

Submission template

Enabling KiwiSaver investment in private assets

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

Please make your submission as follows:

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

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

Submission on discussion document: Enabling KiwiSaver investment in private assets

Your name and organisation

Name	Professor Aaron Gilbert
Date	11 February 2025
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Privacy and publication of responses

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

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

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

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

Please check if your submission contains confidential information

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

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

Responses to discussion document questions

Please enter your responses in the space provided below each question.

Liquidity management tools – questions for KiwiSaver providers or other industry	
1	For KiwiSaver managers: Please describe your current practice around investing in private assets, including levels of exposure you have to these types of assets, how you invest in these assets, and your management of liquidity risk.
2	Do you think that the current legislative framework for KiwiSaver effectively allows for the use of liquidity risk management tools that may impact transfer or withdrawal times (e.g. suspending redemptions or side-pocketing)?
3	For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of: a. your ability to increase investment in private assets b. risks associated with your current allocation of private assets.
4	Please provide any other comments on the availability of liquidity management tools.
5	Do you support the proposed approach? Why/why not?
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
7	Will you face implementation costs if this change is made? If yes how much will they be and will they be one-off or ongoing?
8	Do you have any comments on the detailed design considerations noted above?
9	Please provide any further comments on this issue of liquidity management tools.
Liquidity management tools—questions for the public	
10	Do you support more investment by KiwiSaver funds into private assets? Why / why not?

	I support investment into private assets within the existing legislative structures which has enabled private asset investment by some KiwiSaver providers. The proposed changes to incentivise KiwiSaver Managers to invest in private asset come with changes that are not, in my opinion, in the best interests of investors or of the KiwiSaver scheme as a whole. Specifically, incentivising private asset investment will come at the cost of higher fees, reduced transparency around costs which is likely to reduce what little competitive pressure there is on KiwiSaver providers, and impose features which may reduce investor confidence in KiwiSaver such as side-pocketing. The discussion document does little to demonstrate or articulate advantages to investors, noting that they may get higher returns (although this will come from investing in riskier assets) and potential diversification benefits. It is not clear that the diversification benefits would arise given the structure of the KiwiSaver market. A much clearer argument for the benefit to investors should be made before these changes to the rules around redeeming and transferring funds and fees are considered.
11	Do you support the use of liquidity management tools like ‘side pockets’, if they may have an impact on the availability of your KiwiSaver funds? Please explain. I believe side pocketing should not be permitted for several reasons. One, I believe that this is potential a threat to investors confidence in KiwiSaver. Given many members are not fully aware of even basic elements of KiwiSaver and their funds, the discovery that a fund manager has the right to withhold a portion of their funds may result in a significant reduction in trust in KiwiSaver. Especially when given the fact that this is likely to tied to a situation where the value of their investment, particularly that being withheld, has been seriously reduced. I believe such instances would be reported in the media, and lead to a general erosion in trust. A reduction in trust in KiwiSaver could reduce the success of KiwiSaver in its primary goal, preparing members for their retirement. Additionally, without details regarding whether side pocketed funds would incur fees, and under what circumstances funds can be withheld, it is difficult to assess whether this could be abused by providers given the agency problem between members and providers. Given the way funds are charged, as a percentage of assets under management plus often a member fee, there is a perverse incentive for managers to retain funds, especially in the event of a run on the fund. Additionally, if a member did have funds withheld and fees were charged, the costs would be disproportionately higher under the current situation where that member could be charged two member fees plus the percentage of AUM (ignoring any differences in these).
12	Please provide any further comments on the proposed approach. The idea of redemption gates has merits with some caveats. I would reserve enrolling in a fund that has redemption gates for more sophisticated investors who can understand the benefits and risk of private asset investment, and the implications of redemption gates.
Private asset categories – questions for KiwiSaver providers or other industry	
13	Do you consider that the current asset classes in the Financial Markets Conduct Regulations 2014 are problematic as they relate to private assets? If yes, please explain.

14	How do think the categories should be described?
15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why?
17	Will you face implementation costs if this change is made, if yes how much will they be and will they be one-off or ongoing?
18	Please provide any further comments on this issue of including private assets in asset categories.
Private asset categories—question for the public	
19	Do you think it would be useful to have better visibility over how much KiwiSaver funds are investing into private assets? I am a strong advocate for making information available to allow for more sophisticated analysis of KiwiSaver funds. However, in conversations with a wide range of audiences over the years I have no reason to believe that the information would be useful or used by the general public. I would also note that private assets captures such a broad range of assets with such varying degrees of risk and return profiles that I am not sure that a specific catch all item like private assets would be particularly useful.
Valuation requirements – questions for KiwiSaver providers or other industry	
20	For KiwiSaver managers: Do your governing document(s) include a valuation methodology which is challenging to apply to valuing private asset? If you do, can you please explain the impact in terms of: - the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds. - whether you have tried to amend the valuation provisions in the past or not, and why. Include examples of where the supervisor has or has not approved a valuation methodology.
21	Please provide any other comments on the valuation methodologies in governing documents.

22	Do you agree that this is an issue that needs addressing?
23	Do you have views on how it should be addressed?
24	Will you face implementation costs if this change is made, if yes how much will they be and will they be one-off or ongoing?
25	Please provide any further comments on this issue of valuation requirements.
Total Expense Ratio—questions for KiwiSaver providers or other industry	
26	Do you currently outsource fund management for private assets?
27	Do you see any issues with the current TER calculation and if so, what are they?
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
29	Are there any other issues you would like to draw attention to on the TER?
Total Expense Ratio—questions for the public	
30	Do you look at KiwiSaver scheme fees when deciding which KiwiSaver scheme to put your money with?
	I personally do consider fees alongside other factors when I make KiwiSaver decisions. I also advocate strongly when I lecture or speak with various audiences for them to do so as well. The academic literature and, outside of one or two NZ funds, a casual look at the Morningstar Reports would suggest that there is little relationship between fees and performance within fund types. Given that it is not a given that higher fees results in better performance, and given that fees are guaranteed but returns are not, there is a strong case to made that fees should play a significant part in KiwiSaver Fund decisions.
31	What do you think should be included in any figure that is called “KiwiSaver scheme fees”?
	Any figure should accurately represent the total cost that a member is paying for their fund.

	Please share any thoughts you have around the TER (total expense ratio) and its function to inform the public of the expenses involved in KiwiSaver management.
32	The total expense ratio currently represents a relatively simple method of accounting for the cost of a fund. However, in my interactions with students and other audiences it is clear that many people do not understand what the TER is and although they can identify which is larger, they struggle to understand the significance of seemingly small differences in TER on the eventual value of their KiwiSaver fund. A better understanding of fees should increase competitive pressures on funds and reduce the level of fees, which appear to remain higher than is justifiable when compared with other countries like the UK. Any action that would reduce the transparency of the fees, or its direct comparability between funds should be avoided at all costs.
Final comments—question for KiwiSaver providers or other industry	
33	Please provide any further comment on barriers to KiwiSaver investment in private assets that you see (including any comments in relation to issues identified in paragraph 18b-f).
Final comments—question for all respondents	
34	Please use this question to provide any further information you would like that has not been covered in the other questions.
	KiwiSaver when it was introduced to Parliament in 2006 was promoted as a way to address a critical issue facing New Zealanders, poor savings behaviours that were leaving people woefully unprepared for retirement (see the speech by Sir Michael Cullen to the House). No mention was made of alternative benefits or goals that would compete or distract from that overarching goal of helping people to save for their retirement. As KiwiSaver has become embedded and grown in size and prominence there appears to be a growing appetite to treat it as a solution to other problems, in this case the governments inability to fund a significant infrastructure deficit and a lack of capital available to grow companies. The concern here has to be however that introducing alternative goals will distract from its primary aim. This proposal suggests that private asset investment may benefit investors. I do not believe, at this stage in KiwiSavers development, that this is the case. The principle benefit appears to be diversification of returns from public assets; stocks, bonds and money markets etc, to include a variety of additional assets such as unlisted companies and bonds, property, infrastructure etc. What is not addressed is that the for the majority of KiwiSaver funds, the large capital requirements of these types of investments, often running into tens of millions if not more, would leave them significantly exposed to just a handful of private asset investments. While it is noted that Australian Super funds have 15%+ exposed to private assets compared to NZs 2-3%, what is not disclosed is that it is predominantly the largest super funds that are the heaviest players in private assets, such as AustralianSuper who manages nearly three times the total value of KiwiSaver funds and has around 25% devoted to private assets. The largest KiwiSaver fund manager in NZ is less than 1/10th the size of AustralianSuper. KiwiSaver funds currently are not well suited to making large investments in very illiquid and hard to value assets.

Additionally, private asset investments are expensive, hence the need to try and hide the costs associated with it to enable such investments. Increasing the costs associated with KiwiSaver will reduce, by tens of thousands if not more, the amount that people have at retirement, especially if private asset investments do not increase the expected returns for funds over the long run.

It is also worth noting that the complexity of valuing private assets also poses issues for members. At present, KiwiSaver funds are able to provide a fairly accurate reflection of the value of their investments daily based on what investors are currently willing to pay for those investments. Private assets have no market pricing mechanism. To value them often involves hiring, at considerable expense, a valuer to estimate the value of the asset which can lead to large changes in the value of an asset. However, that does not mean that is the price that would be achieved at sale. This risks diluting the informativeness of the value of the fund as a way of estimating performance etc.

There are clear benefits for the government in freeing up additional capital for infrastructure, and KiwiSaver funds will likely benefit from increased fees. It is not clear that the one group who KiwiSaver was established to benefit, members, will be better off as a result of the changes proposed.