

Submission template

Enabling KiwiSaver investment in private assets

This is the submission template for the discussion document, *Enabling KiwiSaver investment in private assets*. The Ministry of Business, Innovation and Employment (MBIE) seeks written submissions on the issues raised in the discussion document by **5pm on 14 February 2025**.

Please make your submission as follows:

1. Fill out your name, organisation and contact details in the table: “Your name and organisation”.
2. Fill out your responses to the consultation document questions in the table, “Responses to discussion document questions”. There are two sets of questions: teal-coloured for industry, and purple for the public, including KiwiSaver members. There is one final question (blue) for everyone. Your submission may respond to any or all of the questions in the discussion document, as appropriate.
3. When sending your submission:
 - a. Delete this page of instructions.
 - b. Please clearly indicate in template if you do not wish for your name, or any other personal information, to be disclosed in any summary of submissions or external disclosures.
 - c. Note that submissions are subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 2020 also applies.
 - d. Note that, except for material that may be defamatory, MBIE intends to upload PDF copies of submissions received to MBIE’s website. MBIE will consider you to have consented to uploading by making a submission, unless you clearly specify otherwise in your submission. If your submission contains any confidential information:
 - i. Please state this in the template, and set out clearly which parts you consider should be withheld and the grounds under the Official Information Act 1982 that you believe apply. MBIE will take such objections into account and will consult with submitters when responding to requests under the Official Information Act 1982.
 - ii. Indicate this on the front of your submission (e.g. the first page header may state “In Confidence”). Any confidential information should be clearly marked within the text of your submission (preferably as Microsoft Word comments).
4. Please send your submission (or any further questions):
 - as a Microsoft Word document to financialmarkets@mbie.govt.nz (preferred), or
 - by mailing your submission to:

*Financial Markets Policy
Business, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand*

Submission on discussion document: Enabling KiwiSaver investment in private assets

Your name and organisation

Name	Peter Wells
Date	14 February 2025
Organisation (if applicable)	Simplicity NZ Limited
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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.

I do not want my submission placed on MBIE's website because... *[Insert text]*

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.

I would like my submission (or identified parts of my submission) to be kept confidential because...
[Insert text]

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. Our KiwiSaver scheme is highly diversified, with approximately 7.6% of the NZ\$5.1 billion total funds under management allocated to private assets which are unlisted shares and mortgage loans held through an associated wholesale investment scheme. Approximately 2% of total funds under management held in NZD cash and cash equivalent assets, and the remaining 92.2% of total assets held in domestic and offshore listed securities that can generally be liquidated within one week under normal market conditions. We operate a liquidity management framework that monitors net investor liquidity demand at a fund level on a weekly and monthly basis. Due to the restricted nature of KiwiSaver, the largest potential drain on net scheme liquidity is account transfers to other KiwiSaver providers, which under KiwiSaver rules entail the full payment of the member's account balance in cash to the new provider within 10 business days from a member's transfer request. Our current asset allocation provides ample liquidity to meet net investor withdrawals and account transfers in any period under all but the most extreme market conditions.
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)? No. KiwiSaver scheme rules require investor withdrawals and account transfers to be fully paid in cash within specific timeframes (generally - retirement withdrawals within 5 business days, outward transfers and financial hardship / serious illness withdrawals within 10 business days, and certain other permitted withdrawals within 3 business days). As rules require full cash payment within these timeframes, suspension of redemptions that would exceed these timeframes is generally not permitted by the rules. As investors can only be a member of one KiwiSaver scheme, assets cannot be excluded from balance transfers (with full account balance needing to be transferred in cash within 10 business days).
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 liquidity management tools such as side-pocketing and suspension of redemptions are not available in KiwiSaver to effectively manage illiquid assets, some managers and/or their supervisors are reluctant (do not have the risk-appetite) to allocate investments to illiquid assets or increase existing allocation levels. As a committed private asset investor we have found it difficult to increase existing allocations to illiquid private assets due in part to the liquidity management constraints imposed by KiwiSaver scheme rules.
4	Please provide any other comments on the availability of liquidity management tools. While particularly relevant to managing specific illiquid assets in stressed situations, liquidity management tools are potentially useful and necessary for all KiwiSaver schemes, regardless of whether they have exposure to illiquid assets, in cases of severe investment market stress.
5	Do you support the proposed approach? Why/why not?

	Yes. We consider that side pocketing is the most targeted and appropriate contingency mechanism to protect members' interests where a specific private asset cannot be assigned a fair value, or where the manager is obliged to sell the asset within a short period, and this would be materially prejudicial to members' interests. Where side-pocketing is applied properly it isolates an asset to enable: - An orderly liquidation of the asset that maximises the value realised for members; and - Normal scheme administration to continue utilising the remainder of the portfolio.
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets? We do not believe that allowing redemption gates within KiwiSaver would meaningfully help to encourage more KiwiSaver investment into domestic private assets. In our experience the majority of KiwiSaver members have relatively low investment knowledge and prefer to take a hands-off approach to investing by selecting broadly diversified funds and entrusting asset allocation decisions to their KiwiSaver provider. We believe that KiwiSaver funds with redemption gates are unlikely to attract meaningful investment due to a combination of investor preference for simple diversified funds, and investor aversion to restrictive investment terms and the need to undertake a series of opt-in steps (which may include obtaining financial advice). The use of redemption gates would also entail additional administrative complexity and costs for managers that in our view would probably not be justified by the level of investment they would attract. While we would not oppose the availability of redemption gates for managers who wish to use them, as our KiwiSaver scheme already invests in domestic private assets through diversified funds without redemption conditions, we would not consider offering a 'gated' fund option as we do not believe that there is a demand for these options or that they would provide any material benefits to our members.
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? No, we do not anticipate material costs will be incurred to implement new liquidity management tools.
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. The advantage of side-pocketing is that it is highly targeted to deal with specific illiquid assets – other liquidity management tools such as withdrawal suspensions have a wider effect on scheme operations (typically impacting all members and assets), making them “blunt instruments” for dealing with asset liquidity issues, and potentially leading to more investor impact and concern if used.
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. Current asset classes do not make adequate provision for separate disclosure of private assets. While listed and unlisted property are separately recognised, other types of private assets such as private equity and private debt are generally reported under broader equities and fixed interest classifications. Therefore it is unclear to investors what proportion of their investments is held in private assets.
14	How do think the categories should be described? We think adding a separate “private assets” category to disclosures would be the most helpful and easy to understand for investors.
15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why? We prefer option 1 as adding a single new asset classification for private assets will provide more information without the added complexity of sub-categories.
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? While a transition period would be necessary to adapt existing reporting and processes to include any new classification(s), this would be a relatively straightforward one-off exercise and in our view would not entail excessive costs.
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 KiwiSaver Scheme currently invests in private assets and our trust deed has well-established and adequate provisions pricing and valuation of these assets.
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?
	No, not in our case, however we recognise that managers who have not yet engaged in private asset investment will need to review their scheme trust deed and assess what changes are necessary to introduce appropriate valuation methods if not provided for.
23	Do you have views on how it should be addressed?
	While we are currently not impacted by this issue, we are generally supportive of the industry proposal to deem a change in valuation methodology not to be adverse, or materially adverse, to allow the changes to governing documents to be made without the need for a special resolution of scheme participants. Our support is on the basis that this may be a useful provision for the introduction of new asset classes in the future and may justify the introduction of new or altered valuation methods.
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?
	We currently operate a hybrid model where we manage private assets in house, and venture capital portfolios through an external manager. Both in-house management costs and any external manager fees are absorbed and paid from our basic fund management fees.
27	Do you see any issues with the current TER calculation and if so, what are they?
	No, we believe this method is reasonable and transparent.
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	No, we are already a low-cost active private asset investor and have not found the TER calculation method to be a barrier.

29	Are there any other issues you would like to draw attention to on the TER? We do <u>not</u> support changes to the TER because it would reduce transparency and potentially value for money for investors. In particular, we are concerned that if transparency is reduced this may encourage some managers to adopt high-cost outsourcing models for investment in private assets which may conceal significant fees and costs from their members.
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.
	We believe that it is important to consider policy objectives in a broader context and draw your attention to a separate submission from the Simplicity Research Hub which represents the views of Shamubeel Eaqub and Rosie Collins based on their experience with economic and policy systems in New Zealand, and focuses on the fundamental barriers to unlocking greater private asset investment by KiwiSaver providers in New Zealand.