less liquid investments on up front conditions that they understand will encourage innovation from the demand side and not only the supply side.
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? Sharesies would not face any material implementation costs because we have developed our system and governing documents to include side-pocketing.
8	Do you have any comments on the detailed design considerations noted above?
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	
	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.
13	Yes, currently there is no specific listing of private assets and these are grouped under more general headings/investments which fails to give transparency around where money is actually invested. We believe we should always aim for more visibility for members. We're a wealth development platform with the purpose of creating financial empowerment for everyone. We believe in informing and educating our investors and we should do everything we can to make where people's money is invested visible to them.
14	How do think the categories should be described? Private equity Private credit
15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why? Create new categories for private equity and private credit
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? Implementation costs will not be material for Sharesies
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.

Our valuation methodology is included in our governing documents but this does not include a private asset specific methodology. Our methodology requires the manager to value the fund at least every 30 days but in practice we value the fund each working day, ie each day we issue or redeem units.

However, our governing document provides for different ways to be used to determine the value of the assets in the fund (provided it is fair and reasonable and done in consultation with the Supervisor).

We do not need to update our governing documents to allow for different methods/frequencies of determining market values for different assets within the portfolio.

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?

For some managers it may be an issue

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?

No

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?
	No, but we intend to in the future
27	Do you see any issues with the current TER calculation and if so, what are they?
	No
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	No
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).
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.