

# Submission on discussion document: Enabling KiwiSaver investment in private assets

## Your name and organisation

Name	Privacy of natural persons
Date	14-Feb-2025
Organisation (if applicable)	n/a
Contact details	Privacy of natural persons

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## 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.
	N/A
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)?
	N/A
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.
	N/A
4	Please provide any other comments on the availability of liquidity management tools.
	N/A
5	Do you support the proposed approach? Why/why not?
	N/A
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
	N/A
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?
	N/A
8	Do you have any comments on the detailed design considerations noted above?
	N/A
9	Please provide any further comments on this issue of liquidity management tools.
	N/A
Liquidity management tools—questions for the public	
10	Do you support more investment by KiwiSaver funds into private assets? Why / why not?

	<p>Yes, particularly if private investments are made for the benefit of New Zealand private companies.</p> <p>New Zealand's economy is dominated by small-medium sized businesses (SMEs). They are the unsung heroes of our economy. SMEs dominate the business landscape comprising over 95% of all enterprises. However, within the 'SME sector' there are different sub-segments that have particular financing challenges to fuel their growth.</p> <p>There are around 63,000 businesses with revenues of between \$1m and \$50m that together employ over a third of the working population. Recent surveys indicate annually, around 9% (over 5,600) are looking for equity capital for growth – this is probably an under-estimate based on lack of awareness and access to suitable investors.</p> <p>A number of sources from the Government to industry groups have previously identified a gap in access to equity capital for smaller but more mature companies. They are unable to attract venture capital due to lower growth rates and fall below the typical private equity (PE) threshold.</p> <p>Canada and Australia have recently followed the UK model and set up Business Growth Funds (BGF) providing patient capital to entrepreneurs to finance business expansion without relinquishing control of their businesses. The primary source of capital are the major banks, though in Australia the government is a co-investor.</p> <p>Whilst the BGF model overseas has largely focused on attracting the major banks as the primary investors, encouraging potential investors, like KiwiSaver providers which should be aligned to New Zealand's long-term prosperity, will be important. Overcoming objections from KiwiSaver providers through the mechanisms proposed in this submission are to be welcomed.</p>
11	<p>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.</p> <p>More transparency for KiwiSaver investors is key. Informed investors will have an understanding that private assets are illiquid and more challenging to value. Providing a transparent mechanism to isolate certain asset types from a headline 'fees' figure would be useful.</p>
12	<p>Please provide any further comments on the proposed approach.</p> <p>Having different classes of funds that stipulate the type of investment and liquidity is similar to offering high growth and balanced conservative portfolios. Investors understand that there is more risk associated with high growth options. Similarly, offering investors the option of investing in KiwiSaver funds focused on liquid capital markets versus illiquid private assets is not likely to dis-incentivise them, rather provide them with more choice while opening up access to growth capital for the private sector.</p>
Private asset categories – questions for KiwiSaver providers or other industry	
13	<p>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.</p>
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.
<b>Private asset categories—question for the public</b>	
19	<p>Do you think it would be useful to have better visibility over how much KiwiSaver funds are investing into private assets?</p> <p>Yes. Also showing a breakdown by geography of where their money is being invested would be valuable.</p> <p>Australia provides options to invest in other asset classes including infrastructure and private assets. KiwiSaver providers could contribute 2% of their money under management to invest into a New Zealand Business Growth Fund or similar to support the New Zealand small business sector. This would have the effect of catalysing a new investment category to support a sector which is currently not served by banks, venture capital nor private equity firms.</p>
<b>Valuation requirements – questions for KiwiSaver providers or other industry</b>	
20	<p>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:</p> <ol style="list-style-type: none"> <li>the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds.</li> <li>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.</li> </ol>
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.
<b>Total Expense Ratio—questions for KiwiSaver providers or other industry</b>	
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?
<b>Total Expense Ratio—questions for the public</b>	
30	Do you look at KiwiSaver scheme fees when deciding which KiwiSaver scheme to put your money with?
	Yes, however having the option to invest in longer term investments such as infrastructure or private assets with a different fee structure would also be of interest.
31	What do you think should be included in any figure that is called “KiwiSaver scheme fees”?
	The KiwiSaver fees should include all direct costs of administering the fund. If a KiwiSaver provider uses another entity to invest on their behalf in another jurisdiction, then their fees should be captured in the total returns portion and should not be added to the KiwiSaver fees.

32	<p>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.</p> <p>The current settings encourage a focus on lower fees rather than incentivising higher returns.</p>
<b>Final comments—question for KiwiSaver providers or other industry</b>	
33	<p>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).</p>
<b>Final comments—question for all respondents</b>	
34	<p>Please use this question to provide any further information you would like that has not been covered in the other questions.</p>
	<p>The call for submissions on the settings for KiwiSaver providers to enable investment in private assets is to be commended. Addressing the issues in relation to how fees are calculated and reported; how illiquid assets are valued; and allowing for side pocketing of more illiquid assets would allow KiwiSaver to increase the investment in private assets.</p> <p>However, there is an opportunity to go a step further. Significant work has already been done on evaluating the establishment of the Business Growth Fund (BGF) model here in New Zealand. The main obstacle to date has been the source of potential funds. KiwiSaver could provide that source of capital for funding the BGF.</p> <p>The Business Growth Fund would provide investment into a broad range of New Zealand SMEs allowing them to access growth capital - effectively an index fund for SMEs. Any associated risk would be mitigated by the breadth of investments in NZ SMEs.</p>