The Financial Markets Policy Advisers
Ministry of Business, Innovation and Employment
P.O. Box 1473
Wellington 6140

Dear sirs/madams,

Review of KiwiSaver Default provider Arrangements

MBIE and Treasury are conducting a consultation process on KiwiSaver (KS) Default provider arrangements with a view to implementing changes in time for existing contract expiry in June 2021. This summary has been put together to help frame Fisher Funds response to this consultation.

The Situation

1. The KS Default model is well considered, well intentioned and largely fit for purpose from an intellectual perspective. The model is that KS members have to opt out of KS participation, are allocated to professional providers if they do not make their own choice, and are parked short term in a low risk cost effective fund pending an information and education intervention from their provider after which an active choice is made that is right for each individual.
2. Twelve years of experience however suggests that the model is not working as planned with circa half a million members remaining in default having not made an active choice, and those members missing out on hundreds of millions of dollars of investment returns from remaining long term in investments intended for a short term horizon. The cost of the shortcomings in the model will be exponential over time.
3. These shortcomings have been caused by a combination of poor member contact details being provided and remaining current, the timeliness and method in which information is sent to members, poor engagement by employers, apathy on behalf of many default members and some mixed performance by default providers through time.
4. It can be concluded that while the KS default model itself is fit for purpose in theory, in practise the model is not delivering consistent with the KiwiSaver Act 2006 to encourage a long term savings habit and asset accumulation by individuals so that they may enjoy a reasonable standard of living in retirement.
5. Fisher Funds concludes therefore that the KS default review must address the shortcomings of the current model, or fundamentally change the model.
6. Analysing the current model shortcomings will assist in determining whether the current model needs to change, or not;
    - Default member contact details – The current system is not working and this is the single biggest issue that challenges the current model. Newly allocated members frequently have incomplete details sent to default providers (on average half of all new members cannot be contacted), and there is also no automated client detail updates over time that ensures many clients become uncontactable. The wasted time and effort of trying to track down default clients through multiple means is an inhibitor to lowering the fees to default members, but more importantly ensures that the objective of the KiwiSaver Act is not delivered to Default members.

- Timeliness and method in which information is sent to members – there is at least a 3-month time lapse between when a member is automatically enrolled, and when their details are sent to the default provider. Members should receive education on the benefits of KiwiSaver and if it is right for them at the time they are considering whether to opt-out or not. Email should also be utilised as a key delivery channel for communication, and not just post.
- Poor engagement by employers – the current system relies on employers effectively ensuring their employees are enrolled in KS, yet there is little understanding or incentive for them to do this effectively. New Zealand is largely a small business economy, with hundreds of thousands of employers for whom KS enrolments are an administrative burden. They complete the bare minimum as a result, and this has been accepted by IRD. This is an input to the contact detail issue above. Employers also require clear and concise assurances by the government that assisting their employees with KiwiSaver does not make them liable.
- Apathy of default members – unfortunately for many New Zealanders (and particularly younger members), retirement saving is of very little interest and a very low priority. Many are trying to make ends meet today and even the thought of longer term savings is rejected. They have little interest in engaging with their provider, yet the information and education obligation sits with the provider. Clearly as a country, as a government, and as an industry more has to be done earlier in life through the education system to help New Zealanders understand what is required for financial well-being.
- Variable performance by providers – the default numbers clearly demonstrate that notwithstanding all of the above, some providers are doing a better job than others engaging default members and ensuring they make active decisions that are more in the long-term interest of that member. No doubt this will be considered in the review process.

The Preferred Alternatives

7. The outcomes for default members can and must be improved. It is too important for too many people and for New Zealand as a whole to leave the status quo. In addition, the current preoccupation with fees needs to be put in perspective. Fees are important, and should come down over time as scale builds. Current default fees overall are delivering excellent value for money, and forcibly changing fee levels for default schemes will not fundamentally change anything for default members or for New Zealand. The level of attention being given to fees is stopping hearts, minds and resources being applied to the real issues.
8. Alternative 1 - Fix the current model - given the current model is ideologically fit for purpose, clearly the first obligation is to scope out addressing the current practical shortcomings;
    - IRD must take ownership at every step to ensure client details are complete and are up to date, and must provide timely automatic updates to providers through time. Digitisation, auto data collection and inbuilt validations of data quality must be part of the solution
    - The process for employers must be made super simple with incomplete applications rejected and/or penalised, or else employers should be eliminated entirely from the process.

- A broad based financial literacy program supported by industry should be incorporated into a core part of the secondary education curriculum and other preparation for workforce education interventions
- There should be ongoing review of Default providers to weed out the poorer performing participants
- This models supports/requires a larger number of Providers (i.e. circa the current 9) as there remains a significant engagement task to be undertaken, and this needs to be distributed to make implementation practicable

9. Alternative 2 – Change the current model – that is, accept that the above is not practicable in anything but the longer term and accept that the default model needs to change from a short term parking solution, to a lifetime solution;
    - Create a bare bones set and forget solution that will be the least wrong for the vast majority of Default members
    - Default members would be allocated across providers with no absolute requirement of education and proactive contact of members, other than that in the normal course of business
    - A balanced fund is most likely to be the least wrong for the vast majority of default members, provided that members can self-select on enrolment of their intention to purchase a first home within the first 5-year period, at which time they would be allocated into a conservative solution
    - A Balanced fund is favoured over a Lifestages type product due to its simplicity to explain without human intervention, and it is likely to be less wrong for more people.
    - The logistics of this option is more straightforward, and therefore could accommodate a lesser number of Providers
10. A key decision must also be made concerning fees incurred by disadvantaged groups, whether that be low income or some other criteria. This is not a Default review issue, rather a broader issue across KiwiSaver. Fisher Funds view is that these should be best addressed by re-directing existing government sponsored incentives (e.g. the government contribution (ex MTC)) towards the disadvantaged. This targeted response can materially address any issues for the disadvantaged, without changing the cost for the government or industry.

Existing Default Members

11. Just as important (if not more so) than the go forward decision is what to do with the existing circa half a million Default members, many of whom have been in this status for many years.
12. The profile of Fisher Funds default clients is unlikely to be materially different than the default market as a whole, and can be categorised as;
    a. Less than half the average balance of active choice clients
    b. Less than half of the average income of active choice clients
    c. 5 years younger than active choice clients (40 years old vs 45)
13. The inherent contact detail problem across the majority of default clients could be shifted from one party to another. This moves a problem rather than fixing it;
    - Any changes are likely to be made without Default members knowledge (or even tacit approval) because of the communication challenge, which could exacerbate their disengagement with KS in general
    - It cannot be assumed that because default members are not engaging with their KS and haven't made an active choice that they have not considered the matter and are

satisfied with both their provider and the fund they are in. Silence does not mean ignorance or indecision for all.
  - The scale of these changes happening simultaneously could be very disruptive if not chaotic for the market, potentially damaging trust in KS in general

14. For that reason, any changes would need to be phased over a reasonable time period and conducted with the support of a major Government sponsored wider marketing campaign to enable Default members to opt out of the changes if they are not in their individual interest. To facilitate such a programme of work, it would help if members were able to change their contribute rate via their employer (with providers receiving that instruction from Inland Revenue).
15. In a practical sense, it is therefore most likely unrealistic to implement a change of fund or provider for the existing pool of circa half a million Default members.

Other Material Items

16. The Government should not mandate responsible investing criteria, however each provider's credentials in this area should be benchmarked in the normal course of the assessment process, and it should just be a requirement that Providers exercise a responsible investment policy.
17. In a wider economic sense the New Zealand capital markets are important, they should not be a consideration as part of this Default provider review as that would be inconsistent with the very clear objectives of the KiwiSaver Act. Delivery of the Act objectives should be the only reference point.

Conclusion

Fisher Funds welcomes the opportunity to participate in this review. Given the real benefit of 12 years as a Default Provider, Fisher Funds is well placed to reflect the realities and not just the theory of service delivery to these KS members.

Changes need to be made if Default members are to obtain maximum value from KiwiSaver that the scheme was designed to deliver.

The biggest impacts can come from a more reliable engagement model that will ensure Default members contribute sufficiently in the right fund and with the right provider over the long term. Fees, while important, only become relevant once this is achieved.

If it is deemed that a better engagement model is unrealistic or unachievable at the scale required and ongoing, then it is recommended that the existing model be changed to a set and forget option with a smaller group of providers.

Either way, Fisher Funds is very keen to remain integrally involved as a leading Default Provider in the future.

Yours sincerely

Bruce McLachlan
Chief Executive

Submission template: Review of KiwiSaver default provider arrangements

Fisher Funds Management Limited

Section 1: Your details

Name of contact person: **Doug Booth**

Organisation (if applicable): **Fisher Funds Management Limited**

Contact email address: **douglas.booth@fisherfunds.co.nz**

Are you requesting that any of this submission be kept confidential? No

If yes, please let us know why the information should be kept confidential in accordance with the Official Information Act. Please also send us a redacted version of your submission for publication.

Reasons for withholding:

N/a

Section 2: Feedback on discussion paper

1. **What is your feedback on the proposed objective for the review?**

Fisher Funds ('FF') agrees with the objective of the review to enhance the financial wellbeing of default members particularly at retirement. In our view this objective must take precedence over any additional outcomes that have been considered in the review.

2. **What is your feedback on the proposed Criterion for the review? How should the Criterion be weighted?**

Criterion 1 – Better financial position for KiwiSaver default members particularly at retirement

FF believes this is the primary criterion for any review of default scheme provision. Additional criteria may or may not be achieved as a result of changes, however this should only be as a by-product of ensuring individual investor outcomes are maximised at retirement.

Further detail will follow in this response, however we note that a better financial position will be achieved by a number of factors in combination. Engagement with default members is key to achieving that particular member's best outcome, and this is highly dependent on accurate and timely data (member contact information) being received from IRD. It is impossible to make assumptions about a member without obtaining additional information as the default solution by definition is unable to take factors such as a member's other investments, risk appetite or housing situation into account. Our extensive experience with default member engagement to date clearly points to interactions over the phone being by far the most effective method.

If a member cannot be contacted and remains in the default fund then the investment performance of that fund is the next most critical factor. This is a combination of the investment manager's style, expertise and performance, state of investment markets, and the impact of the fees associated with the fund.

This criterion should have a significantly higher weighting than any of the others, not least because achieving this creates trust and confidence in KiwiSaver and the broader capital markets in the eyes of New Zealanders.

We believe this criterion should make up 70% of the weighting of the review.

Criterion 2 – Trust and confidence in KiwiSaver

There is a trade-off between short-term and long-term results in terms of raising trust and confidence in KiwiSaver. While in the short-term a conservatively managed option may minimise losses for default investors, over the long-term as default members compare their outcomes to those who made an active fund choice, trust could be eroded in the default provision space particularly. This has been the experience since KiwiSaver was launched. While the conservative option minimised losses for default members in 2008 during the GFC, those members have not enjoyed the full benefit of the bull market that has followed.

Having said this, a conservative mandate is the most appropriate for short-term investors such as first home buyers, and therefore the status quo does potentially increase trust and confidence for those members.

This is an important criterion, however the weighting should be relatively low compared to the goal of creating a better financial position for default investors.

We believe this criterion should make up 20% of the weighting of the review.

Criterion 3 – Low administration and compliance costs

FF experience to date is that low cost digital contact programmes can be useful to raise awareness and can in some cases lead to action by the member, however they are far less effective than a phone call in terms of ensuring a default member makes an active choice (6,639 default members were allocated to FF in the last 12 months. Of these 2012 made an active choice after receiving an outbound call, only 4 made an active choice without being called). Recent research by the FMA has proven that the inclusion of material in the packs received by default members and in the welcome letter from IRD has no impact on whether a default member then goes on to make an active choice of fund, which backs up our own experience. Therefore an effective financial literacy programme (i.e. one that results in a member making an active choice) relies on a call to the member, as early as possible in the enrolment process, from a client service representative of the default provider. This is an ongoing and resource intensive undertaking.

To enable providers to charge lower fees to members while still providing an effective service it is essential that the costs of provision of a default scheme are otherwise kept as low cost as possible.

We believe this criterion should make up 10% of the weighting of the review.

Criterion 4 – Support development of New Zealand's capital markets that contribute to individual's well-being

FF is of the opinion that it is not the role of the default funds to resolve any issues (actual or perceived) with New Zealand's capital markets.

FF believes no weighting should be given to this criterion in the assessment of the provision of a successful default process.

Criterion 5 – Promote innovation, competition, and value for money across KiwiSaver

FF fully supports the concept of value for money in both default and non-default KiwiSaver funds. We believe that in terms of the default review this falls fully within the scope of criterion 1. By its nature the default fund will be either a short-term parking space (if the fundamental issues of the default regime can be addressed), or a low cost, relatively light touch longer term solution. While the level of service provided will be linked to cost, we do not believe that the fundamental purpose of the default funds should be compromised with an expectation to generate innovation within the wider KiwiSaver market.

FF believes that no *specific* weighting should be given to this criterion in the assessment of the provision of a successful default process.

3. **What is your feedback on the problem definition for the investment mandate? Is a move away from a "parking space" purpose justified?**

The KS Default model is well considered, well intentioned and largely fit for purpose from an intellectual perspective. The model is that KS members have to opt out of KS participation, are allocated to professional providers if they do not make their own choice, and are parked short term in a low risk cost effective fund pending an information and education intervention from their provider after which an active choice is made that is right for each individual.

Twelve years of experience however suggests that the model is not working as planned with circa half a million members remaining in default having not made an active choice, and those members missing out on hundreds of millions of dollars of investment returns from remaining long term in investments intended for a short term horizon. The cost of the shortcomings in the model will be exponential over time.

These shortcomings have been caused by a combination of poor member contact details being provided and remaining current, the timeliness and method in which information is sent to members, poor engagement by employers, apathy on behalf of many default members and some mixed performance by default providers through time.

It can be concluded that while the KS default model itself is fit for purpose in theory, in practise the model is not delivering consistent with the KiwiSaver Act 2006 to encourage a long term savings habit and asset accumulation by individuals so that they may enjoy a reasonable standard of living in retirement.

Fisher Funds concludes therefore that the KS default review must address the shortcomings of the current model, or fundamentally change the model.

Analysing the current model shortcomings will assist in determining whether the current model needs to change, or not;

- Default member contact details – The current system is not working and this is the single biggest issue that challenges the current model. Newly allocated members frequently have incomplete details sent to default providers (on average half of all new members cannot be contacted), and there is also no automated member detail updates over time that ensures many members become uncontactable. The wasted time and effort of trying to track down default members through multiple means is an inhibitor to lowering the fees to default members, but more importantly ensures that the objective of the KiwiSaver Act is not delivered to Default members.
- Timeliness and method in which information is sent to members – there is at least 3 month time lapse between when a member is automatically enrolled, and the details sent to the default provider. Members should receive education on the benefits of KiwiSaver and if it is right for them at the time they are considering whether to opt-out or not. Email should also be utilised as a key delivery channel for communication, and not just post.
- Poor engagement by employers – the current system relies on employers effectively ensuring their employees are enrolled in KS, yet there is little understanding or incentive for them to do this effectively. New Zealand is largely a small business economy, with hundreds of thousands of employers for whom KS enrolments are an administrative burden. They complete the bare minimum as a result, and this has been accepted by IRD. This is an input to the contact detail issue above. Employers also require clear and concise assurances by the government that assisting their employees with KiwiSaver does not make them liable.
- Apathy of default members – unfortunately for many New Zealanders (and particularly younger members), retirement saving is of very little interest and a very low priority. Many are trying to make ends meet today and even the thought of longer term savings is rejected. They have little interest in engaging with their provider, yet the information and education obligation sits with the provider. Clearly as a country, as a government, and as an industry more has to be done earlier in life through the education system to help New Zealanders understand what is required for financial well-being.
- Variable performance by providers – the default numbers clearly demonstrate that notwithstanding all of the above, some providers are doing a better job than others engaging default members and ensuring they make active decisions that are more in the long-term interest of that member. No doubt this will be considered in the review process.

The Preferred Alternatives

The outcomes for default members can and must be improved. It is too important for too many people and for New Zealand as a whole to leave the status quo. In addition, the current preoccupation with fees needs to be put in perspective. Fees are important, and should come down over time as scale builds. Current default fees overall are delivering excellent value for money, and forcibly changing fee levels for default schemes will not fundamentally change anything for default members or for New Zealand. The level of attention being given to fees is stopping hearts, minds and resources being applied to the real issues.

Alternative 1 - Fix the current model - given the current model is ideologically fit for purpose, clearly the first obligation is to scope out addressing the current practical shortcomings;

- IRD must take ownership at every step to ensure member details are complete and are up to date, and must provide timely automatic updates to providers through time. Digitisation, auto data collection and inbuilt validations of data quality must be part of the solution
- The process for employers must be made super simple with incomplete applications rejected and/or penalised, or else employers should be eliminated entirely from the process.
- A broad based financial literacy program supported by industry should be incorporated into a core part of the secondary education curriculum and other preparation for workforce education interventions
- There should be ongoing review of Default providers to weed out the poorer performing participants
- This models supports/requires a larger number of Providers (ie circa the current 9) as there remains a significant engagement task to be undertaken, and this needs to be distributed to make implementation practicable

Alternative 2 – Change the current model – that is, accept that the above is not practicable in anything but the longer term and accept that the default model needs to change from a short term parking solution, to a lifetime solution;

- Create a bare bones set and forget solution that will be the least wrong for the vast majority of Default members
- Default members would be allocated across providers with no absolute requirement of education and proactive contact of members, other than that in the normal course of business
- A balanced fund is most likely to be the least wrong for the vast majority of default providers, provided that members can self-select on enrolment of their intention to purchase a first home within the first 5 year period, at which time they would be allocated into a conservative solution
- A Balanced fund is favoured over a Lifestages type product due to its simplicity to explain without human intervention, and it is likely to be less wrong for more people.
- The logistics of this option is more straightforward, and therefore could accommodate a lesser number of Providers

FF supports alternative 1 as the best outcome for members, with alternative 2 as the back-up course if alternative 1 cannot be achieved.

4. **Should the investment mandate options (and other options, for example in relation to fees) apply only to default members who have not made an active choice, or should they also apply to members who have made an active choice to stay in the default fund? Why or why not?**

Members who have made an active choice to remain in the current default fund must remain in that investment mandate and should remain at the existing fee structure or better, or be transferred to an equivalent fund. It must be assumed that a robust process has been followed that has led to them choosing to remain in the fund and that it is therefore appropriate to them. For example they may have a short investment time horizon due to a pending first home purchase or retirement, and a conservative investment mandate is the best option for their circumstances or risk profile.

5. **If a life-stages option is adopted, what "stages" should apply and to which age groups? Should there be a "nursery" period?**

FF is of the opinion that a balanced fund approach is better for the default option than a lifestages approach.

If a lifestages approach is adopted, FF is of the view that frequent and small adjustments to the mix of funds reduces the risk of crystalising a large loss for members by selling a significant balance from a growth fund at a time when markets are at a low to invest in a more conservative option. Having a longer period between adjustments also results in the lifestage having to cater for the average age in that lifestage, meaning members who are at either end of a lifestage will likely be in an inappropriate fund for their age.

Our view therefore is that shorter stages are better for the member.

Lifestages may result in higher administration costs, and given the higher allocation to growth assets results in higher management fees. This should be taken into consideration when reviewing the options for the default solution going forward given it conflicts with criterion 3 to keep administration and compliance costs to a minimum.

A nursery period to enable short-term investors (e.g. first home buyers) to make an active choice will add to the administrative cost of implementing a lifestages option. FF favours the member or their employer informing the provider at the time they are defaulted into the fund whether they intend to use the fund to purchase a first home, at which point they would be enrolled in a conservative fund.

6. **If a balanced investment mandate is adopted, what range for growth assets should be applied?**

FF agrees with the proposed range of 50% to 60% in growth assets for a balanced investment mandate. On the assumption that the existing parking space mandate is not maintained, FF supports the adoption of the balanced investment mandate for new default members as the option that provides the simplest solution that is the least inappropriate option for the majority of members.

7. **If a growth investment mandate is adopted, what range for growth assets should be applied?**

FF agrees with the proposed range of 63% to 90% in growth assets, but does not support the introduction of a growth mandate for default members.

8. **If a conservative investment mandate is adopted, what range for growth assets should be applied?**

FF does not support any change to the existing conservative mandate for default funds. If the mandate is not changed to a balanced mix of assets, then the decision will have been made that the default fund remains a parking space, in which case the current asset allocation remains appropriate.

9. **If a life-stages, growth, or balanced option was adopted, how should we mitigate the potential issue in relation to first-home buyers and other people making early withdrawals?**

FF supports the introduction of a balanced investment mandate. Mitigation for first home buyers would be via an amendment to the forms required to be completed by the employee and the employer to indicate if the intention is to save for a first home. In this case a conservative option would be selected for those members. In cases where the mitigation option is ignored by members or their employers, a balanced fund option is less inappropriate for a short term investor than a lifestages or growth option.

FF supports the introduction of specific engagement requirements on providers irrespective of the investment mandate adopted for default funds. In this case first home buyers will be contacted as a matter of course where their contact details are accurate.

In addition FF expects that any change in investment mandate would be accompanied by a significant campaign funded by the Government to ensure that awareness was raised that the default fund was no longer appropriate for short-term investment such as for a first home purchase. Given that members saving for their first home are already highly engaged (84% are active choice members as outlined in the paper, and this does not necessarily mean that the remaining 16% have not made a choice to remain in the default fund, they may just not have informed their provider that they have done so), we would expect that with sufficient coverage of the change in mandate and its consequences for first home buyers in combination with the engagement by providers the issue will become immaterial.

10. **What would be the administrative costs to providers of choosing a life-stages option?**

As discussed administration costs may increase for some providers who offer a lifestages option, and the higher weighting to growth assets generally leads to a higher management fee than a conservative or balanced option for all providers. FF does not support this option given its complexity both in terms of administration and also for the members investing in that option without fully understanding the features, particularly those with short investment horizons.

As the paper points out, while a lifestages option would usually lessen any significant loss at retirement age compared to a growth strategy in particular by investing in mainly conservative assets at that point in time, we believe that members will become more willing to engage as they approach retirement and their balance has grown to a significant amount. Members are more likely to take action to protect an existing lump sum than to grow a currently small investment for the future. Therefore the risk of someone unintentionally remaining in a growth oriented investment near retirement is less than the risk of someone spending too long in a conservative option prior to retirement.

11. **What is your feedback on the different options? Do you agree with our assessment of the costs and benefits of the option? Which option do you think is best and why? Is there**

another option that we have not considered that would be better than the options discussed?

FF generally agrees with the assessment of the different options. As we have mentioned the parking space nature of the existing conservative default fund investment mandate has not been successful due to a combination of poor data from IRD (late being sent to providers and inaccurate contact details) and in some cases not enough effort on the part of providers to engage their default members in a way that will result in them taking action (person to person phone conversations). If these fundamental issues can be resolved the requirement to change the existing investment mandate is materially lessened.

On the basis that correcting the data provision issue in particular may be out of the control of MBIE and the individual providers in the short-term (requiring default providers to better engage with their default members is something we believe should be a specified condition of being appointed), and that even if this situation is improved a certain amount of default members will remain uncontactable or refuse to engage regardless of the efforts of the provider, if a change to the investment mandate is made we support a change for new default members to a **balanced investment strategy**.

Of the proposed options, a balanced investment strategy:

- Provides the best financial outcome for default members who remain in the fund until retirement i.e. it is the least wrong for the majority of members (Criteria 1 and 2)
- Is simple for default members to understand (criterion 2)
- Is low cost and requires minimal change to existing processes (criterion 3)
- Does not expose short-term investors (i.e. first home buyers) to undue risk at the expense of simplicity and low administration costs (criterion 2)
- Invests in a larger proportion of growth assets, which supports development of New Zealand's capital markets (criterion 4, albeit that we do not believe this should be a goal in itself of this review)

A lifestages option will achieve similar improvements to the outcomes for default members in retirement, however the added complexity of offering this option will make it harder to understand and costlier to administer. A lifestages option is also worse for any first home buyers than a balanced or conservative option.

12. **What is your feedback on the level of value that KiwiSaver default members get for their fees? What are the costs that are within and outside a provider's control? To what extent are fees too high?**

Value for money is a combination of the net return received by investors and the service and communication they receive from the provider. Value for money is the measure of achievement of criterion 1. While fees may not have decreased to the level the Government has expected, the value for money that default members have received has varied across providers, and in some cases there is little correlation to the fees themselves.

A low fee scheme with less than average performance and limited engagement with default members to ensure they are invested in the most appropriate fund is not good value for money and will not result in the best outcome for members.

We agree that fees would be expected to decrease over time as the scale of default funds increases. We note that there is a fee review underway at present and the fees expressed in the table in the review paper will decrease.

Most of the current fees were set in 2014. The increase in size of default funds since 2014 has varied, with providers who have invested significantly in default member engagement potentially only seeing relatively modest growth in net asset value of the fund (due to the higher number of members who will have switched out of the fund), which has meant an equally modest reduction in other costs and expenses as a percentage of the net asset value of the fund. Management fees are, within reason, within the control of the provider, however other costs and expenses of the fund are less within the provider's control as they tend to be the expenses of outsourced partners such as the Supervisor of the fund, auditors, registry providers, fund accounting providers and custodians. Adding complexity (LifeStages) to the default KiwiSaver funds may result in higher costs been passed through to members. It is incumbent on providers to obtain the best price for these services, however providers do have limited control over these expenses, and these outsource providers are under no obligation to offer lower pricing for default members.

While we are cognisant of the general trend to reduce fees as a consequence of increased scale and new entrants to the market, and understand the role that fees play in the delivery of good customer outcomes, we also remain of the view that the lowest fees do not always represent the best value for money for investors or necessarily result in the best outcome for members.

Notwithstanding an expected downward trend over time, it is therefore hard to say that any fund's specific fees are too high without also looking at the service provided by the manager. This exercise is critical in the application process to be appointed (or reappointed as the case may be) as a default provider in 2021.

SuperRatings, an independent research house assesses 'value for money' in KiwiSaver (and has used the same criteria for assessing Australian schemes) using the following criteria: https://cdn.superratings.com.au/wp-content/uploads/2019/08/26061459/SR_Kiwi.pdf]

Assessment Module	Weighting %
Investment including: methodology, variety of investment options, performance and process	30.0
Fees & Charges including: cost, structure & transparency over various account balances	22.5
Advice including: member education and financial planning capabilities	15.0
Administration including: structure, service standards, on-line capabilities and adviser servicing	12.5
Governance including: service provider oversight, compliance processes & risk management	5.0
Qualitative Overlay including: overall benefits, flexibility & choice, transparency & usability	15.0
Total Assessment	**100**

The review paper asks whether the fees in default funds are too high compared to fees charged to institutional and wholesale investors. FF does not believe that is reasonable to compare the fees charged to institutional investors in wholesale funds with those charged in a default fund. Offering an appropriate level of engagement for default members requires significantly more resource and interaction than is required for an institutional member. In addition the administration costs are significantly higher for members of a KiwiSaver scheme compared to an institutional member.

13. **Is it a problem that fees disproportionately affect those on low income and under 18s? Why/why not?**

Fixed administration fees (as opposed to percentage based management fees) do have a greater impact on members with low balances. Members with low balances in default funds tend to be those not contributing, as by definition they were working at the time they were enrolled (albeit they may then leave work). Therefore we see this issue as being more about fees being disproportionately high for those who are not contributing. FF is of the view that this is not specifically a default review issue, and that the issue should be best addressed by re-directing existing government sponsored incentives towards members who are not contributing.

14. **If the government sets a fee, what should the fee be set at for the different investment mandate options? What considerations, methods or models could be used to determine the fee? What should be the balance between fixed and percentage fees?**

Put simply, low fees may result in a passively managed, low touch model with limited scope for personalised advice for members. Higher fees provides the potential for better engagement and therefore better outcomes for members.

Any assessment of fees should be made on a value for money basis.

15. **What fee arrangements would best promote the objectives of the review? What is your feedback on the fee options? Do you agree with the costs and benefits identified? Which option (or the status quo) do you prefer and why? What other approaches or models could be used to reduce fees?**

Option 2 – Two stage assessment for fees in procurement

FF view is that the fees proposed by each provider in the appointment process should be assessed against the value for money they will provide i.e. the net performance they are capable of providing and the level of service (including advice and communication) they give to default members in terms of engagement.

We do not see how fees can be assessed separately (i.e. proposed service to set a short list and then appointments made on the lowest fees from that list). The track record of the applicant, particularly in the case of the incumbent providers, should be taken into account. This will give evidence that the service proposed at the suggested fee level can actually be achieved. Providers may otherwise promise a level of service and then find that at the fees they have proposed they do not have the ability to meet those promises.

Submitting proposals with the fees submitted separately to enable the evaluation panel to focus on value for money is a similar methodology to the one used in the 2014 appointment process. We support any process that enables the evaluation panel to compare providers on a value for money basis rather than solely on fees.

Delivering value for money to default investors will help to achieve Criteria 1 and 3. Simply delivering low fees without achieving good outcomes for default investors may achieve Criteria 3 in the short term but would lead to longer term mistrust of the default process.

Analysis by Independent research company SuperRatings has shown that schemes that provided the highest net benefit outcomes for members were not necessarily those that charge the lowest fees. http://www.scoop.co.nz/stories/BU1611/S01106/superratings-releases-2017-kiwisaver-ratings.htm.

Option 3 – Percentage-based fees reduce as provider's funds under management increase

As the review paper notes there is the risk that providers may set their first tier deliberately high to retain margin as the higher funds under management tiers phase in, this could be managed in the evaluation process. Percentage-based fees reducing as fund under management increases is an efficient means to hard code fee reductions as scale increases.

Option 4 – No fees for under 18 year olds

Under 18 year olds must opt in to KiwiSaver and will therefore be making an active choice to join. We do not believe that the fees charged to under 18s is an issue relevant to default funds.

Option 5 – No fees for low balances

Charging no fees to low balances results in the remaining members in the fund subsidising those members. As mentioned, FF believes that the solution to this issue is to incentivise those members with low balances to contribute to the scheme. This can be achieved by redirecting government funded incentives (Government Contributions) to disadvantaged groups that are not contributing.

Option 6 – No annual fees

Annual fees are charged to recover the specific costs of administering the scheme. These costs include the fees charged by registry providers to process applications and withdrawals, process PIE tax payments/refunds, claim and for and apply the government contribution, maintain members' data, produce annual statements (including the calculation of the member's percentage based fees in dollar terms and the projection of a member's balance at age 65). Management fees have been set taking into account these costs being recovered by the annual charge, therefore the risk highlighted in the paper that other fees may be increased to compensate is genuine.

Summary

In terms of the above options that best meet the criteria, fees are only one factor in determining whether a member in a default fund has a good outcome.

Evaluating providers based purely on fees will not ensure any of the criteria of the review are achieved. Good outcomes for investors in retirement, and trust in KiwiSaver result from default funds that provide good value for money. As discussed the fees charged can only be kept to a minimum where the administration and compliance costs of the default funds are also kept to a minimum.

In this respect the criterion of low administration costs impacts the fees rather than the other way round.

The fees charged by the default funds have no direct material impact on the development of capital markets.

16. **How has the number of providers in the default market affected innovation, competition and value-for-money in the default market and in KiwiSaver more generally?**

The four new providers appointed in 2014 did not result in significant additional innovation in the funds. Innovation within KiwiSaver is fostered in the active choice funds rather than in the default funds, which are designed as a short-term, low cost parking space.

In FF's opinion, the current number of providers delivers a reasonable range when providers benchmark their offer against the competition, which does result in a competitive environment when it comes to the setting of fees.

17. **Do you agree with our assessment of the costs and benefits of the different approaches for the number of providers? Can you provide us with evidence that might help us quantify the size of the costs and benefits? What option do you prefer and why?**

The costs and benefits of appointing more or reducing the number of providers has been well summarised in the paper.

If a parking space methodology is maintained, as is FF's preference, in order to ensure effective engagement with default members to move them into funds that are more appropriate for their individual circumstances the number of default providers should be maintained or increased. It is likely that if the number of providers is decreased that the overall total resource dedicated to engaging default members will reduce. More providers would also make it easier to benchmark best practice in terms of how default members are engaged.

If a decision is made that the lowest cost model, with limited member engagement, is the most appropriate solution, then consolidating default funds and reducing the number of providers may increase the scale of those remaining providers and allow for a reduction in costs to default members. We do note that the increase in scale is dependent on what is done with the existing default members, and we do not support a reallocation of members to a decreased number of providers. The increased scale and any benefits that would accrue from reducing the number of providers are therefore not guaranteed to eventuate.

18. **If a "minimum requirements" approach is taken should this be on a period-based or rolling system, and why?**

Any minimum requirements approach should be taken on a period-based system. Particularly if a new provider is appointed there is considerable investment required to build the infrastructure to provide a good value for money proposition for default members. Without some certainty of time-frame would be providers may be discouraged from applying. In addition it would be confusing for members if default providers are able to come and go, which also supports a period-based approach.

19. **Are there higher investment costs for responsible investing? If so, how likely are these costs to contribute to lower net returns?**

Responsible investment is an extremely diverse and complex subject, and the impact of implementing responsible investing is very dependent on the definition used and the specific approach of providers.

The more nuanced a manager's responsible investing policy the higher the cost of providing that service is. Passively managed funds have their responsible investing policy dictated by the fund/ETF that they invest in. To introduce a bespoke policy requires a degree of active management, and active investment management carries a higher cost.

Introducing bespoke responsible investment policies to an otherwise passively managed investment mandate will increase costs. Whether that is offset by increased returns as a result of implementing the policy will depend on the approach taken and the skill of the manager.

20. **How does responsible investment affect returns? Does it increase or decrease returns, and to what extent?**

Stripping out the impact of responsible investing policies on investment returns is very challenging.

This is in part because responsible investing covers a wide gamut of activities. These activities range from strict industry exclusions to positive stock selection approaches based on ESG characteristics to activities like proxy voting and engagement policies.

While the body of academic research in this space is building it is unlikely that a truly definitive answer on this question is possible, partially because disentangling ESG specific factors from other correlated financial measures will prove impossibly challenging.

That said, we do have a number of thoughts that we believe are relevant:

1. Industry based exclusion screens – we are of the view that exclusion based screens, over the very long run, have a negligible effect on portfolio <u>risk adjusted</u> returns[1].

2. Behavioural screens – research from MSCI[2] provides weak support that screening out the worst offenders from corporate behaviour perspective may enhance portfolio risk adjusted returns.

3. Integration of ESG factors into active stock selection – a number of studies (Bansal et al[3], Giese et al[4]) show that changes in ESG ratings from external ratings agencies can go some way to explaining individual stock returns (alphas) relative to the market.

On balance, there is a sound argument supporting the inclusion of ESG factors in an actively managed portfolio, both in terms of avoiding companies with poor ESG track records and as a tool to assist in identifying those companies that might generate positive alpha through improved ESG performance.

There is no support that the application of a responsible investing policy in a passively managed portfolio will have a meaningful impact, positive or negative, on returns. That said some cognisance of factor exposures might need to be taken to ensure passively managed ESG portfolios don't introduce biases to portfolio construction adding relative risk (tracking error), for no return.

[1]According to some of the literature, traditionally excluded industries like alcohol or cigarettes have enjoyed higher historical returns than the broad market. It had been speculated that because these stocks were excluded by many investors, they were systematically underpriced, leading to higher ex post returns. Faboozi's et al ("Sin Stocks Revisited: Resolving the Sin Stock Anomaly," Blitz, Faboozi) in a paper published in 2017 postulated that the outperformance of typically excluded stocks can be explained by the two quality factors, profitability and investment, in the Fama French asset pricing model. We concur with this view suggesting that there is no systematic "free lunch" here. Furthermore it means that investors who are uncomfortable holding excluded stocks but don't want to miss out on outperformance can proxy them by weighting their portfolios towards the Fama-French factors including profitability and investment.

[2]"Have Corporate Controversies helped or hurt performance?" Lee, Nagy & Eastman, MSCI 2017

[3]"Socially Responsible Investing: Good Is Good, Bad is Bad." Bansal, Wu, Yaron, 2016

[4] "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance" Giese, Lee, Melas, Nagy, Nishikawa

21. **Should the default provider arrangements be used to achieve objectives in relation to responsible investment?**

FF believes that a member who is genuinely concerned with responsible investment will engage with their provider, and can then make an informed decision as to whether the fund (or the provider) remains appropriate for them.

Responsible investment should therefore not be a driving factor in the review of the default fund process. Responsible investment forms part of the value for money proposition for a default provider (or any other investment manager) in that they offer it or don't and their fees will reflect that. We believe that this is a feature of a provider's default fund that may form part of the evaluation of their application to provide a default fund, however as mentioned in the paper, members have a choice to switch from the default fund to a more responsibly managed fund if they choose.

22. **Would default members want their funds to be invested more responsibly? If yes, is the same true if responsible investment means potentially limiting future returns?**

Some will, some won't. It is impossible to know until the investor has been engaged with.

23. **To what extent is it a problem that default members do not have information about whether their investments are made responsibly? Would having more information make a difference to the behaviour of default members? What alternatives might there be to more/standardised information to address responsible investment concerns?**

FF would welcome guidance being given to providers on the information contained within and the format of responsible investment policies in an attempt to make it easier for members to compare the policies of providers. Default providers should certainly meet industry best practice when it comes to disclosing their responsible investment policy.

24. **Do providers' current responsible investment exclusions meet what default members would expect?**

As an active manager, FF has the ability to formulate a responsible investment policy that we believe appeals to our member base (e.g. thermal coal exclusion). This policy is a living document and can be amended to meet the demands of our member base. Not all providers are able to tailor their responsible investing policy, and therefore may or may not be meeting investor's expectations.

25. **If this option is adopted, what industries or sectors should be excluded? Should the government instead adopt an international exclusion standard or certification regime? What would be the costs associated with an exclusion or certification regime?**

FF supports the proposal that default providers sign up to the UNPRI.

26. **If this option is adopted, what form should standard disclosure take? For example, should all providers be required to provide a statement listing all excluded companies by sector?**

While FF supports option 1 above, a standardised form of disclosure is the next best option. Members should be able to easily compare the policies of different providers.

27. **What is your feedback on our assessment of the costs and benefits of the responsible investment options identified? Which option (or the status quo) do you prefer and why?**

Option 1, or a variation of option 1 could lead to increased costs for providers that would otherwise use a passive approach to investing. Whether this leads to a better or worse financial position then depends on the skill of the manager. A fund that invests responsibly but that provides good value for money for investors will meet all of the criteria that are important to investors i.e. financial outcomes in retirement will improve and trust in KiwiSaver will increase as a result. If providers who implement option 1 merely increase their costs or provision without offsetting those costs with increased performance then neither criteria will be improved. The manager's ability to deliver on this should be considered in the evaluation process.

If option 2 simply highlights questionable investment policy on the part of default providers trust in KiwiSaver may be eroded. This was proven to be the case in 2016 when it was reported that some KiwiSaver schemes were invested in companies that produced cluster munitions. It could be expected that by highlighting the responsible investing policies of providers that they will voluntarily improve their performance in this area. However some providers may not have the capability to do so.

28. **What limitations or problems exist in relation to New Zealand's capital markets? How could the settings for KiwiSaver default providers be amended to support the development of New Zealand's capital markets? How do the liquidity and pricing rules affect default provider investment in alternative New Zealand investments?**

As major participants in New Zealand's capital markets FF is very interested in promoting both the success of the market place and also in seeing New Zealand businesses succeed on the global stage.

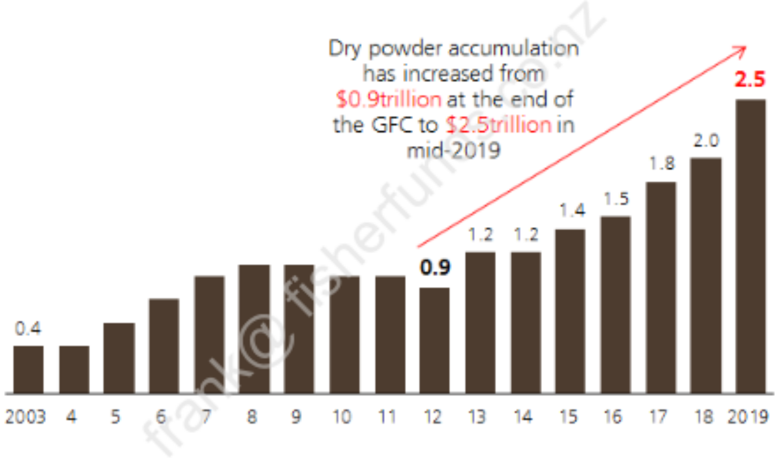
While a comprehensive discussion on the health of New Zealand's capital markets is well beyond the scope of this paper we would not support specific initiatives within KiwiSaver default options designed to support New Zealand capital markets. In particular we are of the view that decisions to direct capital away from market determined destinations are likely to result in sub-optimal returns. This would, in our view, likely inhibit long run wealth accumulation by KiwiSaver members and compromise the primary role of KiwiSaver, which is to support building Kiwis' retirement savings.

Despite that we also have doubts that the health of New Zealand's capital markets would be enhanced by greater availability of capital. Healthy capital markets require two things. The first is availability of capital and expertise to aid in the growth of innovative businesses. The second element is the formation of those businesses.

While there is a chicken and egg problem – businesses need capital, capital providers need good businesses to invest in, we are of the view that, at least as things currently stand, it is the availability of good investment opportunities that is the constraint on the industry. The chart below, from investment Bank UBS, makes this point well. There has been a material allocation of capital to private equity/venture capital around the World. If there is not a commensurate change in innovation and company creation then private market participants will just bid up prices for existing assets driving returns down. This neither helps KiwiSaver members nor does it help New Zealand capital markets.

While the data presented in the chart is global the anecdotal evidence we have is that there is sufficient interest in this market from both global and domestic capital providers that New Zealand firms needing to access growth capital are not facing capital constraints.

Figure 2: Global private capital dry powder hits $2.5 trillion in 2019: What will happen to this uncommitted capital?



Source: 2019 Preqin Global Private Equity and Venture Capital Report (reproduced with permission), UBS

To the extent there is a role for policy makers in capital market development we suspect policies that foster innovation and reducing barriers to company formation rather than increasing availability of capital would be a better focus.

We are therefore of the opinion that the criterion of developing New Zealand's capital markets be taken out of the scope of this review.

29. **How could the default settings be used to develop New Zealand's capital markets? What parts of New Zealand's capital markets are most in need of development?**

Development of New Zealand's capital markets should be removed from the scope of the review.

30. **Should default funds take an active role in helping develop the New Zealand capital markets? Would this support the purpose of the KiwiSaver Act and the accumulation of retirement savings by default members?**

Development of New Zealand's capital markets should be removed from the scope of the review.

31. **To what extent is the management of default funds currently located in New Zealand or carried out by New Zealand entities?**

Development of New Zealand's capital markets should be removed from the scope of the review.

32. **What is your feedback on a New Zealand-based management option? If this option is adopted, which part of the investment process do you think should be based in New Zealand to help develop New Zealand's capital markets? What type of mechanism would best give effect to this requirement?**

Development of New Zealand's capital markets should be removed from the scope of the review.

33. **What is your feedback on a targeted investment requirement? If the option is adopted, what market should be targeted by an investment requirement (eg early stage companies)?**

Development of New Zealand's capital markets should be removed from the scope of the review.

34. **What is your feedback on our assessment of the costs and benefits of the options to develop New Zealand's capital markets? Which option (or the status quo) is best and why? Is there another option that would be better than the options discussed?**

Development of New Zealand's capital markets should be removed from the scope of the review.

35. **What is your feedback on the problem definition for the transfer of members? What other problems are there in relation to the transfer of members?**

We see some significant issues with the potential of a mass transfer of members, with little benefit gained. Transferring default members to a new provider does not in itself solve any of the issues identified, it merely moves the problem from one provider to another.

Specific issues that could arise are as follows:

It should not be assumed that just because a default member has not been recorded as making an active choice that they have *not* made a conscious and rational decision to remain in that fund and with their existing provider. They may just not have contacted their provider to let them know. Unilaterally transferring members to a fund with a different manager and investment style may not be in a member's best interests and could reduce confidence in KiwiSaver. In addition, and particularly in the first decade of KiwiSaver, some providers may have made contact with default members who then made an active choice but were not recorded as doing so at the time. FF has a significant number of members in this position.

For this reason, FF is of the view that members in the existing default funds should remain in that particular fund. Any change to the investment mandate for default funds, e.g. to a balanced option, should only apply to default members who are appointed post the implementation of such a change.

If a provider is not reappointed as a default provider the existing protections given to their default members may no longer be as robust, however it does not naturally follow that the manager will alter the investment mandate, service levels, or fees. Managers of managed investment schemes have obligations to not make changes to funds that would be materially detrimental to investors without their consent. Managers would not therefore be able to make changes to the funds that would negatively impact members in the fund.

MBIE could ensure this was the case by allowing default providers that were not reappointed to retain their members on the condition that no adverse changes were made to the fund. The scheme Supervisor could monitor the fund to ensure this was the case.

A transfer of members on a large scale involving multiple providers between schemes would be a difficult process to complete efficiently and without risk of error. Providers, registry providers, custodians, and Inland Revenue will all have significant issues to overcome to effect transfers. While risks can be mitigated, it does pose a threat to confidence in KiwiSaver if the process is not completed without error.

We also note that while new providers could benefit in terms of scale from receiving an allocation of existing default providers, given their default fund will be available to non-default members there is no reason that a new default provider will not achieve scale in their fund, or potentially already have scale if they use an existing fund. If a new provider's fund is not capable of achieving this scale it could be argued that the fund is not achieving the goal of providing innovation and competition to the market.

36. **If default members are transferred from providers with more members to providers with fewer members, how should we decide which members are transferred?**

We do not support a transfer of default members. As mentioned this simply moves the existing problem to another provider.

However if a transfer does take place, given the members were initially allocated to their existing provider on a random basis it would be appropriate to allocate them to any new provider on a random basis. If the Government chooses which members are transferred to which providers there is the risk that if any of the new providers underperform the others that those members have been disadvantaged by a conscious decision of the Government.

Whether this is achieved by reallocating all default members, or by just reallocating from those with more than the average to those with less it should be done on a random basis.

Taking from those providers with more to allocate to those with less would result in fewer transfers overall and while still subject to considerable operational risk, would mitigate this somewhat.

37. **If transfer option 1 or 2 were adopted, how should default members be given a choice to remain with their current provider for this option?**

MBIE may need to take advice on this issue. As we have pointed out, while members may have been randomly allocated to a default provider, it cannot be assumed that they have not made a decision that the fund and provider are appropriate for them. Transferring these members without their consent could be problematic, particularly if the fund they are transferred to then underperforms the fund they were transferred from. This would undermine confidence in KiwiSaver.

38. **What is your feedback on the transfer options and the costs and benefits of the options? Which option (or not transferring at all) do you prefer and why? Is there another better option we have not considered?**

Transferring default members does not address the fundamental issues with the default fund. FF supports option 3 where existing default providers retain their default members irrespective of whether they retain their default status. In our opinion the risk of members being transferred potentially against their will and the risk of operational errors in the transfer process eroding confidence in KiwiSaver outweigh any perceived benefit, particularly if the Government mandates ongoing protection of the members that remain in those funds.

39. **What factors should the review consider in deciding transition timeframes?**

The paper summarises the issues of a mass transfer of members well. We note that the issues are magnified if the option is taken to reallocate all default members amongst the new and reappointed default schemes, as this option will require all of the transfers to be undertaken at the same time. If the reallocation option is to take members from schemes with more than the new average to give to those with less than the new average, then the transfer could be staggered and undertaken on a scheme by scheme basis for those schemes that were required to transfer members out.

40. **Should active defaults be considered default members for the purposes of transfers? How should active defaults be treated and notified of any changes to default provider settings?**

Active defaults are no longer default members. They are no different to a member who initially chose to invest in the default fund. If their provider is not reappointed and the fund they are invested in is therefore no longer a default fund then they should be notified of this fact (as with any other material change to their fund), however they should not be automatically transferred to another fund or provider. This would be a breach of the contract they have entered into with their existing provider.

41. **What is your feedback on the member education requirements that default providers should have in relation to default members, and how these should be enforced in the instruments of appointment?**

FF supports the introduction of an obligation for providers to attempt to call every new default member. Our experience is that an outbound call programme achieves significantly better results than any other kind of campaign. The timeframe for this initial call to be made should be mandated within 8 weeks of the member's contact details being provided by Inland Revenue, and a minimum of 3 attempts should be made to call the member. It should also be an obligation for the provider to attempt to contact the member via email, text message and any other electronic means available to the provider within this period.

Ongoing campaigns to reach existing default members should also be obligatory, and reporting on the initial contact programme and ongoing campaigns would be mandatory.

42. **What is your feedback on the other requirements that should apply to default members?**

	Assessment criteria and summary of assessment criteria	Weighting 2014	FF suggested weighting 2021
Organisational background (15% weighting in 2014) Fisher Funds suggested 5% - all now covered by MIS license	Organisational detail	N/a	
	Summary of the provider's business history	5%	5%
	Financial strength, soundness and stability of their organisation	20%	20%
	History and credibility: how the provider has helped grow personal andsuperannuation savings, has supported and promoted KiwiSaver, and how their appointment will maintain and promote confidence in KiwiSaver.	15%	15%
	Financial information: risk management and control systems are robust and fit for purpose	15%	15%
	Compliance and regulatory: provider not subject to regulatory or legal proceedings that bring into question the efficacy of their compliance systems or their suitability to provide a default	15%	15%
	Corporate structure and governance: a strong and well-articulated corporate governance regime.	10%	10%
	Portfolio investment entity: that the provider is a portfolio investment entity	N/a	N/a
	Trans-Tasman portability: processes for trans-Tasman portability	5%	5%
	Anti-money laundering: a robust and well-documented anti-money laundering compliance regime	5%	5%
	Independent statutory (corporate trustee company): Provider is subject to effective oversight by a licenced trustee with the necessary personnel, resources and supervision regime	10%	10%
Organisational capability (15%) Fisher Funds Suggested 15%	Organisational experience and knowledge: capability to effectively operate a default KiwiSaver scheme, including an experienced and qualified senior management team	60%	60%
	Implementation: resources and plans are in place to accept default members and comply with the default provider requirements	40%	40%
Administration capability (15%) Fisher Funds Suggested 40%	Resourcing: necessary resources to handle a large influx of default members	20%	10%
	Reporting capability	10%	5%
	Systems and processing: respondents should have all the necessary systems in place to reliably administer a KiwiSaver default scheme	35%	20%
	Client service: respondents should be able to meet and exceed the minimum client service standards. The obligation to contact, educate and switch default members should be added to this criteria. The additional 10% weighting to member education from 2014 can be incorporated in this section.	35%	65%
Investment capability (15%) Fisher Funds Suggested 30%	Default investment product, objectives and risk profile: default investment product aligns with the investment mandate decided by Government. Respondents should have a clear performance strategy, including assessment against relevant benchmarks, and should propose a risk strategy that is consistent with the aim of promoting public confidence in KiwiSaver	40%	25%
	Asset structures: Appropriate diversification in investment structure. The Statement of Investment Policies and Objectives should be appropriate for a default investment product	10%	10%
	Investment diversification and risk control: A detailed and convincing strategy for managing risks	25%	25%
	Investment operations: robust systems and processes to manage operational investment risks. This should include using a custodian that has appropriate controls, systems and procedures to protect client assets	15%	15%
	Other non-default products: A broad range of non-default investment products of varying risk profiles that are suitable to different groups of KiwiSaver members, with competitive fees	10%	25%
Fees (30%) Fisher Funds suggested 10%	We would suggest that fees be renamed value for money and assessed as such.	n/a	n/a

43. **Any other feedback?**

No