

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	Privacy of natural
Date	13.02.2025
Organisation (if applicable)	
Contact details	Privacy of natural persons

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 wish my name or other personal information to be included in any information about submissions that MBIE may publish.

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	
	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.
	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)?
	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.
	Please provide any other comments on the availability of liquidity management tools.
	Do you support the proposed approach? Why/why not?
	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
	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?
	Do you have any comments on the detailed design considerations noted above?
	Please provide any further comments on this issue of liquidity management tools.
Liquidity management tools—questions for the public	

Do you support more investment by KiwiSaver funds into private assets? Why / why not?

No. I am against the suggestion that KiwiSaver fund managers should make it easier to put even more of other people's money into this market segment in pursuit of higher returns. KiwiSaver, and other NZ pension funds and other managed funds can already invest in private equity, and private credit.

High returns usually correlate with high risk. Risk includes the possibility of collapses of private equity and assets and connected companies. Less transparency, difficulty in correct valuations, higher management fees, and less disclosure add to the risks. Private equity and private credit funds and companies are loosely regulated, often under-capitalised and have limited disclosure. This makes this area of investment more riskier for most people who have a Kiwisaver and who take little interest in their investments.

Private equity and private credit funds:

- are usually subject to less scrutiny and less supervision and have little public disclosure.
- have little or no liquidity so are not bound to match funding to the exit rights of investors.
- use the money they raise as "capital" by subordinating it behind whatever bank debt they can raise. (Banks might lend to risky transactions if the risk of failure is underwritten by such subordination.)
- report their gains by engaging with valuers who assess the changing, theoretical value but with little definite proof of it as well as the value of the investments.
- try to minimise costs; including no branches, no prospectuses, little engagement and updates for investors.
- Private equity managers usually use low-cost debt and often implement a severe cost-cutting programme (reduced research and development, staff training, travel constraints, lower salaries) to lift short-term gains, in pursuit of a high-price sale in the quickest possible time frame.

There should be a special responsibility on these KiwiSaver managers to look after the money under their management.

Many KiwiSaver users take no interest in how their money is invested and are not interested about the skills or the wisdom of those who manage their investments.

There is a risk is that the KiwiSaver will be threatened with salesmen who combine the objective of obtaining returns with the social objective of using this pool of other people's money "for the good of the country".

This included fund managers stating that the pool of money should build our infrastructure, or social housing etc.

The objective of a skilled, wise fund manager should be to carefully define the assets in which he will invest, explain the return for risk, manage the quality of the fund, and by so doing attract money from people who accepts his fund management investment style.

The Trustee companies or managers of Kiwisaver's should very specifically engage with each investor about his/her desire to fund any Private equity, private credit funds, infrastructure and opaque investments.

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.

	No. Investors should be able to decide and ask for the release of their investments in their KiwiSaver. If liquidity management tools are introduced it should be made optional and decided by the individual KiwiSaver investors.
	Please provide any further comments on the proposed approach.
Private asset categories – questions for KiwiSaver providers or other industry	
	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.
	How do think the categories should be described?
	Please provide any other comments on the lack of private asset categories.
	Which option do you think is best and why?
	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?
	Please provide any further comments on this issue of including private assets in asset categories.

Private asset categories—question for the public	
	Do you think it would be useful to have better visibility over how much KiwiSaver funds are investing into private assets?

Yes.

If it is decided to allow and make it easier for Kiwisaver's to invest in private assets then to improve disclosure a separate category for private assets must be mandatory so investors have a choice whether to invest in that category, fund or company. The category could have subcategories.

Add the new categories for:

Unlisted and Private assets

subcategories:

Unlisted and Private cash / cash equivalents (New Zealand, international)

Unlisted and Private fixed interest (New Zealand, international)

Unlisted and Private equities (New Zealand, international)

Unlisted and Private property (New Zealand, international)

Unlisted and Private infrastructure (New Zealand unlisted, international unlisted)

If the KiwiSaver funds are invested in other funds then the underlying fund investment categories should also be shown.

Valuation requirements – questions for KiwiSaver providers or other industry

For KiwiSaver managers: Do your governing document(s) include a valuation methodology which is challenging to apply to valuing private asset? If you do, can you please explain the impact in terms of:

- a. the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds.
- b. whether you have tried to amend the valuation provisions in the past or not, and why. Include examples of where the supervisor has or has not approved a valuation methodology.

Please provide any other comments on the valuation methodologies in governing documents.

Do you agree that this is an issue that needs addressing?

	Do you have views on how it should be addressed?
	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?
	Please provide any further comments on this issue of valuation requirements.
Total Expense Ratio—questions for KiwiSaver providers or other industry	
	Do you currently outsource fund management for private assets?
	Do you see any issues with the current TER calculation and if so, what are they?
	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	Are there any other issues you would like to draw attention to on the TER?
Total Expense Ratio—questions for the public	
	Do you look at KiwiSaver scheme fees when deciding which KiwiSaver scheme to put your money with?
	Yes.
	What do you think should be included in any figure that is called “KiwiSaver scheme fees”?
	All fees both direct and indirect.
	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.
	It is important to have the TER so KiwiSaver investors can compare providers.

Final comments—question for KiwiSaver providers or other industry

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

Please use this question to provide any further information you would like that has not been covered in the other questions.

It would be better to make it easier for more companies to list on the NZ Stock Market. This would provide more liquidity and individual investors can then choose what to invest in and accept the higher risks of the venture capital arena, Private equity and private credit funds and infrastructure companies.