

11 February 2025

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Enabling KiwiSaver investment in private assets

To Ministry of Business, Innovation & Employment

1. Summary

Thank you for the opportunity to submit on the discussion document “Enabling KiwiSaver investment in private assets”. We support the idea of ensuring New Zealand is maximising the economic benefit of KiwiSaver assets, including through investment in private assets, given the potential for broader economic benefits and wellbeing over the longer term. There are a number of ways in which this can be achieved, and we suggest that a principles-based approach, focused on two overarching themes, should be applied in assessing alternatives.

First, in line with OECD guidance, any changes to the regulatory environment to encourage investment in private assets should be guided by whether they are in the best interests of KiwiSaver members.

Second, as KiwiSaver is a voluntary scheme, any changes should not undermine trust in the KiwiSaver system or introduce complexity into a simple system that operates well for members.

We provide a brief summary of our assessment of these principles in the context of the changes proposed in the paper, more detail is provided in section 3 of this submission.

Investments in private assets introduce a number of risks. Two specific areas of concern relate to valuation and liquidity risk. From a valuation perspective, the risk of overvaluation of illiquid assets, and potential subsequent write downs would undermine trust in the KiwiSaver system, therefore providers need to ensure that they have robust processes in place for valuing these assets. From a liquidity risk perspective, the liquidity management tools discussed in the paper appear to be narrowly focused on shifting the liquidity risk to members. Our submission is that liquidity risk should not be shifted to the KiwiSaver member as this complexity is better managed at a fund manager level. We also suggest that there are other approaches that can be followed to include exposure to private assets within KiwiSaver portfolios, while at the same time overcoming some of the liquidity and valuation issues associated with direct investment in private assets, for example through pooled fund structures.

While we understand the need to grow investment in private assets to support our economy, direct investment by KiwiSaver providers with risks passed to members is not, in our view, the best approach. There are alternative approaches to achieving growth in private asset investment in New Zealand. We suggest more work should be done to understand the role that pooled fund structures can play in fostering investment in private assets. Other fund sources outside of KiwiSaver could also be explored as potential sources of private asset investment.

We support improving disclosures to help identify investments in private assets and believe this is beneficial from a transparency perspective.

We do not support removing costs related to private assets or third-party management from existing calculations of the total expense ratio. It reduces transparency and is misleading to members who wish to understand the total costs involved in managing the fund.



2. About us

Retirement Commission Te Ara Ahunga Ora aims to help improve the financial futures of New Zealanders for a better retirement for all. We are focused on helping people with not only information and skills but the confidence they need to develop their long-term wellbeing.

We focus on three areas: Retirement Income Policies, Retirement Villages and Financial Wellbeing

- We raise public understanding and advise Government on policies that will enhance retirement outcomes for New Zealanders.
- We monitor the effects of the retirement villages legal framework.
- We help New Zealanders think long-term to improve their financial outcomes and prepare for retirement.

3. Responses to proposals in the discussion paper

We note that your consultation document seeks feedback on changes that create a regulatory environment that better enables KiwiSaver investment in private assets. Specifically, you are considering making it easier for KiwiSaver providers to invest in private assets through the use of **liquidity risk management tools**, and ensuring **fund valuation requirements support private asset investments**. In addition, you are considering improving private asset visibility in **disclosure requirements**, and finally you are considering changes to the way that **total fees** are reported.

We address these in more detail below, but the overarching themes of our submission are that KiwiSaver member interests need to be the primary consideration when any of the above changes are considered, and change should not undermine trust in the system or introduce unnecessary complexity for members. As KiwiSaver is a voluntary retirement savings scheme, trust and simplicity are key to ensuring continued investment in and growth of the scheme.

As highlighted in section 3 of the KiwiSaver Act the purpose is *"to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits"*. Any changes in relation to private assets will need to be first and foremost of clear benefit to members. This aligns with guidance provided by the OECD¹ related to the use of private retirement savings to support economic development: "Safeguards and appropriate investment structures need to be in place to ensure that **pension providers continue acting in the best interest of members**. Strong governance and well-defined investment and risk-management strategies are necessary **to prioritise the interest of members** when engaging in new investment opportunities."

The OECD also emphasises that "Pension providers should invest in projects to support the economy as long as they do not generate lower returns relative to other investment opportunities with the same risk profile, and they **do not unduly increase the overall risk in the portfolio**." From a risk management perspective, the OECD has warned that pension funds need to be "extremely careful" when investing in illiquid assets.²

Our response to the proposals related to the use of liquidity risk management tools and fund valuation requirements to support private asset investments by KiwiSaver providers:

Investments in private assets create liquidity and valuation risks within the portfolio that need to be managed to ensure KiwiSaver members are not disadvantaged. Regulators around the world are

¹ [Strengthening Asset-backed Pension Systems in a Post-COVID World | OECD](#)

² [Pension funds must take 'extreme care' with liquidity risks, says OECD](#)



increasingly concerned about potential risks in private assets.³ A recent review carried out by the Australian Prudential Regulation Authority⁴ highlighted failings in the Australian superannuation system for managing valuation and liquidity risks and stressed the importance of valuation governance and liquidity risk management frameworks as investment in private assets increases. The IMF has also raised concerns about liquidity risk in the context of rising investments in private assets by pension funds.⁵

Any changes to KiwiSaver to accommodate private asset investments will need to create benefits for members that outweigh these risks. Our key concern is that proposed changes, such as side-pocketing and redemption gates, shift the liquidity risk, that currently sits with the KiwiSaver provider, to the member. This means that a member who needs to access funds, whether for hardship, a first home withdrawal, or to fund their retirement, could find themselves in a position where they are restricted from accessing a portion of their funds. We do not think that members should bear this risk. We believe that the liquidity risk for private asset investment is best managed at a fund level by providers and not members.

We are also concerned that restricting access to a portion of their funds for members, who have a legitimate claim to access their funds as set out in the current KiwiSaver legislation, may erode trust in the system. In addition, it will undermine confidence of members to invest their money within the KiwiSaver system if they believe they will not be able to access all of their funds for a specific requirement such as hardship, a first home deposit, or a retirement withdrawal.

Side pocketing and redemption gates also take away from the simplicity of the current scheme's switching and withdrawal arrangements. There may also be an unintended consequence of limiting competition as switching becomes harder and more complicated. Requiring members to agree to not transfer funds for specific time periods also impacts on competition as it locks them in with a particular provider, this is at odds with moves elsewhere to improve the ability of customers to switch to promote competition, such as in banking, with mobile phone providers, and power companies.

While the paper mentions an opt-in approach for redemption gates for those who choose to invest in funds that have a relatively high exposure to private assets, there is also a reference to using redemption gates to prevent "runs on the fund". We understand the need to have measures in place to ensure stability of the system, but we think that these measures need to be clearly designated for use in specific circumstances where there is systemic risk (for example to curtail a run on a fund), and not for managing individual withdrawals and switches for KiwiSaver members.

From a valuation perspective we are concerned that problems encountered in overseas jurisdictions, where superannuation funds have failed to manage conflicts related to valuing unlisted assets and potentially lacked expertise to do so⁶, could also be a problem if a larger share of KiwiSaver funds are invested in private assets. This could result in members having lower retirement savings than they expect due to write downs that occur when valuations have been overstated.

³ [FR10/23 Thematic Analysis: Emerging Risks in Private Finance](#)

⁴ [Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation - December 2024](#)
| APRA

⁵ [Global Financial Stability Report, October 2024 - Steadying the Course: Uncertainty, Artificial Intelligence, and Financial Stability](#)

⁶ [Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation - December 2024](#)
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We understand that growing investments in private assets could help provide money for New Zealand businesses looking to grow and help fund infrastructure projects to support our economy, which would help create jobs and lift standards of living. However, we suggest there are other ways to accomplish this aim with less risk passed to the KiwiSaver member, ensuring ongoing trust in the KiwiSaver system and continued simplicity for members who wish to make withdrawals or switch providers. Many other jurisdictions have also considered how best to include exposure to private assets in a defined contribution world, while at the same time ensuring the fiduciary duty to members is upheld. Around the world there are moves to create pooled fund structures that invest in underlying private assets (such as listed investment vehicles or special purpose vehicles) as a way to overcome some of the liquidity and valuation issues associated with unlisted assets.⁷ This is similar to how property managed funds and real estate investment trusts (REITs) created a more liquid way to access investments in property. We would suggest that this should be explored in more detail as an alternative approach rather than focussing on direct investment in private assets with the addition of liquidity management tools that impact on member's withdrawals and switching. There are also other fund sources, outside of KiwiSaver, that are potentially available to invest in private assets. Sixty percent of funds under management in the managed fund industry are outside of KiwiSaver⁸. Over and above these managed funds, the NZ Super Fund⁹ and ACC¹⁰ together have more funds under management than the combined KiwiSaver industry, providing other options for private asset investments.

Our response to the proposals relating to improving private asset visibility in disclosure requirements:

We support improved disclosures that promote transparency so that KiwiSaver members are able to see where their funds are invested. We believe that these additional private asset disclosures will improve the information available to KiwiSaver members, enabling them to clearly see which types of assets their KiwiSaver funds are invested in including investments in private assets.

Our response to the proposal relating to changes to the total expense ratio formula:

We do not support excluding specific fees from total expense ratios as we believe this is not in members' best interests. Should a manager charge higher fees they need to ensure this is fully disclosed and provide enough information and justification for their strategy to ensure that members can make an informed choice on value for money.

We agree with the FMA's view as set out in the discussion document that the removal of third-party management costs from the TER formula reduces transparency and has roll-on undesirable outcomes, including that total costs are not adequately disclosed to KiwiSaver members.

We hope that the information we have provided has been helpful and we are happy to respond to specific inquiries relating to this submission.

Retirement Commission

⁷ [A global guide to new fund vehicles for private assets](#)

⁸ <https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/statistics/series/shared/t40-41/2024/stats-insight-managed-funds-q3-2024.pdf>

⁹ [NZ Super Fund - Strong share markets take NZ Super Fund past \\$76 billion](#)

¹⁰ <https://www.acc.co.nz/about-us/our-investments>

