Simplicity Research Hub

Simplicity NZ

Submission on MBIE Discussion Document: Enabling KiwiSaver Investment in Private Assets

14th February 2025

1 Introduction

1.1 Simplicity Research Hub is the economics and research function at Simplicity NZ, a KiwiSaver scheme provider.

1.2 The main purpose of the Simplicity Research Hub is to improve the financial wellbeing of New Zealanders through research and advocacy.

1.3 This submission represents the views of Shamubeel Eaqub and Rosie Collins at the Simplicity Research Hub, based on our experience with economic and policy systems in New Zealand.

1.4 Our focus in this submission is on the fundamental barriers to unlocking greater private asset investment by KiwiSaver providers in New Zealand. We comment on:

- The scale of New Zealand's opportunity to invest in these asset classes through KiwiSaver
- The additional broader regulatory and policy settings we believe are diminishing New Zealand's capacity to reach this outcome at scale, particularly for infrastructure.

1.5 We note Simplicity NZ has also made a submission on the technical changes proposed to KiwiSaver's legislative framework, which we support. Please see the submission by Peter Wells, Head of Compliance, Risk and Legal at Simplicity NZ for these views.

1.6 In this submission, we focus on the importance of approaching capital market shallowness and infrastructure investment challenges systemically and improving the role and quality of government's coordinating functions in line with this. Without this broader lens, we do not believe the proposed changes to the legislative framework, while moving in the right direction, will sufficiently enable the much needed (and politically sought after) step-change required of New Zealand's infrastructure investment environment.

1.7 We believe a much stronger focus on regulatory and political risks is required. While we welcome this discussion document and strongly support progress to enable KiwiSaver investment in unlisted assets and infrastructure, further work to proactively engage the politics of infrastructure investment processes is needed.

2 General remarks on infrastructure investment

2.1 Attaining sufficient rates of infrastructure investment in New Zealand will remain challenging unless, alongside this proposal to change proximate barriers to this investment, we also address consistency in infrastructure decision processes, a much more fundamental challenge.

2.2 Inconsistency in the stewardship of infrastructure systems relates to:

- short political time horizons,
- incrementalism,
- conflict avoidance,
- indecision on major projects,
- confusion of roles and responsibilities in the governance of public goods and risk allocation, and
- a lack of systemic coordination and cohesion across the public sector (leading to a disproportionate focus on project-scale planning rather than processes which build enduring consensus for investment at a greater scale).

2.3 These dynamics are not easily solved, but moving towards more rules-based approaches on projects with broad agreement and clear prioritisation principles would help. We believe greater effort is necessary to ensure:

- the right kinds of investments are being put together (including investable proposals suitable for the long-term horizons of institutional investors like KiwiSaver),
- the processes which support project selection are well set up and durable across political cycles.

2.4 We believe the responsible institutions should be given the tools and resources to do this (such as the market-led proposal guidelines, the PPP funding and financing framework, and strategic leasing guidance currently being pursued by government). But in addition, it also requires proactive engagement with political and regulatory risks, rather than obscuring these or wishing them away. In our view, this is the major weakness of current approaches. Yet these are the development risks governments are best placed to engage and control.

3 The opportunity

3.1 Currently, KiwiSaver funds hold much less in private assets than our Australian equivalents, and international peers. The allocation in direct or alternative investments in NZ is around 2%, compared to 18% in Australia, 36% in Canada, and 40% in Germany.[1] Some of this is because of investment barriers like those addressed through these changes and some is due to our broader regulatory and political environment.

3.2 In the past, shallow capital markets and a constrained fiscal environment have limited our capacity to address our infrastructure gap. Simply, we cannot afford to spend our way out with purely public investment. New Zealand also needs to pull-on other levers to meet its infrastructure needs, including greater use of private capital (or else accept a worse public realm or higher taxes).

3.3 KiwiSaver is unique in being New Zealanders' money. This means in effect it is an avenue for collective ownership, without state ownership. Since beginning in 2007, KiwiSaver has categorically democratised savings and asset ownership in New Zealand, lifting the proportion of households saving regularly from less than 20% to almost 60% of households. KiwiSaver is unique in that its investors represent a wide cross-section of the New Zealand public, rather than a highly concentrated 'elite' group of wealthy or foreign investors.

3.4 The benefits of holding private assets in KiwiSaver – generally defined as investments in unlisted assets such as private equity, direct company holdings, and unlisted infrastructure – are significant for lifetime savings.[2] Removing barriers to this investment is good for both KiwiSaver members (who have more choices, better risk adjusted returns, and matching duration) and New Zealand businesses and infrastructure, who can benefit from access to more 'appropriate' funding and financing levers and stronger rates of infrastructure investment (and associated productivity gains, etc).

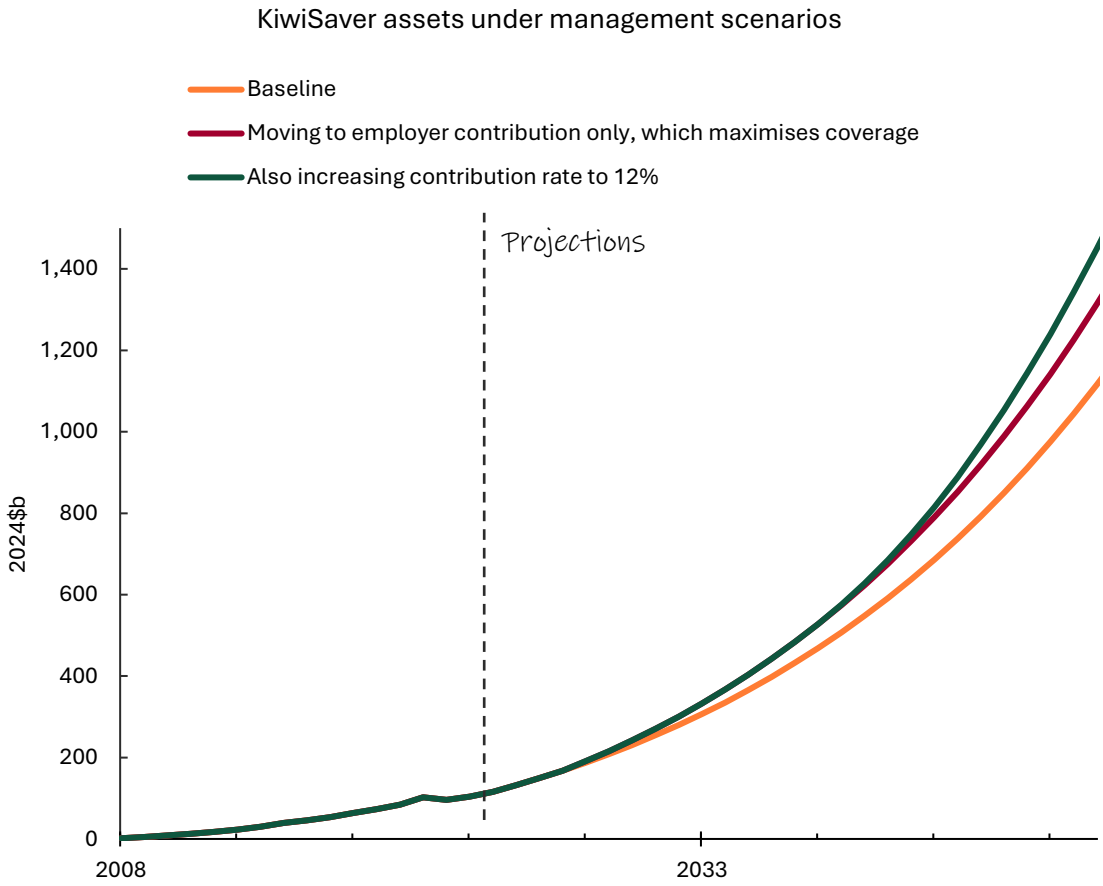
3.5 Increasingly, KiwiSaver is well placed to support the domestic investment environment at serious scale. On current trends, KiwiSaver will be worth over $1T (in today's prices) by 2050, which means private investment by 2050 could potentially grow by $184b over the next 25 years. This equates to over

[1] PwC Luxembourg. Beyond Their Borders: Pension Funds 2020 Edition. PwC, 2020.

[2] In the case of growth equity, for instance, UK research estimates that an average 22-year-old entering a default fund could experience a 7-12% increase in their total retirement savings if growth equity allocations average around ~5% over their working life. See British Business Bank. 2019. "Future of DC Pensions: Enabling Access to Venture Capital and Growth Equity."

$7.2b p.a., equivalent to ¼ of local and central government investment in infrastructure in 2024.

Figure 1: KiwiSaver will soon be a substantial investment pool



4 The right kind of investments

4.1 The sources of financing cannot fundamentally alter the economics of a project. **A necessary first step is ensuring that good projects – that is, ones that generate net social benefits – are chosen**. Before proceeding with new infrastructure investment, the question should be asked whether existing infrastructure can be operated more efficiently (e.g. through price signals). Projects should be independently examined using cost-benefit analyses where the assumptions are transparent and made available for public analysis.

4.2 Large-scale infrastructure projects are lumpy (difficult to liquidate) and require a period of extraordinarily high investment, which tends to align well with the long-term ("patient capital") horizons of institutional investors like KiwiSaver. But sound fundamentals are a precondition for managing the risks associated with deregulating financial markets to increase these investments.

4.3 The economics of project selection is very different from its financing. The production process of infrastructure systems involves three key stages:

- Development: Processes of needs assessment and commissioning.
- Construction: A moment of spontaneous material, physical, and relational land-use change.
- Operational: Choices around ongoing ownership and management structures.

4.4 Risks across the production lifecycle are highly varied, spanning far more than physical risks alone. Many risks arise because of poor incentives introduced by contract design or stagnant planning processes. Each stage has different risks and opportunities for investors, and they may not all be suitable for KiwiSaver.

Figure 2: Risk types across the infrastructure production cycle[3]

Development phase Pre-construction	Construction phase	Operational phase Including contract term
Planning and environment	Engineering	Demand
Project design	Changes in market conditions	Competing facilities
Political	Cost overrun	Operation and maintenance
Change of law	Construction delay	Appropriation
Regulatory		Financial default risk to public agency
Site		Refinancing
Permitting		Political
Procurement		Regulatory
Financing		Handback/residual value

4.5 General principles of infrastructure production favour risk allocation according to:

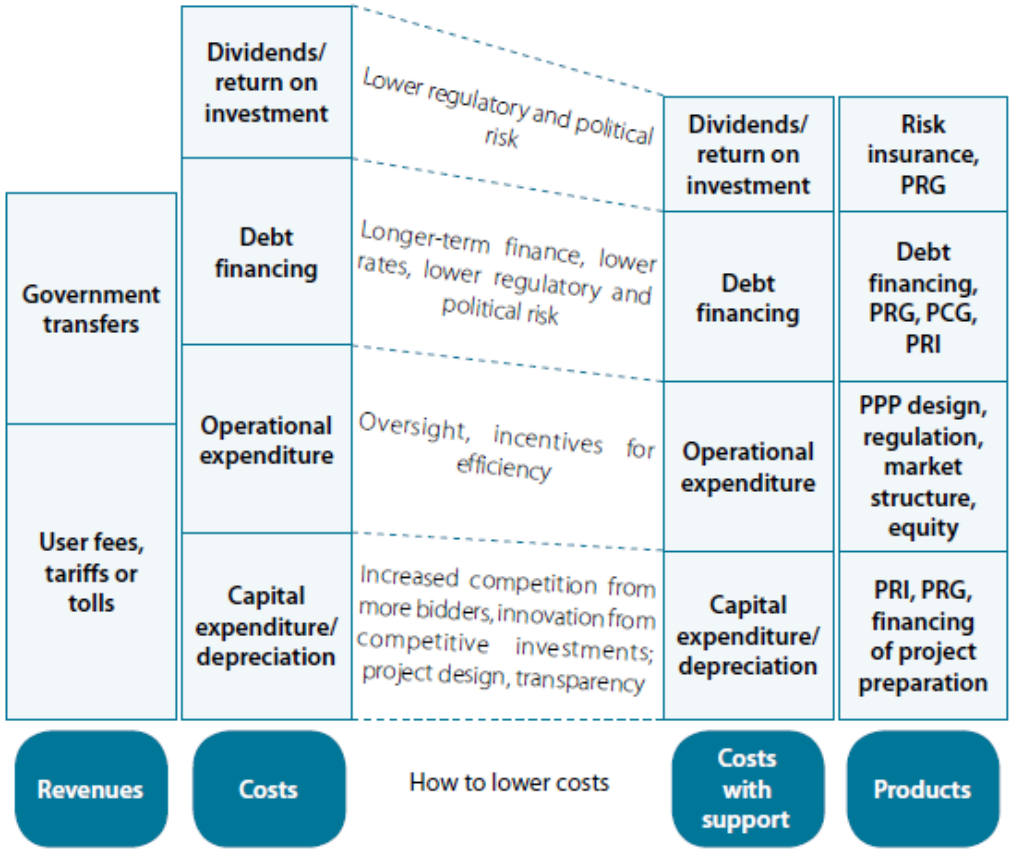
- The party best able to control the likelihood of the risk occurring.
- The party best able to control the impact of the risk on project outcomes, by assessing and anticipating a risk and responding to it; or

[3] Schwartz, Jordan Z., Fernanda Ruiz-Nuñez, and Jeff Chelsky. *Closing the Infrastructure Finance Gap: Addressing Risk*. Conference volume, 2014. Reserve Bank of Australia.

- The party best able to absorb the risk at lowest cost, where the risk cannot be controlled by either party.

4.6 As Figure 3 shows, there are specific tools that are used internationally to de-risk and reduce the cost of financing. Longer-term finance (such as that provided by collective, long-term vehicles like KiwiSaver) is one of the risk measures. So is political and regulatory stability. In defining government's role more clearly, it becomes clear that government is uniquely placed to address political and regulatory risks where others in the system are unable to do so.

Figure 3: There are a mix of avenues to lower costs of infrastructure financing[4]



Notes: PRG denotes partial risk guarantee; PCG denotes partial credit guarantee; PRI denotes partial risk insurance

5 Durable political frameworks

5.1 Technical solutions cannot stand in for democratic processes, which are inherently confrontational. This confrontation is necessary for political endurance. It should be anticipated.

[4] ibid.

5.2 Currently, there is little focus on Government's systemic role in reducing regulatory and political risk. For instance, while Te Waihanga, address physical risks in their discussions of their national infrastructure plan (e.g. as a resilience problem to natural hazards) – they do not address policy process risks involved in infrastructure production or project selection directly.

5.3 Our view is risk allocation will be ineffective if government does not conceive its role in reducing and creating these risks effectively. Long-term success is dependent on durable political processes which build to strategic conviction.

5.4 While the development of the recent PPP framework in 2024 is a necessary technical contribution for thinking about process risks at the construction stage, it is not currently nested in a broader framework for thinking about the Government's role in improving project viability for institutional investors across the infrastructure lifecycle (e.g., including at the project selection and operational phases).

6 Conclusion

6.1 We support the spirit of changes proposed to KiwiSaver's legislative framework. These technical solutions are necessary but not sufficient. The aspiration to unlock KiwiSaver for infrastructure investment cannot be achieved without also reducing political and regulatory uncertainty.

6.2 To make the most of the opportunity, government also needs to take a leading role on coordination processes which support appropriate project selection, production contracts, and financing arrangements. These need to be enduring over time if they are to address the regulatory and political risks perceived by investors.

Shamubeel Eaqub, Chief Economist

Shamubeel.eaqub@simplicity.kiwi

021 573 218

Rosie Collins, Economist

Rosie.collins@simplicity.kiwi

14/02/2025

Simplicity Research Hub