



To: Hon Grant Robertson, Minister of Finance

## National Interest Assessment Report: Pepper New Zealand Limited

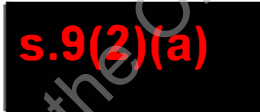
### Purpose

This report seeks your decision about whether the proposed investment is contrary to the national interest of New Zealand under the Overseas Investment Act 2005 (the **Act**).

Date	09/11/2023
Briefing number	BRF 24-192
Case number	202300631
Investor	Pepper New Zealand Limited
Pathway the assessment has arisen under	<input checked="" type="checkbox"/> Mandatory assessment via consent pathway <input type="checkbox"/> Discretionary call-in via consent pathway

### Assessment

This report has been prepared by the Toitū Te Whenua, Land Information New Zealand (LINZ) with advice from the Standing Committee for Overseas Investment. We do not consider the proposed investment is contrary to New Zealand's national interest. We recommend that you seek further advice from officials if you disagree.

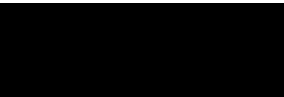
	Signature	Date
Anneke Turton  Leader Assessment – Toitū te Whenua Land Information New Zealand		9/11/23

### Action Required

1. Review the national interest assessment report.
2. Determine if the proposed investment is contrary to the national interest of New Zealand.
3. Complete the **Decision** section on page 3.
4. Return the decision to LINZ by **15/11/2023** (noting that this due date is based on the Investor's commercial deadline of 17/11/2023).

### LINZ Contacts

Name	Position	Contact	First contact
Anneke Turton	Leader Assessment – Toitū te Whenua Land Information New Zealand	04 830 2513	<input checked="" type="checkbox"/>



## Executive Summary

1. Pepper New Zealand Limited (**Investor**) is a non-bank lender that operates as an alternative home loan provider in the New Zealand market. It is an indirect wholly owned subsidiary of Pepper Money Limited which is listed on the Australian Securities Exchange.
2. The Investor seeks consent under the Act to acquire the book of mortgage, home loan and other similar loan facilities to New Zealand customers of the wealth and personal banking business of The Hongkong and Shanghai Banking Corporation Limited (**Substantive Application**).
3. This application has a mandatory national interest assessment under section 20A due to ownership interests in the Investor by non-New Zealand government entities located in

**s.9(2)(b)(ii)**

4. We consider the risk of the proposed investment being contrary to New Zealand's national interest is **Low** and that the transaction is likely to have a neutral impact on New Zealand. Accordingly, we recommend the following action be taken:

Recommended Decision	Conditions/Notes	Rationale
Not contrary to New Zealand's national interest	None	No access and control provided to the non-New Zealand government beneficial ownership of the Investor and no broader national interest risks identified.

5. Once you have made your decision, please complete the decision section on the next page and return the document to LINZ.
6. Our more detailed assessment is provided from page 4.
7. If you agree that no conditions are required to manage national interest risks, the proposed investment would be managed under the standard conditions set out in the Proposed Consent Decision included in Attachment 2.

## Caretaker Decision Making

8. We acknowledge we are submitting this to you during a caretaker period of Government. LINZ assesses that this decision can be made during the caretaker period because:
  - a. The decision is not significant or potentially controversial,
  - b. The transaction is assessed as low risk to New Zealand's national interest,
  - c. Further regulatory delays will have undue commercial impact for both the Investor and the Vendor, and
  - d. Further delaying regulatory approvals may cause economic harm to the New Zealand customers of the Vendor.
9. It is within your discretion to determine whether to make this decision during the caretaker period.





## Decision

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I have reviewed Pepper New Zealand Limited's (202300631) transaction of national interest and have decided:

- a. that the transaction is **not contrary** to New Zealand's national interest and refer the transaction back to LINZ (as the delegated decision-maker for the Substantive Application) with no further comments.

YES  NO

OR

- b. that the transaction is **not contrary** to New Zealand's national interest, but I consider that there are risks that need to be mitigated. I ask the decision-maker under the Act to **consider imposing conditions** to mitigate the risk of harm to New Zealand's national interest.

YES  /  NO

OR

- c. that the transaction **may be contrary** to New Zealand's national interest and I request advice from officials before I can make a decision.

YES  /  NO

Hon Grant Robertson  
**Minister of Finance**

Date: 10 / 11 / 23

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## Path to National Interest Assessment

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10. The assessment of this transaction arose from the Substantive Application for consent to acquire the book of mortgage, home loan and other similar loan facilities to customers of the wealth and personal banking business of The Hongkong and Shanghai Banking Corporation Limited (**Assets**) being significant business assets under the Act.
11. The decision whether to grant consent to this transaction is delegated to LINZ as it relates to significant business assets<sup>1</sup> with the asset value exceeding NZD100 million.
12. LINZ determined that the investment is a transaction of national interest under section 20A of the Act because the investment involves non-New Zealand government investors.<sup>2</sup> The non-New Zealand government investors that triggered a mandatory national interest test are **s.9(2)(b)(ii)**
13. The next step is for you to consider whether the application is contrary to New Zealand's national interest. If you consider that the investment is not contrary to New Zealand's national interest, it will be managed under the overseas investment regime according to the standard conditions contained in the proposed Consent Decision (**Attachment 1**).
14. LINZ prepared this report with advice from the Standing Committee for Overseas Investment, a cross-government agency group of advisors.

## Context for the Investment

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### The investment

15. The Investor is seeking consent under the Act to acquire the Assets from The Hongkong and Shanghai Banking Corporation Limited (**Vendor**). This is estimated to be approximately **s.9(2)(b)(ii)** New Zealand retail borrowings being approximately 0.5% of the total market for residential mortgage loans in New Zealand and valued at approximately NZD1.8 billion.<sup>3</sup>
16. The Vendor announced, in June 2023, its exit from the New Zealand's wealth and personal banking market. The Vendor has operated in New Zealand since 1987, being the first overseas bank to be granted a banking licence in New Zealand. It provides banking services to New Zealanders in three sectors – commercial banking; wealth and personal banking; and global banking and markets.

### Investor background, ownership, and control

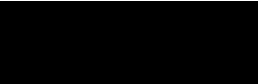
17. The Investor is a non-bank lender that operates as an alternative home loan provider in the New Zealand market and is an indirect wholly owned subsidiary of Pepper Money Limited which is listed on the Australian Securities Exchange.
18. The proposed investment represents an opportunity for the Investor to achieve greater diversification of revenue streams.

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<sup>1</sup> Designation and Delegation Letter, 17 October 2018, Table A, Row A.

<sup>2</sup> As defined in section 6 of the Act.

<sup>3</sup> The Assets include interests, as mortgagee, in land. The Investor expects that given the size and retail nature of the Vendor's loan portfolio, a large proportion of these interests will be sensitive land, in particular residential land. However, this is exempt from the requirement to obtain consent under section 12 of the Act because of regulation 42(1)(i) of the Overseas Investment Regulations 2005 which states "two or more permitted security arrangements that are acquired together as a portfolio or bundle" does not require consent.



19. The Investor is a wholly owned subsidiary of Pepper Europe Holdings Pty Limited which is in turn a wholly owned subsidiary of Pepper Money Limited.
20. Pepper Money Limited is publicly traded on the Australian Securities Exchange. 60.56% of shares are held by Pepper Group ANZ Holdco Limited (**Pepper Group ANZ**). The remaining 39.44% shares are held by other investors and management of Pepper Money Limited.
21. Pepper Group ANZ is a wholly owned subsidiary of Pepper Global Midco Limited which is a wholly owned subsidiary of Pepper Global Topco Limited.
22. The most significant ultimate owner of Pepper Group ANZ is Mr Seumas Dawes<sup>4</sup>, who holds **s.9(2)(a)**. The remaining shareholding is widely held, with two thirds of the ultimate ownership being managed by KCA Funds.<sup>5</sup> The only other fund manager involved in this transaction is Pepper Global Limited who manages the remaining 12% of ultimate ownership.
23. The Investor is controlled by its director and the directors of Pepper Money Limited.
24. A diagram showing the ownership of the Investor is shown below.

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<sup>4</sup> **s.9(2)(a)**

<sup>5</sup> Funds, clients and accounts managed, advised or sub-advised by KKR Credit Advisors (US) LLS or its affiliates.



S.9(2)(b)(ii)

Released under the Official Information Act 1982

## Other investments in New Zealand

25. In 2011, Pepper Money Limited obtained consent under the Overseas Investment Act 2005 to acquire approximately AU\$5.1 billion of home loans in Australia and New Zealand from GE Capital. Included in this acquisition was approximately AU\$800 million of New Zealand mortgages.<sup>6</sup>
26. In 2012, Pepper Money Limited also acquired consent under the Act for the acquisition of a residential mortgage portfolio and the repurchase, from time to time, of mortgage assets by the Pepper NZ Mortgage Warehouse Trust 2011-1 in the event of a repurchase transaction.<sup>7</sup>
27. Since 2019, the Investor has also acquired property interests pursuant to new loans to customers in New Zealand in the ordinary course of its business. During January to June in 2023, Pepper Money Limited has provided financial services to 43,165 customers in Australia and New Zealand.
28. Across these investments, since 2011, Pepper Money Limited has provided financial services to 6,140 customers in New Zealand.

## Market and/or industry context

29. The Reserve Bank of New Zealand reported that the housing lending stock in New Zealand increased by NZD968 million (0.3%) in August 2023, which is the second largest monthly increase in 2023. In the same period, personal customer lending stock increased by NZD13 million (0.1%). The annual growth rate increased further from 5.1% to 5.4% and remains the highest among major lending sectors.<sup>8</sup>
30. In June 2023, Cabinet reported that the banking sector is dominated by the four major banks<sup>9</sup> which hold 85% of bank loans and 90% share of total bank deposits in New Zealand. Subsequently, the Commerce Commission has launched an enquiry to focus on examining barriers to new competitors entering or expanding in the market, the introduction of innovative products and services and consumers' ability to switch between banks. The enquiry will be completed by the end of August 2024.
31. The ultimate ownership of the Investor does not overlap with any of the four major banks.<sup>10</sup>

## Reserve Bank Clearance

32. We have been advised that this transaction does not require clearance from the Reserve Bank of New Zealand although the Vendor has notified the Reserve Bank of this transaction.
33. Clearance is not required because the transaction relates to the disposal of assets by a New Zealand registered bank to a non-bank lender that is not regulated by the Reserve Bank of New Zealand. The disposal of this nature does not require prior approval or non-objection by the Reserve Bank to either the Vendor or the Investor.

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<sup>6</sup> Case 201110083.

<sup>7</sup> Case 201220040.

<sup>8</sup> <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/statistics/series/c/c5/sector-lending-summary-banks-and-nblis-august-2023.pdf>

<sup>9</sup> Australian-owned banks: ANZ, Westpac, BNZ and ASB

<sup>10</sup> As above.

[REDACTED]

34. There are situations where registered banks are required to seek the Reserve Bank's prior non-objection under the Reserve Bank's banking standards (**BS**). These include an application by a registered bank to acquire an entity or assets that hits a threshold of >25% of tier 1 capital or >25% of its assets base of acquiring registered bank (BS15). However, we have been advised that this transaction is not caught by these banking standards.

35. **s.9(2)(b)(ii)**

## National Interest Assessment

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36. This section sets out our assessment of whether the proposed transaction would likely be contrary to New Zealand's national interest as set out in section 20C(1) of the Act.

37. The national interest, and what would be contrary to it, is not defined in the Act. Instead, the Act grants the responsible Minister broad discretion to decide whether proposed investments could be contrary to the national interest on a case-by-case basis.

38. In undertaking the national interest assessment, we have been informed by the following:<sup>11</sup>

- the *Foreign Investment Policy and National Interest Guidance*<sup>12</sup> (the **Guidance Note**) which sets out factors generally considered when determining whether an investment is contrary to New Zealand's national interest; and
- consultation and input from relevant partner agencies.<sup>13</sup>

39. We consider one of the factors set out in the Guidance Note to be relevant to the proposed investment: non-New Zealand government investor. We discuss this factor below.

40. Any consent granted to the Substantive Application will have conditions requiring the Investor to inform LINZ of when the Investment is complete; ensure that the individuals with control are not unsuitable; and to advise LINZ about any changes that materially affect the Investor and/or any individuals with control. These conditions ensure that LINZ always has information about the identity and suitability of the people in charge of the Investor.

### Other factors: non-New Zealand government investor

41. We consider the risk posed by the non-New Zealand government investors involved in this transaction as **Low**.

42. The Investor is partly ultimately owned by non-New Zealand government entities linked to both the USA and the PRC. Specifically, pension funds administered by the United States of America and two PRC State-owned Enterprises.

#### *Access and Control*

43. The involvement of non-New Zealand government investors will not have a detrimental impact on New Zealand as the investment is driven by commercial goals as opposed to strategic intent to acquire control over the New Zealand mortgage market from the state and jurisdiction they operate out of.

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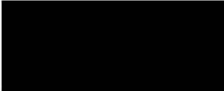
<sup>11</sup> As set out in the Supplementary Ministerial Directive letter dated 8 June 2020.

<sup>12</sup> Guidance Note, June 2021.

<sup>13</sup> Such as those agencies listed in section 126 of the Act.

[REDACTED]





44. It is assessed that the non-New Zealand government investors are passive investors and they do not have the necessary power to control or influence the commercial direction of the Investor.

*Beneficial Interest of PRC's non-New Zealand Government Investors*

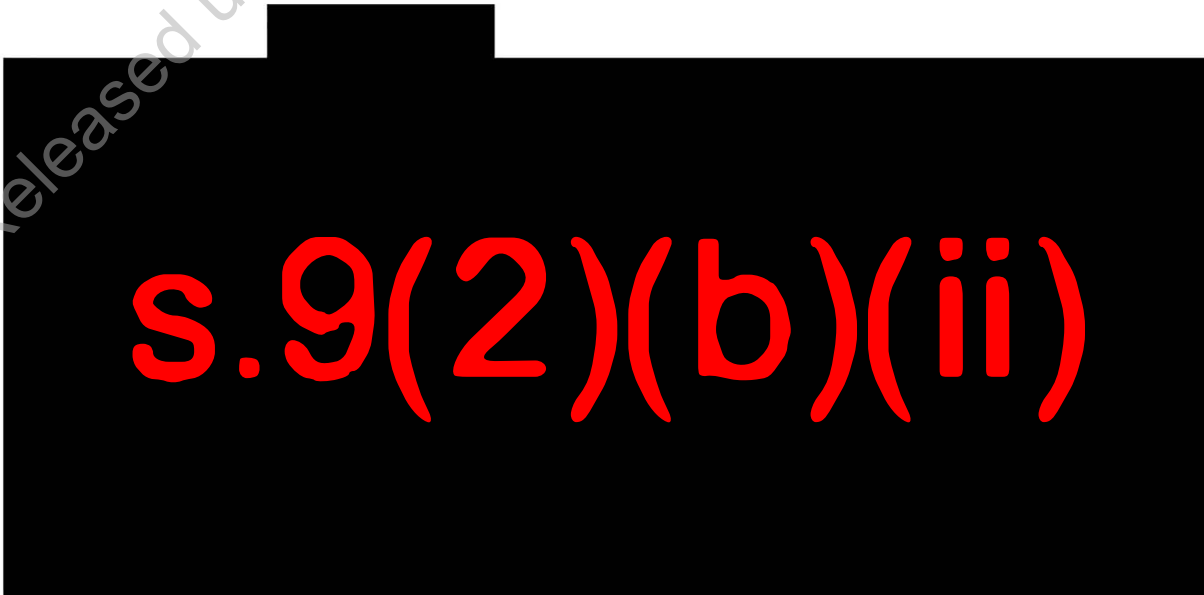
- 45. The upstream ownership of the Investor includes a 2.7% indirect interest held by Harvest Investment Corporation and a 4.19% indirect interest held by China Investment Corporation.
- 46. They are both sovereign wealth funds located in the PRC. China Investment Corporation is China's largest sovereign wealth fund and was established to diversify China's foreign exchange holdings.
- 47. LINZ and the Standing Committee have not identified any risks relating to access or control provided by this beneficial ownership linked to the PRC.

*PRC's Non-New Zealand Government Involvement in the Vendor*

- 48. The Vendor and its subsidiaries are owned by HSBC Holdings PLC. It is listed on the London, Hong Kong, New York and Bermuda stock exchanges with shares being held by approximately 180,000 shareholders in 126 countries and territories. While widely held with no one investor holding greater than 8.5% ownership, it is almost certain that the Vendor has a small amount of PRC government ownership.
- 49. It is likely that this dispersed government of China beneficial ownership is equal or greater than the 6.99% equivalent ownership of the Investor. Further, HSBC Holdings PLC are a minority shareholder (19%) in Bank of Communications Company Limited, which is 27% owned by the PRC's Ministry of Finance.

*Beneficial Interest of USA's non-New Zealand Government Investors*

- 50. There are four US pension funds indirectly involved in this investment. All of which are passive investors contributing to a commercially managed fund. It is assessed that due to the indirect and passive nature of this ownership, the non-New Zealand government investors do not have any control over the Investor and its commercial operations.
- 51. Despite having 46.6% ownership interest in a limited partnership that manages 4.4% of this transaction, the USA non-New Zealand government investors will not gain access and control to the operation of the Investor because of the indirect and passive nature of



**s.9(2)(b)(ii)**



s.6(a)

53.

*Asset Managers*

54. LINZ and the Standing Committee on Overseas Investment are satisfied that KKR Advisors, as professional manager of investment portfolios makes its investment decisions independently.

*Non-New Zealand government investor assessment*

Guidance Note factors	Assessment	
Will the Investor operate on an arm's length and commercial basis from the USA Government and PRC Government?	Yes, we are satisfied that the Investor operates on a commercial and arm's length basis from the USA Government and PRC Government.	✓
How remote will the Investor's governance be from the United States of America Government and PRC Government?	The Investor operates at arm's length from the USA Government and PRC Government and will not be controlled by them or act on behalf of them.	✓
Will the Investor be listed on the NZ sharemarket?	No	x
Does the investment grant the USA Government and PRC Government control of the Investor?	No	✓
Apart from the USA Government and PRC Government, will any other investors own the Investor?	Yes	✓
What share of the Investor would remain owned by investors not associated with the USA Government and PRC Government?	88.71%	✓

## Recommendation and Next Steps

55. Please consider whether conditions are required to address any risks posed by the Proposed Investment. If you do not consider that conditions are required, the Proposed Investment will be managed under the special and standard conditions set out in the Proposed Consent Decision (Attachment 2).

56. There is a range of actions available. We recommend the following action be taken:

Decision	Conditions/Notes	Rationale
Not contrary to New Zealand's national interest	None	We consider this transaction is <b>low risk</b> and is <b>not contrary</b> to New Zealand's national interest.



## Attachments

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1. Proposed consent decision.
2. LINZ likelihood and consequence risk matrix.

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## Attachment 1 – Proposed consent decision

### Consent for Overseas Person to Acquire Significant New Zealand Business Assets

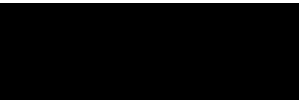
Read this consent carefully - you must comply with all the conditions. If you do not, you may be subject to fines or other penalties.

#### Consent

Decision date: [date]

The following people have been given the following consent:

<b>Case</b>	202300631
<b>Consent</b>	The Consent Holder may acquire the Assets subject to the Conditions set out below.
<b>Consent Holder/s</b>	Pepper New Zealand Limited (Company number: 3416551) We will also refer to each Consent holder and the Consent holders together as <b>you</b> .
<b>Assets</b>	Book of mortgage, home loan and other similar loan facilities to customers of the wealth and personal banking business of The Hongkong and Shanghai Banking Corporation Limited (New Zealand Branch)
<b>Timeframe</b>	You have until 31 November 2024 to acquire the Assets.



## Conditions

Your Consent is subject to the conditions set out below. These apply to all overseas people who are given consent to acquire significant business assets, including you.

You must comply with them all. Be aware that if you do not comply with the conditions you may be subject to fines or other penalties.

In the Consent and the Conditions, we refer to Toitū Te Whenua Land Information New Zealand as **LINZ, us or we**.

**Act** means the Overseas Investment Act 2005.

## Definitions

**Act** means Overseas Investment Act 2005

**Regulations** means Overseas Investment Regulations 2005

Any term or expression that is defined in the Act or Regulations and used, but not defined, in this consent has the same meaning as in the Act or Regulations.

## Special Conditions

You must comply with the following **special conditions**. These apply specifically to this Consent and include conditions that we must impose under the Act.

Details	Required date
<b>Automatic condition: National Interest</b>	
You must not, in relation to the Asset, act or omit to act with a purpose or an intention of adversely affecting national security or public order	At all times

## Standard Conditions

You must also comply with the **standard conditions** set out below. These apply to all overseas people who are given consent to acquire sensitive New Zealand land, including you:

Details	Required date
<b>Standard condition 1: Acquire the Assets</b>	
<p>You must acquire the Assets</p> <ol style="list-style-type: none"> <li>1. by the date stated in the Consent. If you do not, your Consent will lapse and you must not acquire the Assets, and</li> <li>2. Using the acquisition, ownership, and control structure you described in your application. Note, only you - the named Consent holder - may acquire the Assets, not your subsidiary, trust, or other</li> </ol>	As stated in the Consent





Details	Required date
entity.	
<b>Standard condition 2: Tell us when you acquire the Assets</b>	
<p>You must tell us in writing when you have acquired the Assets. Include details of:</p> <ol style="list-style-type: none"> <li>1. the date you acquired the Assets (<b>settlement</b>),</li> <li>2. consideration paid (plus GST if any),</li> <li>3. the structure by which the acquisition was made and who acquired the Assets, and</li> <li>4. copies of any transfer documents and settlement statements.</li> </ol>	<p>As soon as you can, and no later than two months after settlement</p>
<b>Standard condition 3: Remain not unsuitable to Invest in New Zealand</b>	
<p>You, and to the extent that you are not an individual, the Individuals Who Control You must remain not unsuitable to own or control the Assets in accordance with section 18A(1) of the Act. The <b>Individuals Who Control You</b> are individuals who:</p> <ol style="list-style-type: none"> <li>a. are members of your governing body</li> <li>b. directly or indirectly, own or control more than 25% of you or of a person who itself owns or controls more than 25% of you, and</li> <li>c. are members of the governing body of the people referred to in paragraph (b) above.</li> </ol> <p>To avoid doubt, this includes the members of your governing body.</p>	<p>At all times</p>
<b>Standard condition 4: Tell us about changes that affect you, the people who control you, or people you control</b>	
<p>You must tell us in writing if any of the following events happens to any of the Consent holders:</p> <ol style="list-style-type: none"> <li>1. You become aware that you and/or any Individual Who Controls you establishes any of the investor test factors listed in section 18A(4) of the Act.</li> <li>2. You cease to be an overseas person or dispose of all or any part of the Asset.</li> <li>3. Your New Zealand Service Address changes. This is the address you provided us in your application as the address which we will send any legal document we need to serve on you.</li> </ol>	<p>Within 20 working days after the change</p>





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## Reporting conditions

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We need information from you about how your investment plan is tracking so we can monitor your progress against the Conditions.

In addition to Settlement reporting (as set out in Standard Condition 2), you must provide LINZ with reports detailing the progress of the investment. The reports must:

1. be submitted via our [Webform](#) by these dates:
  - a. 31/12/2024
2. contain information about:
  - a. your progress in implementing the special conditions (which can include photographs, maps or aerial imagery as evidence of compliance with relevant conditions)
3. follow the format of the template annual report published on our website

If requested in writing by LINZ, the Consent Holder(s) must provide a written report within 20 working days (or such other timeframe as specified) on any matter relating to its compliance with:

- a. the representations and plans made or submitted in support of the application and notified by the regulator as having been taken into account when the Consent was granted, or
- b. the conditions of this Consent.

### **Power to vary reporting date**

The dates on which reports are due to be provided may be changed by agreement between LINZ and the Consent Holder, provided that this power may not be used to give a time extension for an individual report.

### **Power to narrow scope of reports**

LINZ may temporarily or permanently waive the requirement to report on a particular matter.

### **Power not to require further reporting**

LINZ may waive the requirement to submit a report and may waive the requirement for future reporting.



**Attachment 3 – LINZ likelihood and consequence risk matrix**

Likelihood (Chance of occurring within 5 Years)	5. Almost certain: 90-100%	Medium	High	High	Extreme	Extreme
	4. Likely: 60-90%	Medium	Medium	High	High	Extreme
	3. Possible: 30-60%	Low	Medium	Medium	High	Extreme
	2. Unlikely: 5-30%	Low	Low	Medium	Medium	High
	1. Rare: 0-5%	Low	Low	Medium	Medium	High
	<b>Consequences</b>	1. Insignificant	2. Minor	3. Moderate	4. Major	5. Critical

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