

Feedback form — Consultation paper: Proposed guidance on KiwiSaver fees and value for money

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at consultation@fma.govt.nz with 'Proposed guidance on KiwiSaver fees and value for money: [your organisation's name]' in the subject line. Thank you.
Submissions close on Monday 14 December 2020.

Date: _____ Number of pages: _____
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 Company or entity: New Zealand Shareholders Association Inc
 Organisation type: Membership
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Question number	Response
1.	<p>We agree that the factors outlined to determine whether KiwiSaver fees are unreasonable are appropriate.</p> <p>However, we also believe that other factors should be considered when examining different types of registered schemes, such as non-KiwiSaver fund or Managed Investment Schemes (including those associated with NZX-listed entities).</p> <p>In this context, we note the FMA's Guidance Note relating to MIS issued in September 2014 contains little guidance on fees or fee structure.</p>
2.	<p>We consider that there may be further economies of scale relating to the number of funds managed by a single provider (ie, an additional economy of scale not just related to total funds under management in an individual fund).</p> <p>When examining different types of registered schemes, we note a significant inconsistency in methodologies between different funds and/or MIS. This may create confusion amongst investors or hinder effective comparison.</p> <p>An additional factor that may be considered in the case of MIS would be the "alternative management cost"; ie, the next best alternative compared with an externally managed arrangement.</p> <p>For example, the former Kiwi Income Property Trust (KIP) unitholders chose to insource their management contract in 2014, at a cost of \$74.5m, forming Kiwi Property Group (KPG). This implies that the benefits accruing from a lower internal management cost over time amount to at least that amount.</p>
3.	<p>We agree with the examples where fees may be considered unreasonable.</p>
4.	<p>We are not aware of any examples where fees may be considered unreasonable – although a lack of consistency amongst MIS fees and complexity of fee structures can make this difficult to assess.</p> <p>For example, Northwest Healthcare Properties Mgmt changed their fee structure related to the Vital Healthcare Property Trust in early 2019, a proposal ultimately accepted by unitholders. The management fee changed from a %age of Gross Asset Value to a tiered fee coupled with a complex schedule of service-based fees.</p> <p>01.04.19 Vital Fee & Governance & Chair Announcement Final.pdf (vitalhealthcareproperty.co.nz)</p>

	While this appears to have created some value for unitholders, it was not initially clear as to whether this would be the case. We also note that the change in fee structure was tied to more effective governance outcomes for unitholders.
5.	<p>We believe this guidance should help managers and supervisors understand their obligations not to charge unreasonable fees.</p> <p>For non-KiwiSaver funds or MIS, effective guidance as to fee structure will serve to encourage consistency between providers and remind external managers of their obligations to unitholders.</p>
6.	We do not have any examples of reasonable or unreasonable fees.
7.	<p>Other Matters:</p> <ul style="list-style-type: none"> NZSA believes that clear guidelines on fee structures and ‘reasonableness’ should be provided to all fund managers – not just KiwiSaver. This recognises that investors maintain a diverse portfolio of investment products, including KiwiSaver, MIS and Managed Funds. NZSA believes percentage and well as dollar fees should be disclosed to ensure transparency and easy comparison to other similar funds. NZSA believes that membership fees should not be charged. For KiwiSaver, there should only be one fee based on a percentage of funds under management. Funds are now of a size where membership fees cannot be justified. We also note that the application of performance-based fees can be confusing for investors, especially when the performance is relative to a benchmark. If the benchmark lost money and the investor’s fund also lost (less) money, this can result in the payment of a performance fee. Fund Managers should have to provide every new member to a fund a schedule prepared by FMA of all the current fees for each fund of that type. This will ensure new members are aware of comparable funds fees. <i>We are aware of industry reluctance, seemingly relating to definition issues of different fund types. This may be overcome with the provision of appropriate regulatory support or guidelines.</i> Fund Managers should have to provide members the same schedule annually when they send details of the members account for the previous year. This will ensure members are aware of comparable funds fees. NZSA shares the concern of the FMA that as total KiwiSaver funds under management have increased there has been no significant reduction in fees. It would appear that there has been no application of competitive pressure. NZSA is concerned that fees charged do not reflect the actual work undertaken as regards managing a fund. For example, we would expect that the fees for managing a passive fund to be significantly lower than for managing an active fund and in both cases significantly lower than the funds currently charged by many funds. NZSA would also like to see some standards for what constitutes an ‘active fund’ – to avoid the situation where a fund claims it is active, but is acting more in line with passive investment strategies.
Feedback summary – if you wish to highlight anything in particular	
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Thank you for your feedback – we appreciate your time and input.	