

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

13 February 2025

Dear Sir/Madam

This submission on enabling KiwiSaver investment in private assets is from Mosaic Financial Services Infrastructure ("Mosaic").

Mosaic is a New Zealand-based management consulting firm focused on supporting financial services companies to architect, execute and govern operational change.


Mosaic appreciates the opportunity to submit on the Capital Markets Reform, and our response to the specific questions posed is attached.

We are supportive in principle of KiwiSaver providers investing in private or unlisted assets, where this is done in a manner consistent with the KiwiSaver Act, the stated investment objectives of the fund and, importantly, is supported by prudent and professional investment management and fiduciary practices.

We note that the premise articulated in the consultation is to seek **"feedback on ways to create efficient capital markets to provide capital for New Zealand businesses to invest and grow"**. While not necessarily at odds with the objective of KiwiSaver, it is worth noting that KiwiSaver's primary objective, as defined by the KiwiSaver Act, is to **"encourage a long-term savings habit and asset accumulation by individuals"** and **"to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits"**.

While investing in private or unlisted assets may align with sound investment strategies and offer opportunities for enhanced returns, such decisions must remain consistent with the KiwiSaver Act's focus on member interests rather than serving as a direct vehicle to provide capital for New Zealand businesses. We regard KiwiSaver's ongoing integrity as one that relies on prioritising members' needs with investment strategies that balance growth, liquidity, and risk to achieve member retirement outcomes.

We believe the limited (albeit growing) exposure of KiwiSaver Schemes to private assets to date reflects that KiwiSaver managers are well aware of their overarching investment fiduciary duties and the need to balance the above member outcomes carefully. As such, the legislative changes being proposed to support the implementation of liquidity risk management tools are unlikely to, in and of themselves, materially increase private asset class exposures in KiwiSaver.



A liquidity risk management tool such as 'side-pocketing' is a **"last resort"** option. Its potential member (and KiwiSaver manager reputation) impacts are second only to a full fund suspension. Therefore, we consider it should only be used in extenuating circumstances to protect members' interests.

Expanding KiwiSaver investments into private assets (in an expediated or material way) **should be approached cautiously**, ensuring adherence to sound investment governance, transparency, and robust risk management.

We acknowledge the Government's efforts to date and regulator guidance on liquidity risk management and offer suggestions that include considering enhanced reporting and monitoring requirements for KiwiSaver managers considering exposure levels to private assets that may impact member liquidity requirements.

Drawing on lessons from Australia and globally, New Zealand should seek to strengthen valuation governance, improve liquidity risk management, and enhance transparency of members' private asset exposures, thereby improving safeguards for members.

Overall, we feel there is a delicate balance to be struck between facilitating greater investment in private assets and maintaining the integrity and purpose of the KiwiSaver proposition for members.

Mosaic Partners have direct experience in managing and implementing liquidity tools such as those being contemplated in this consultation. We would be pleased to meet with MBIE officials to discuss our submission and share those experiences.



Phil Doak  
**Partner, Mosaic**

## Contents

### 1. Submission Template

### 2. Relevant links:

- a. APRA review into superannuation trustees' progress in implementing enhanced valuation governance and liquidity risk management requirements. Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation.  
<https://tinyurl.com/dz7yvjhp>
- b. The Board of the International Organization of Securities Commissions ("IOSCO") consultation document "Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management" November 2024.  
<https://tinyurl.com/27pxuvf6>
- c. The Board of the International Organization of Securities Commissions ("IOSCO") consultation document "Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes" July 2023 <https://tinyurl.com/5t3vekca>

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

## Your name and organisation

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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	<p>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.</p> <p>n/a</p>
2	<p>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)?</p> <p>No. In our view, the current legislative framework (i.e., daily pricing, fund switching within schemes, non-retirement withdrawal provisions, and a 10-day industry standard for scheme transfers) is not commensurate with allowing liquidity risk management tools such as fund suspension, side pocketing, or extensive gating to be used.</p>
3	<p>For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of:</p> <ul style="list-style-type: none"> <li>a. your ability to increase investment in private assets</li> <li>b. risks associated with your current allocation of private assets.</li> </ul> <p>Refer to Q2 comments above.</p> <p>The current legislative framework and industry practices restrict a manager's ability to appropriately align a KiwiSaver Fund's typical liquidity characteristics (e.g., daily processing of member contributions and redemptions necessitating regular valuation of underlying assets) with the underlying liquidity and valuation characteristics typically associated with private assets.</p> <p>Increasing investment in private assets requires a broader framework that enables a manager to achieve an appropriate alignment. It is unlikely that side-pocketing or redemption gates will materially increase investment in private assets. While legislative settings continue to provide for early withdrawals and the ability to transfer to another KiwiSaver Scheme, it is likely that most KiwiSaver managers will continue to have low exposure to NZ private assets.</p> <p>This is because the higher-order consideration, of course, is the establishment of an investment thesis that clearly demonstrates how an allocation to private assets will be beneficial for a KiwiSaver manager's members and how all risks will be appropriately managed from <b>a fiduciary perspective</b>. For KiwiSaver managers, particularly those managing diversified multi-asset class KiwiSaver funds (which is and will continue to be the majority) and those providing financial advice to members, it is likely that for most members, only limited exposure to NZ private assets would be appropriate or recommended.</p>

Please provide any other comments on the availability of liquidity management tools.

Redemption gateways and/or some form of withdrawal notice period(s) would provide a useful liquidity management mechanism for a KiwiSaver manager to use in a “**business as usual**” (BAU) context. That is assuming that an appropriate alignment can be achieved with the liquidity characteristics of the underlying private asset investments – these will vary considerably given the wide universe of potential investment options (domestic and international).

However, experiences during the GFC suggest that the value of these tools will likely be very limited in the context of a very large volume of redemptions and/or where material uncertainty arises regarding the value of the private assets (i.e. material valuation uncertainty in respect of private assets may necessitate fund suspension regardless of whether there has been a material increase in redemptions or not).

4

“Side pocketing” is not a BAU tool for an open-ended fund; it is typically considered a **last resort option**, only one step removed from full fund suspension. A KiwiSaver manager implementing such an action would likely face significant reputational risk, depending on the prevailing wider market dynamic at that time. For example, the side pocketing of a diversified multi-asset class KiwiSaver fund might be necessary to protect the interests of redeeming and remaining members at that point in time, but it is still a suboptimal outcome from a member perspective.

It is also important to note that, even if a “side pocketing” option is accommodated within a scheme/funds’ governing documents, Supervisors would need to approve its practical implementation on the basis that it was **in the interests of members**.

We have provided a link to a consultation document recently issued by The Board of the International Organization of Securities Commissions (“IOSCO”) entitled “Guidance for Open-ended Funds for Effective Implementation of the Recommendations for Liquidity Risk Management”. The ISCO consultation sets out some clear minimum expectations as regards private assets in open ended funds, which KiwiSaver is an example of.

Do you support the proposed approach? Why/why not?

Yes, in principle, while noting the comments above.

Practical implementation matters will require careful consideration, and in this regard, we make the following observations (as examples):

- Side-pocketed assets will likely be unable to accommodate any form of redemption until the proceeds from their sale (in part or in whole) can be realised—depending on the asset class and asset realisation process, that could take years.
- Even with changes to legislation and Scheme trust deeds to enable side-pocketing, the practical and operational changes the manager would need to implement when it determines side-pocketing is necessary (i.e. to protect the interests of members) would be extensive and, in all likelihood, a period of full fund suspension will be required before the distressed/illiquid assets could be practically (and appropriately) side pocketed (i.e. side pocketing may not be a timely and easy tool to implement).
- The potential impacts on members from a tax perspective relative to the side-pocketed assets may also require consideration.
- The quality and level of member disclosures will need to be very carefully considered, and they should be overt in explaining the potential implications of redemption restrictions (including side-pocketing) as regards transfer and fund switching within a scheme, and withdrawal impacts (special, first home buyers, and at age of entitlement 65+).
- It will also be important to consider disclosure effectiveness in the context of the distribution channels utilised and member onboarding processes, e.g. online digital KiwiSaver vis via financial advisers.

	<p>If redemption gates were allowed, would you consider developing new products more focussed on private assets?</p>
6	<p>The ability to incorporate redemption gates would likely be mildly positive for product development. However, the characteristics of any new product will be heavily influenced by the nature of the underlying private asset, e.g., private debt vs. private equity, infrastructure vs. property, onshore vs. offshore, via specialist funds or direct holdings.</p> <p>Redemption gates are usually implemented to enable a manager to sell down underlying assets to meet the redemption requests <b>broadly in portion to the assets that make up the fund</b> or to otherwise manage the assets of the fund in a manner that ensures remaining investors in the fund are not adversely impacted by the redeeming member's redemption requests (e.g.; to ensure remaining investors are not overexposed to any particular asset or asset class due to another member(s) redemption request).</p> <p>Depending on the underlying liquidity of the private assets (some of which could take many months or longer to liquidate), redemption gates reflective of the underlying liquidity of the private asset(s) may be inappropriate or ineffective from a KiwiSaver perspective. For example, private equity funds may have a redemption term of circa five years plus. The appropriateness of having a redemption gate of this duration would need to be carefully considered in a KiwiSaver scheme.</p> <p>To this end, we believe that efforts to accommodate private assets within the KiwiSaver framework need to sit alongside efforts in the context of New Zealand capital markets <b>to establish “products” that KiwiSaver managers (and other wholesale investors) see as worthy of investing in</b>. If underlying investment funds can be established with inbuilt liquidity (e.g. listed REITs and infrastructure funds) and transparent/regular valuation mechanisms, then this reduces the need to change KiwiSaver settings or to evoke liquidity management tools such as redemption gates or side-pocketing, at least to the extent that managers have an exposure to those products.</p> <p>Notwithstanding the above points, New Zealand-based exposures would likely form just one part of a KiwiSaver manager's private asset allocation. For example, the 2024 NZ Super Fund Annual Report (noting the NZ Super Fund does not have the same liquidity constraints and redemption features as KiwiSaver Schemes) indicates a total exposure to unlisted assets (IFRS level 3 exposures) of approximately 17% with over half of those exposures being in offshore jurisdictions.</p>
7	<p>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?</p> <p>Yes, we expect that KiwiSaver managers will face implementation costs both one-off and ongoing. There are too many variables at play to provide an accurate cost assessment.</p> <p>A broader decision to invest in private assets (or significantly increase an existing allocation) may require wider changes to a manager’s operating model (valuation, governance, data, front office systems etc). In our opinion a manager should review and consider all these aspects as part of any decision it makes to make an allocation to this asset class.</p>



	Do you have any comments on the detailed design considerations noted above?
8	<p>We agree that more detailed design considerations will need to be discussed further. Providing broader guidance beyond KiwiSaver funds would be valuable. Refer to previous comments regarding disclosures.</p> <p>We think that those developing guidance should be wary of being too prescriptive in the regulatory context as managers will need flexibility given the potentially wide range of private asset classes (each with their liquidity and valuation risk characteristics) that they may access.</p> <p>The manager should have discretion over the design and features. The manager must ensure that the fund terms are appropriately aligned with the risk characteristics of the underlying assets and that those risk characteristics are disclosed to and understood by the member and their financial adviser (where applicable). If current or prospective members (or their financial adviser) do not like those terms or the risk characteristics of the fund, they ultimately have the option not to invest in that fund and invest elsewhere.</p> <p>That said, establishing some minimum requirements akin to the UK's Long-Term Asset Fund (LTAF) designation approach is worth considering. That approach includes provisions regarding fund redemption features and, importantly, also requires managers investing in private assets to demonstrate that they have the required capabilities to do so.</p> <p>We are not aware of any regulatory constraints on introducing such mechanisms to open-ended managed fund offers more broadly.</p>
9	<p>Please provide any further comments on this issue of liquidity management tools.</p> <p>n/a</p>

## Liquidity management tools—questions for the public

10	<p>Do you support more investment by KiwiSaver funds into private assets? Why / why not?</p> <p>We are supportive in principle of KiwiSaver providers investing in private assets, where this is done in a manner consistent with the KiwiSaver Act and adheres to sound investment fundamentals and fiduciary duties.</p> <p>We note that the premise articulated in the consultation is to seek <b>“feedback on ways to create efficient capital markets to provide capital for New Zealand businesses to invest and grow”</b>.</p> <p>While not necessarily at odds with the objective of KiwiSaver, it is worth noting that KiwiSaver’s primary objective, as defined by the KiwiSaver Act, is to <b>“encourage a long-term savings habit and asset accumulation by individuals”</b>, and <b>“to increase individuals’ well-being and financial independence, particularly in retirement, and to provide retirement benefits”</b>.</p> <p>While investing in private assets may align with sound investment strategies and offer opportunities for enhanced returns, such decisions must remain consistent with the KiwiSaver Act’s focus on member interests rather than serving as a direct vehicle to provide capital for New Zealand businesses.</p> <p>We regard KiwiSaver’s ongoing integrity as one that relies on prioritising members’ needs and using investment strategies that balance growth, liquidity, and risk to achieve member retirement outcomes.</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>n/a</p>
12	<p>Please provide any further comments on the proposed approach.</p> <p>n/a</p>

## 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.
13	Yes, we agree it is problematic. Given the risk characteristics of private assets, we think it will be very important to ensure a <b>high degree of transparency</b> as regards members' exposures. Current categories don't accommodate that very well.
	How do think the categories should be described?
14	<p>We don't have a particular view on the specifics of each reporting category. But we think a high level of transparency will be very important and, in the first instance, it may be helpful to have a <b>commonly agreed definition</b> of what constitutes a "private asset" for disclosure and ongoing reporting purposes.</p> <p>We think retaining some form of sector view would be important so investors can understand what part of their allocation to a particular is via private market vs public markets.</p>
	Please provide any other comments on the lack of private asset categories.
15	n/a
	Which option do you think is best and why?
16	Option four appears to provide the best transparency. Regardless of the reporting category, it needs to accommodate the fact that private asset exposures can and will be different (i.e. debt, private equity) and will not be limited to just NZ.
	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?
17	Yes, we expect that managers will incur implementation costs to change reporting categories—these will relate to system and data changes. We expect there will be one-off changes required and potentially ongoing costs if third-party data sets require refinement.

Please provide any further comments on this issue of including private assets in asset categories.

Where a manager has a relatively high level of exposure (level to be determined) to private assets, then it may be reasonable to contemplate some form of **“enhanced” client portfolio reporting** that provides more specific disclosure relating to the liquidity profile of the asset classes held by the fund and proportion of the fund being priced/valued on other than a daily basis.

- 18 Managers already disclose **“asset liquidity ratios”** in fund information lodged on the Disclose register. This could be included in published quarterly fund updates and potentially in OMI or PDS documents to ensure members have visibility of this important metric. It may be necessary to provide managers with some scope to exceed current constraints on PDS document length to provide for any additional disclosure.

It will also be important to ensure a consistent approach across the industry regarding what is or isn't illiquid for the purposes of the ratio calculations and that the basis of any calculations is independently verifiable. This will ensure that members can make comparisons across managers and schemes.

#### 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?

19

n/a

## Valuation requirements – questions for KiwiSaver providers or other industry

	<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>
20	<p>In our experience, KiwiSaver Scheme Trust Deeds already provide sufficient flexibility for the manager to value assets using various valuation methods, so long as that method is fair and equitable.</p> <p>Naturally, private assets will need to use alternative valuation methodologies to listed assets, however KiwiSaver trust deeds have flexibility. We do not consider the fact that Supervisors approve or are consulted on the valuation methodology used by the manager to be problematic. It is entirely consistent with the Supervisor's obligations under the FMCA to supervise the performance of the manager issuer's obligations (for the benefit of members and with regard to the terms and features of the fund).</p> <p>It is important for the manager to ensure that <b>the fund's assets are valued fairly and equitably regardless of the asset type</b>. In our experience, Supervisors are not conservative in their approach. While they are likely (having regard to their duties under the FMCA (see section 154) to expect managers to utilise market-accepted private asset valuation methodologies supported by sound governance and oversight practices and independent and objective third-party valuation assessments from time to time, this is consistent with the manager's general obligations under section 144 of the FMCA to <i>'exercise the care, diligence, and skill that a prudent person engaged in that profession would exercise in the same circumstances.'</i></p>
21	<p>Please provide any other comments on the valuation methodologies in governing documents.</p> <p>See comments in 22 above. We believe that the governing documents for KiwiSaver Schemes generally provide sufficient flexibility for the manager to value private assets fairly and equitably, referencing market-accepted private asset valuation methodologies.</p> <p>Given that the valuation methodologies used from time to time for private market assets are often based on inputs for which there is no observable market information - in times of significant market, industry or specific asset uncertainty (both upside &amp; downside), this may mean that regardless of valuation methodology employed, the value of the private market assets is inherently and materially unreliable necessitating (particularly for open-ended funds such as KiwiSaver) the need to suspend the fund or side pocket certain assets to ensure fair treatment of all members.</p>

22	Do you agree that this is an issue that needs addressing?
	See comments in 20 above.
	Do you have views on how it should be addressed?
23	<p>To the extent that trust deeds did not provide flexibility for valuing private assets, we expect that the manager and Supervisor could agree to amend the deed to accommodate such flexibility to enable those assets to be valued fairly and equitably. This is unlikely to be prejudicial.</p> <p>In addition, if the manager wished to establish a fund within the KiwiSaver Scheme focused on private assets, the establishment deed for that fund could accommodate specific valuation methodologies for that fund which could then be included in the disclosure documents provided to members that have chosen to invest in that private asset fund.</p>
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?
	We do not expect changes to governing documents (if needed) would be significant.
	Please provide any further comments on this issue of valuation requirements.
25	<p>We note that valuation approaches for private assets are receiving increased focus from APRA, particularly their frequency. Processes need to be well structured and have <b>strong oversight</b> – there is a desire from APRA to improve their timeliness and independence where possible.</p> <p>Refer Appendix for a link to APRA’s recent review into superannuation trustees’ progress in implementing enhanced valuation governance and liquidity risk management requirements.</p>

### Total Expense Ratio—questions for KiwiSaver providers or other industry

26	Do you currently outsource fund management for private assets?
	n/a
27	Do you see any issues with the current TER calculation and if so, what are they?
	We don't see any requirement to change the current approach. It is well-embedded and understood. If managers want to provide further explanatory comments as to the drivers of what may be a higher TER they can do so.
	We don't think it appropriate that any one asset class is somehow "incentivised" in the manner suggested.  Managers who determine that it is appropriate that a fund invest in private assets should be able to communicate to their members the benefits of that investment to members in terms of risk-adjusted returns (after fees and expenses). If managers are concerned that members or their financial advisors will not understand why investment in private assets may incur higher fees and expenses, then exposure to private assets may not be appropriate for them.
28	Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?
	n/a
29	Are there any other issues you would like to draw attention to on the TER?
	Private assets often have very complex underlying fee structures. Translating those into the TER calculations may well provide some challenges for managers, but that is not a reason to change the methodology.  If a manager has established a related-party investment vehicle to support/manage its private asset exposure, this should be clearly disclosed, and the costs paid to the manager, or its related parties should be included.

### 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?
	n/a
31	What do you think should be included in any figure that is called "KiwiSaver scheme fees"?
	n/a
32	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.
	n/a

## 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).
	Items 18b-f) all warrant attention and a fulsome discussion.
	<p>Further guidance may need to be developed in other areas, for example, the approach to and methodologies supporting the calculation of Risk Indicators in PDS documents for private assets where a lack of price transparency and historical data series makes Value at Risk calculations challenging.</p> <p>Guidance may also be required regarding the selection and/or construction of fund performance benchmarks that support member disclosures (e.g., fund updates) and performance fee calculations when the fund concerned holds private assets.</p>

## 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.
	<p>From a regulatory and Supervisory perspective, we believe that there should be a strong focus on ensuring fund managers investing in private assets have <b>the appropriate level of capability</b> to do so and have a suitably configured operating model (including investment governance oversight frameworks and processes). This is important irrespective of whether the manager is selecting and managing private assets directly or via third-party specialist managers.</p>
	<p>Further, Trustees/Supervisors will need to work closely with the regulator to ensure that the risk of private assets (within a particular fund and from a broader industry systemic perspective) are well understood and that managers are exercising the care, diligence, and skill that a prudent person engaged in that profession (of managing private assets) would exercise in the same circumstances.</p>
	<p>Regulators in other jurisdictions (Australia in particular) where private assets comprise a more significant level as a proportion of superannuation savings have been increasing their level of focus as concerns increase regarding the level of investment governance oversight being provided.</p> <p>Overseas, The Board of the International Organization of Securities Commissions (“IOSCO”) has published various consultation documents relating to the management of illiquid assets and in the UK, funds holding those type of assets and the managers of those funds have a <b>special designation to reflect the underlying risk characteristics</b>. The FMA should consider the extent to which it may want to draw out more specific expectations of MIS licence holders (e.g., enhanced reporting and monitoring requirements) managing a material exposure to private assets.</p> <p>As a final comment, it is not entirely clear that KiwiSaver managers being encouraged to invest significantly in New Zealand private assets, particularly an investment in New Zealand firms early in their development, would necessarily be commensurate with the Government’s desire to encourage growth of NZX share listings by New Zealand companies. For example, there could be a reallocation by KiwiSaver managers out of NZ listed equities and debt, into NZ private assets.</p>