

Investing in Private Assets

Joint Paper on Key Recommendations to Reduce Barriers and Challenges for KiwiSaver Funds to Invest in Private Assets

Version 1.1



CENTRE FOR
**Sustainable
Finance**
TOITŪ TAHUA



Waipuna-ā-rangi



Ururangi



Hiwa-i-te-rangi



Matariki



Tupu-ā-rangi



Waitā



Waiti



Tupu-ā-nuku



Pōhutukawa



Background

As highlighted in the *Growing New Zealand's Capital Markets 2029* report, despite the growth of private markets in Aotearoa New Zealand, they may not be serving the full range of domestic investors such as many KiwiSaver investors. The KiwiSaver regime prioritises saving and overall has a high exposure to overseas assets but limited exposure to private markets.¹ As at 31 March 2022, 68.5% of KiwiSaver money was invested in overseas equities & fixed interest, and likely less than 2-3% was allocated to private assets.²

Across OECD countries, both public and private pension schemes have a wide variation in asset allocation. New Zealand's KiwiSaver schemes in aggregate have a higher exposure to equities (ranked the 7th highest at 44.2%) than many other countries.³ Compared to countries with similarly structured tier-three, privately provided and defined contribution pension schemes such as Australia and Chile, KiwiSaver has similar level of exposures to equity securities (i.e., 44.2%, compared to 47.0% in Australia and 43.9% in Chile); however, Australia has a much higher exposures to "other" types of assets (27.2%, compared to only 3.4% estimated for KiwiSaver) which include private assets, indicating a greater degree of diversification.⁴

The very low exposure to private assets amongst KiwiSaver funds differs from global patterns where pension funds in many countries are significant investors in less liquid asset classes. G20 governments plan to rely more on private investment to develop green and transformative infrastructure. Institutional investors, such as pension funds, are expected to double their allocation to private market assets over the next five years, with non-listed infrastructure investments likely to increase substantially.⁵

The benefits of investing in private assets are evident: firstly, increased diversification and lower correlation with other asset classes help reduce risk at the portfolio level; secondly, although not guaranteed, there's potential for higher returns (especially with private equities). However, the process of investing in private assets is also often more demanding and would involve various considerations, such as: identifying available opportunities in NZ or offshore; determining the investment approach and adjusting systems if needed; and pricing considerations, competitor assessment, and alignment with members' expectations and legal requirements. There may also be some actual or perceived barriers and/or challenges that hinder the consideration of private assets as an option.

On 12 May 2023, senior representatives from major banks, insurers and government agencies met with the Minister of Finance Grant Robertson to discuss how to build long term resilience into New Zealand's recovery from recent extreme weather events. Investment by KiwiSaver and other investors into sustainable, long-term assets and infrastructure, many of which fall under the category of private assets, was a key discussion topic. The Minister requested the Centre to put forth recommendations in this regard.

Following the meeting, the Centre for Sustainable Finance convened an industry led "Investing in Private Assets" Working Group (IPA WG) formed by senior representatives from KiwiSaver providers as well as relevant industry stakeholders to jointly work on the recommendations. This is also in line with the recommendation to "*Remove barriers to sustainable finance and investment, including liquidity requirements for KiwiSaver...*" under the priority area "standards and pathway" in the Sustainable Finance Forum's 2030 Roadmap for Action.⁶

¹ [FMA \(2019\) - Growing New Zealand's Capital Markets 2029](#)

² [FMA \(2022\) - KiwiSaver Annual Report 2022](#)

³ KiwiSaver schemes in aggregate are ranked the 7th highest at 44.2%, much higher than the US (36.4%) and UK (26.4%). Data on other OECD countries are derived from [OECD Global Pension Statistics](#). KiwiSaver assets are grouped by using OECD's asset class categories and the latest data from Reserve Bank of New Zealand (i.e. as of March 2023).

⁴ [OECD Global Pension Statistics](#). The "Other" category in OECD statistics includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, structured products, other mutual funds (i.e. not invested in equities, bills and bonds or cash and deposits) and other investments.

⁵ Global Infrastructure Hub (2022) - Pensions are poised to power an ESG-driven global economy

⁶ The Aotearoa Circle - [Sustainable Finance Forum's 2030 Roadmap for Action](#)



Objectives and progress

The IPA WG agrees that the industry could play a bigger role in investing in the sustainable futures of New Zealand whilst delivering better long-term value for the KiwiSaver members. Since the formation of the working group, a series of meetings have been held throughout June to August 2023. The working group discussed whether there are any key barriers and challenges, perceived or otherwise, for KiwiSaver funds, especially those growth-focused funds, to invest into private assets. In an inclusive and practical manner, the working group also developed recommendations and practical solutions, along with their priority ranking and key action owners, that may help remove the identified barriers and challenges.

Guided by international best practices and domestic legislative frameworks for pension schemes like KiwiSaver, the overall objective of the recommendations put forward in this paper is still, first and foremost, centred around bringing better values to the KiwiSaver members. In addition, the IPA WG hopes that by enabling more proactive considerations of private assets and investments into various types of assets, it could unlock their potential in contributing to the prosperity and sustainability of Aotearoa New Zealand economy and society as a whole.

During the course of these discussions, the IPA WG also noted the efforts from other parts of the economy in advocating the need to reduce the barriers of investing KiwiSaver funds into private assets. For instance, the Startup Advisors Council, an industry-led group supported by the Ministry of Business, Innovation and Employment (MBIE), listed “[removing] barriers that impede KiwiSaver funds from investing in the sector” as one of its top 10 recommendations in its recent submission to the Government.⁷ The barriers highlighted in its report, such as requirement for daily liquidity, intense focus on fees and daily valuation, have also been identified by the IPA WG.

⁷ Startup Advisors Council (2023) - [UpStart Nation](#)



Key Barriers and Challenges Identified by the IPA WG

Based on earlier conversations during the set-up of the WG and the discussions conducted during the WG meetings, the IPA WG and the Centre for Sustainable Finance have identified the following key barriers and challenges that may have discouraged, limited, or even prevented some growth-focused KiwiSaver funds from proactively considering and/or investing into private assets:

- 1. Policy certainty and regulatory clarity.** Overall, the current KiwiSaver scheme lacks regulatory recognition of private assets. As a result, there is a lack of clear guidance on various operational aspects for funds with exposures to private assets, such as liquidity risk management, daily pricing and proper description in fund documentation and classification. In addition, the “value for money” framework and the assessment requirement of default providers also led to intense focus on fees.
- 2. KiwiSaver managers' capacity and capability.** Investing in private assets necessitates specialised skills and knowledge that may not be widely available within the industry. Outsourcing this expertise could lead to higher fees, potentially reducing returns, and making it difficult to comply with government regulations regarding lower fees. Further, due diligence for private equity is challenging and time-consuming.
- 3. Organisational and market challenges posed by private assets.** The general lack of data and disclosures makes it more challenging for private assets to be discovered or pass the investment assessment process. Investing in private assets may also lead to increased costs, which could cause concern for the Board and shareholders of some KiwiSaver providers.
- 4. KiwiSaver members' expectation and financial literacy.** The number of KiwiSaver members has increased significantly; however, the average balance is relatively low which hinders active engagement on specific types of underlying assets. The financial literacy of KiwiSaver members generally remains low, which makes it also challenging for many members to understand the concept and potential benefits of investing in funds with exposure in private assets.



Key Recommendations

The IPA WG has agreed on the following key recommendations, based on discussions within the working group as well as feedback provided by relevant stakeholders.

Recommendation 1: improve policy certainty and regulatory clarity

The government can play a role in helping realise the full potential of the private sector's involvement in decarbonisation. It can encourage and de-risk private investment, provide long-run policy clarity and certainty, investment confidence, and through blended finance.

However, as there is currently no clear regulatory recognition of private assets, it leaves considerable ambiguity on various operational aspects for funds with exposures to private assets, such as liquidity risk management, daily pricing and proper description in fund documentation and classification, etc.

The IPA WG thus recommends that greater policy and regulatory clarity and additional guidance would help greatly lower these barriers for investing in private assets. **The recommendations are:**

- a. To shift the focus from cost to value, the government and the regulators consider more proactive communications of their supportive messaging in investing in private assets, especially for those assets that could bring positive impacts to the public and future generations in New Zealand.**
 - The FMA reiterates that its focus on “value for money” (VfM) does not simply mean lower fees. Under a VfM framework, a KiwiSaver fund can and should still be able to invest in growth assets that provide long-term value for the fund and should involve funds seeking to provide investment strategies that differentiate from passive indices or benchmarks. The current selection of default fund providers is indeed heavily focused on fees, but such criteria shouldn't extend to non-default funds where KiwiSaver members could make an active choice about what they want from their provider.
 - The WG acknowledges that private assets are not for all KiwiSaver funds and recognises the implications of including such assets on fees, including the management expense ratio at the fund level. Investment decisions, however, should be based on careful evaluation of different options and long-term value for members, rather than a blanket exclusion of certain types of assets.
- b. The regulators provide additional guidance or clarification on practical aspects of investing in private assets.** Specifically, this means that:
 - **The FMA provides more operational guidance on liquidity risk management, risk indicator calculation and daily pricing.**
 - Given the FMA is in the process of producing a liquidity risk management guidance, this new guidance – expected in Q3 2023 – specifically covers the challenges posed by investing into illiquid assets. It could help de-bunk any suggestion that the FMA is opposed to investing in less liquid assets, and assist fund managers in understanding the expectations of the FMA in how liquidity risk is managed within funds that involve less liquid assets.
 - FMA also provides more guidance on how to calculate risk indicators for funds with exposure to private assets, and whether there could be any specific requirements on investors investing in higher-risk funds.
 - The WG also recommends the FMA to provide more guidance on the expectations in terms of daily pricing and what that means for illiquid assets. Many private assets are valued once a month at best and more likely once a quarter or even once a year.
 - **MBIE and FMA investigate the current switching structure for KiwiSaver providers and funds and assess whether these are fit for purpose.** The ability to switch funds and even providers at short notice is not conducive to long-term investing and imposes significant liquidity and pricing challenges for KiwiSaver funds. Setting a minimum notice period, especially for funds involving less-liquid assets, would allow providers to offer funds that truly differentiate themselves from others – for instance by having a clear and demonstrable sustainability mandate and having exposure to higher-risk, less liquid assets.
- c. The Government continues proactively encouraging the establishment of long-term funds that invest in long-term, sustainability-aligned assets in New Zealand.**



- The WG recommends the FMA to explore potential policy and legislative frameworks – or revisit the current “value for money” guidance - that would further encourage the establishment of long-term growth funds with exposure to long-term, sustainably-aligned assets such as infrastructure investments and early-stage innovative technology firms. These investments are important to ensure future prosperity and sustainability of New Zealand’s economy and improve wellbeing of New Zealanders including future generations to come.
- d. The regulators investigate whether there is any tax disincentive for investing in KiwiSaver in general, or specifically for funds that include private assets, and whether the current tax treatment has limited the contribution level.**
- MBIE or IRD looks into whether there is any tax disincentive for investing in KiwiSaver in general or incentives for investing in certain types of private assets with positive sustainability outcomes. The latter would benefit from a domestic classification system of sustainable activities, which is currently being developed by the Ministry for the Environment with support from the Centre for Sustainable Finance. In addition, compared to other OECD countries, it is worth looking into whether the current tax treatment has limited the contribution level. This could come as part of a broader review of the KiwiSaver.

Recommendation 2: support the discovery of private asset investment opportunities

Although there are some similarities in fundamental methodologies compared to investing in listed assets, investing in private assets necessitates specialised skills and knowledge that may not be widely and evenly available within the industry. The process of investing in private assets involves various considerations, such as: identifying available opportunities in New Zealand or offshore; determining the investment approach and adjust systems if needed; and, pricing considerations, competitor assessment, as well as alignment with members’ expectations and legal requirements. Moreover, due diligence on private equity is generally more challenging and time-consuming.

Although expertise does exist in New Zealand, it is not necessarily available within every provider. Outsourcing this expertise could lead to higher fees, potentially reducing returns, and making it challenging to meet the general expectation of lower fees or “value for money”.

Thus, it is important, on one hand, to create a market platform that could help support KiwiSaver managers in identifying private asset deals opportunities, and on the other hand, to create market education resources that help equip KiwiSaver managers with skills and guidance in assessing private assets. **The recommendations are:**

- a. The industry explores the establishment of a market mechanism that helps facilitate the discovery of private asset investment opportunities.**
- The development of such mechanism could be in phases: in the beginning, it could, for example, take the form of a repository of information and relevant resources. More functions and capabilities, such as price discovery, could be developed at a later stage.
 - Such mechanism could potentially be, solely or jointly, funded and/or established by the government, leveraging market-making experiences in existing government-led decarbonisation funding initiatives such as New Zealand Green Investment Finance (NZGIF) and the Government Investment in Decarbonising Industry (GIDI) Fund. If such a mechanism were considered, it could, in turn, be used to support NZGIF and GIDI in identifying funding opportunities.
- b. The industry joins efforts and provides more educational support to KiwiSaver scheme managers and private assets issuers.**
- Educational support could be provided for domestic private asset issuers on accessing KiwiSaver funds, such as on specific requirements, obligations, as well as preparation of standardised investor-facing documentation. This could help further grow the domestic private markets and foster the emergence of more assets that meet the investment criteria of KiwiSaver funds.
 - It is equally important to provide educational support to KiwiSaver scheme managers, to raise their awareness of diverse range of private assets and to equip them with necessary knowledge and skills. This could also be done jointly with other relevant industry bodies such as the Institute of Finance Professionals New Zealand Inc (INFINZ).
- c. The FMA considers requiring more granular disclosures on asset allocations to different types of private assets (e.g., private equity, private debt, property, infrastructure, etc.).**



- The availability of such information at an aggregate level so both the industry and regulator can better track the progress.
 - At minimum, there could be broad categorisation between debt and equity, subdivided by asset location (i.e., New Zealand or overseas).
- d. Although more investments into New Zealand private assets would be desirable, the WG considers that investing in overseas private assets shouldn't be discouraged.**
- This is required to manage risk and return and ensure asset diversification for retirement saving funds. In addition, if overseas private assets would contribute positively to relevant global agenda, such as climate change, it will also benefit New Zealand.

Recommendation 3: promote financial literacy of KiwiSaver members

The number of active/provisional KiwiSaver members has increased significantly over the past few years, reaching 3,204,352 as at 30 June 2022.⁸ However, many KiwiSaver members' financial knowledge is still limited⁹, not to mention understanding and consideration of funds involving private assets. The relatively small balance, an average of NZ\$31,256 (excluding 230,177 members aged 17 and under of the data set)¹⁰, coupled with often a negligible portion of private assets in the overall portfolio of funds, means that there is limited incentive for members to actively engage.

However, there is a rising interest from members to invest more ethically, or to think about the impact of their KiwiSaver investments. This is evident from the net increase in investments into socially responsible funds.¹¹ Once committed, those ethical investors generally didn't monitor the ongoing ethical performance of their chosen fund, nor consider replacing it with another.¹² FMA also highlighted the issue of information inconsistency and confusing terminology specifically for funds to be ethical, responsible, sustainable, or otherwise considered ESG-oriented.¹³

As a result, the WG considers that one hand, the priority could continue focusing on improving members' general understanding of the products and basic financial literacy, and on the other hand, the regulators could produce industry guidance to improve consistency in fund naming and classification as well as ethical/sustainability claims so members could make more informed decisions in their investments. **The recommendations are:**

a. The regulators provide guidance on consistent approaches in describing private assets in relevant documentation, as well as classifying and naming funds with exposure to private assets and/or specific features (e.g., socially responsible, sustainable).

- The FMA provides guidance on how to describe different types of private assets in a Product Disclosure Statement (PDS) in case of a fund with such exposure.
- The FMA also provides guidance on how to classify funds involving private assets, e.g., whether it should be classified as "income" or "growth", depending on the types of private assets included.

b. Both the regulators and individual providers reinforce KiwiSaver's long-term investment philosophy in communications and marketing materials to members.

- The Council of Financial Regulators (CoFR) consider embedding KiwiSaver and considerations for investing in private assets in relevant discussions, either under the current priority themes including "Climate risks", "Inclusion" and "Regulatory effectiveness", or as a separate theme. This may help ensure a more consistent and coordinated approach across regulators with regards to KiwiSaver.

c. The Retirement Commission considers including high-level introduction of private assets and funds involved in such assets in their member-focused guides.

- Such guides could be, for instance, provided through the Sorted website (<https://sorted.org.nz/guides/kiwisaver>). Relevant information should be digestible and consistent. Individual providers could consider including the guides in their communications with members.

⁸ IRD, KiwiSaver member demographics

⁹ Te Ara Ahunga Ora Retirement Commission (2020). [Financial Knowledge of New Zealanders](#)

¹⁰ Te Ara Ahunga Ora Retirement Commission, [New data reveals for the first time largest breakdown of KiwiSaver balances across all ages and genders](#)

¹¹ FMA, [KiwiSaver Annual Report 2022](#)

¹² FMA, [KiwiSaver Annual Report 2022](#)

¹³ FMA, July 2022, [Integrated financial products: Review of managed fund documentation](#)



- The “KiwiSaver fund finder” tool on Sorted could include options related to private assets. This would clearly require a consistent approach in describing private assets exposure or focus on the fund level.
- d. More public communications on examples of KiwiSaver funds investing in tangible private assets (e.g., social housing projects) could help members better grasp the concept and benefits of these specific products.**
- Such case studies could be showcased on Sorted and/or the market support mechanism as mentioned under **Recommendation 2a**.



Recommendation Matrix

Recommendations	Actions	Priority*	Action Owner	Key Barriers / Challenges			
				Policy certainty and regulatory clarity	KiwiSaver managers' capacity and capability	Organisational and market challenges posed by private assets	KiwiSaver members' expectation and financial literacy
Recommendation 1: improve policy certainty and regulatory clarity	1a. More proactive communications of their supportive messaging in investing in private assets	●	FMA	√	√	√	
	1b. Additional operational guidance or clarification for funds involving private assets	●	FMA MBIE	√	√	√	
	1c. Proactively encourage the establishment of long-term investment funds	●	FMA	√	√	√	
	1d. Investigate the existence of any tax disincentives	●	IRD MBIE	√	√	√	√
Recommendation 2: support the discovery of private asset investment opportunities	2a. Establish a market mechanism such as an information repository	●	<i>To be identified (e.g., potentially the next phase of the IPA WG)</i>		√	√	



	2b. Educational support to private assets issuers and KiwiSaver managers	●	<i>To be identified (e.g., potentially the next phase of the IPA WG)</i>		√	√	
	2c. More granular disclosures on private asset allocations	●	FMA All providers	√	√	√	
	2d. Inclusion of oversea private assets	●	All providers		√	√	
Recommendation 3: promote financial literacy of KiwiSaver members	3a. Consistent approaches in private asset disclosures	●	FMA	√	√	√	
	3b. Reinforce KiwiSaver's long-term investment philosophy	●	CoFR	√	√	√	√
	3c. High-level member guide on private assets	●	Retirement Commission			√	√
	3d. Showcase impactful private asset investment stories	●	Retirement Commission			√	√

Note: "√" means that the specific action would most likely help address the corresponding barrier/challenge.

* ●: high-priority and near-term; ●: medium-priority and/or requiring a longer-term process; ●: low-priority or neutral stance



Glossary

Abbreviation	Full Name
CGT	Capital gains tax
CoFR	The Council of Financial Regulators
FMA	Financial Market Authority
FSC	Financial Services Council
GDP	Gross domestic product
GIDI	Government Investment in Decarbonising Industry
IFP	Integrated financial product
INFINZ	Institute of Finance Professionals New Zealand Inc
IPA	Investing in private assets
IRD	Inland Revenue Department
MBIE	Ministry of Business, Innovation and Employment
NZ	New Zealand
NZGIF	New Zealand Green Investment Finance
NZX	New Zealand's Exchange
OECD	Organisation for Economic Co-operation and Development
PDS	Product Disclosure Statement
PIE	Portfolio investment entity
PIT	Personal income tax
RBNZ	Reserve Bank of New Zealand
VfM	Value for money
WG	Working Group



Annex 1 - Key barriers and challenges identified by the IPA Working Group

No.	Key barriers and/or challenges	Key stakeholder(s)
1	<p>Policy certainty and regulatory clarity</p> <p><i>Overall, the current KiwiSaver scheme lacks regulatory recognition of private assets. This is, for instance, reflected in the lack of guidance on liquidity risk management that is specifically in consideration of characteristics of private assets.</i></p>	Regulators
1.1	<p>Liquidity thresholds</p> <p><i>There is guidance on liquidity management and valuation risk that KiwiSaver providers need to take care of - these aren't explicitly prohibitive and are just requirements that need to be met to invest in anything illiquid, however there is also no specific guidance for KiwiSaver funds on how to better manage liquidity risk when it comes to investing in private assets. Private assets, such as unlisted equities and property, may not have a readily available market like publicly traded assets, leading to liquidity concerns for KiwiSaver funds with a high proportion of private assets. Challenges also arise from the case of privately held assets in a mixed portfolio with liquid assets, impacting the portfolio composition and investment mandate.</i></p> <p><i>The lack of clarity regarding FMA expectations on liquidity requirements prevents providers from making informed investment decisions. Further, fund managers must be prepared for any KiwiSaver member to switch their KiwiSaver account to a different provider.</i></p>	FMA
1.2	<p>Account portability</p> <p><i>KiwiSaver managers don't have investors locked in and have to be able to liquidate investors at any point if they want to transfer between schemes. This is predictable in terms of when funds are scheduled to be taken up, but difficult to predict when people want to switch providers.</i></p> <p><i>There may be also lack of incentives for KiwiSaver managers to move out of the default KiwiSaver scheme and facilitate easier adoption of recommendations without altering default settings.</i></p>	FMA MBIE
1.3	<p>Adjustable limits on funds requiring daily pricing</p> <p><i>There may be general worries from the regulators regarding the pricing fairness of private assets in KiwiSaver funds, due to the challenges in pricing illiquid assets.</i></p> <p><i>While listed equities are priced daily, unlisted assets require significant effort from fund managers to establish a price. Currently, it is unclear what the limits are on the proportion of funds that need to be priced daily and whether these limits could be adjusted to encourage the uptake of private assets. There are significant fairness consequences for investors who are looking to withdraw from KiwiSaver if this is not set correctly.</i></p> <p><i>The varying pricing update frequencies for different asset classes also pose complexities for KiwiSaver managers when including private assets in a portfolio.</i></p>	FMA
1.4	<p>No preferential tax incentives for KiwiSaver investments</p> <p><i>New Zealand's current tax regime on KiwiSaver means that for individual KiwiSaver members, the tax rate on capital gain from their KiwiSaver</i></p>	MBIE IRD



	<p>investments would be lower than a normal investment tax rate; however, the KiwiSaver program has centred around tax incentives for managed funds. Contributions are made from taxed income, and funds and income are taxed upon retirement. However, there has been little consideration for how to leverage the long-term investment horizons of KiwiSavers.</p>	
1.5	<p>The “value for money” framework sometimes led to focus on lower fees in practice</p> <p>Some KiwiSaver providers may interpret FMA's focus on “value for money” simply as lower fees, which in turn discourages private asset investment due to the potential increase in costs, such as hiring experts or externalising management.</p>	FMA
2	<p>KiwiSaver managers' capacity and capability</p> <p>Investing in private assets necessitates specialised skills and knowledge that may not be widely available within the industry. Outsourcing this expertise could lead to higher fees, potentially reducing returns, and making it difficult to comply with government regulations regarding lower fees. Further, auditing for private equity is challenging and time-consuming.</p> <p>The process of investing in private assets involves various considerations:</p> <ul style="list-style-type: none"> • Identify available opportunities in NZ or offshore. • Determine the investment approach and adjust systems if needed. • Pricing considerations, competitor assessment, and alignment with members' expectations and legal requirements. <p>It is important to have a guide or framework to navigate these aspects and achieve the intended objectives. System enhancements may be necessary to address issues related to portability, valuation, and liquidity.</p>	KiwiSaver investment teams, the industry body
2.1	<p>Limited capability in evaluating private asset options</p> <p>Limited team size and capabilities hinder the assessment of private market investments, underscoring the need for solutions.</p>	/
2.2	<p>Risk-return considerations and compliance obligations</p> <p>Incorporating certain types of investments may present challenges due to risk-return considerations and compliance obligations.</p>	/
2.3	<p>Investment selection methodology and criteria</p> <p>Methodology and criteria for selecting investments may exclude certain options, such as unrated or unsecured investments.</p> <p>For the current KiwiSaver schemes, the considerations of specific sustainability themes, such as low-carbon transition, has not yet specifically focused on private assets.</p> <p>Some private investments may not contribute to sustainability. The taxonomy, SDGs, and climate-related disclosures offer a broad framework for classifying private assets into sustainable investments and driving their impact.</p>	/
2.4	<p>Availability of domestic private asset investment products</p> <p>It's largely agreed that there's limited availability of NZ private assets (e.g., infrastructure) that meets the investment criteria of KiwiSaver funds. For instance, in the fixed-income markets, due to limited availability of New Zealand-based fixed income teams willing to invest in unrated securities, private market investments primarily involve foreign or larger entities. This necessitates</p>	/



	<p><i>exploring international opportunities despite the industry's willingness to invest in domestic private assets.</i></p> <p><i>For private assets that would positively contribute to global agendas (e.g. climate change mitigation), investing in such assets overseas would still have positive, direct or indirect, impacts on New Zealand.</i></p>	
3	<p>Organisational and market challenges posed by the private assets</p> <p><i>Necessary skill sets within the organisation; the need for additional authorization; competitors' actions; organisation's aspiration to be a leader in the space</i></p>	KiwiSaver providers
3.1	<p>Board buy-in within KiwiSaver providers</p> <p><i>There is a general concern associated with the increased cost associated with investing in private assets, and the pressure to reduce costs, especially at the Board level. Difficulty in assessing private asset investments within the equity framework hinders their acceptance at the Board level, limiting its inclusion. Investing in private assets may also lead to increased costs for the business, impacting profits, which could cause concern for the Board and shareholders.</i></p> <p><i>The question is how to restructure the investment portfolio to mitigate any additional financial burdens for the business.</i></p>	/
3.2	<p>Exit mechanisms</p> <p><i>The changing nature of costs and returns in private assets necessitates the development of exit mechanisms to introduce liquidity over time. This may involve exploring a secondary market or the option to sell stakes at a later stage.</i></p>	/
3.3	<p>Information deficiency of private assets</p> <p><i>Private assets/projects suffer from limited visibility due to a lack of data and disclosure, making it challenging for funders to find suitable projects, or for such projects / assets to pass the investment assessment process of some KiwiSaver funds.</i></p> <p><i>This issue is similar to that of the biodiversity credit and voluntary carbon markets, where the absence of data hampers market evaluation. However, if projects were aware of available funding, they would endeavour to make themselves visible.</i></p>	/
4	<p>KiwiSaver contribution certainty, member expectations, and financial literacy</p>	KiwiSaver providers and members
4.1	<p>Lack of certainty of inflows</p> <p><i>Joining KiwiSaver is optional and eligible employees can choose to opt out; whilst in other jurisdictions, such as Australia and Hong Kong, similar pension schemes are mandatory, and some have imposed a minimum threshold of contributions from both employees and employers (e.g., minimum 5% each in Hong Kong).</i></p>	IRD MBIE The Treasury
4.2	<p>Members' expectations and capability in evaluating private asset options</p> <p><i>Explaining complex concepts to New Zealanders with limited financial knowledge can be a challenge.</i></p> <p><i>According to FMA's KiwiSaver Annual Report 2022, membership of 'socially responsible' funds jumped 64.1% to 36,307 members, while their holdings climbed 60.8% to \$891.1 million. However, the ESG category was seen as difficult to</i></p>	Members Individual providers (product materials, consultants' capability, etc.)



navigate, and the terminology confusing; and once committed, ethical investors generally didn't monitor the ongoing ethical performance of their chosen fund, nor consider replacing it with another.

In addition, the FMA report found that managers of managed investment schemes are not sufficiently explaining or supporting the ESG features and benefits of their funds. Based on a high-level review of 14 KiwiSaver and non-KiwiSaver funds claiming to be ethical, responsible, sustainable, or otherwise considered ESG-oriented, FMA found fund managers do not provide information consistently, which makes informed investor decision-making more difficult.



Annex 2 - Summary of current legislation for investments by KiwiSaver

The KiwiSaver savings initiative is governed by the following acts and regulations.¹⁴

KiwiSaver Act 2006

The principal legislation governing KiwiSaver is the KiwiSaver Act 2006.¹⁵ This legislation contains all the details and requirements that your scheme must meet to be eligible to register as a KiwiSaver scheme. Schedule 1 of this act contains the rules all KiwiSaver schemes must follow.

Section 129 of Financial Markets (Repeals and Amendments) Act 2013, which repeal the original section 199 of the KiwiSaver Act 2006, requires that “[e]very product disclosure statement relating to an offer of interests in a KiwiSaver scheme...must contain a statement...if it is a scheme that takes responsible investment, including environmental, social, and governance considerations, into account in the investment policies and procedures of the scheme”.

Other legislation affecting KiwiSaver:

- **Financial Transactions Reporting Act 1996**

KiwiSaver schemes, apart from ‘default’ KiwiSaver schemes, will be subject to the normal Financial Transactions Reporting Act obligations. Default KiwiSaver schemes will not be subject to all the Act’s normal obligations, particularly in the area of identifying new members. Under the KiwiSaver Act a scheme provider must still make reasonable efforts to verify identity at the time of the default allocation.

- **Income Tax Act 2007**

The Income Tax Act provides the rules on taxing income from investment through New Zealand portfolio investment entities (PIE) and offshore portfolio investment in shares. This act, together with the Tax Administration Act 1994, lays out the rules for ‘pay as you earn’ (PAYE) tax. This applies specifically in determining what is ‘salary or wages’ in reference to calculating contributions.

- **Tax Administration Act 1994**

This act, together with the Income Tax Act 2007, lays out the rules for PAYE. This applies specifically in determining the way Inland Revenue collects contributions and details from employers and passes them on to scheme providers.

- **Taxation (KiwiSaver and Company Tax Rate Amendments) Act 2007**

This gave effect to the:

- member tax credit, and
- requirement that all employer KiwiSaver contributions must be paid to Inland Revenue from 1 July 2007.

- **Taxation (KiwiSaver) Act 2007**

This gave effect to:

- the compulsory employer contribution and employer tax credit, and
- certain other remedial amendments.

- **Financial Markets Authority Act 2011**

The Financial Markets Authority Act 2011 establishes the Financial Markets Authority (FMA) and from 1 May 2011 the FMA will be responsible for the regulation of the financial sector and will, amongst other things, supervise the management of KiwiSaver schemes and monitor the practices of financial advisers.

¹⁴ IRD. [KiwiSaver legislation](#) [Last accessed on 10 July 2023]

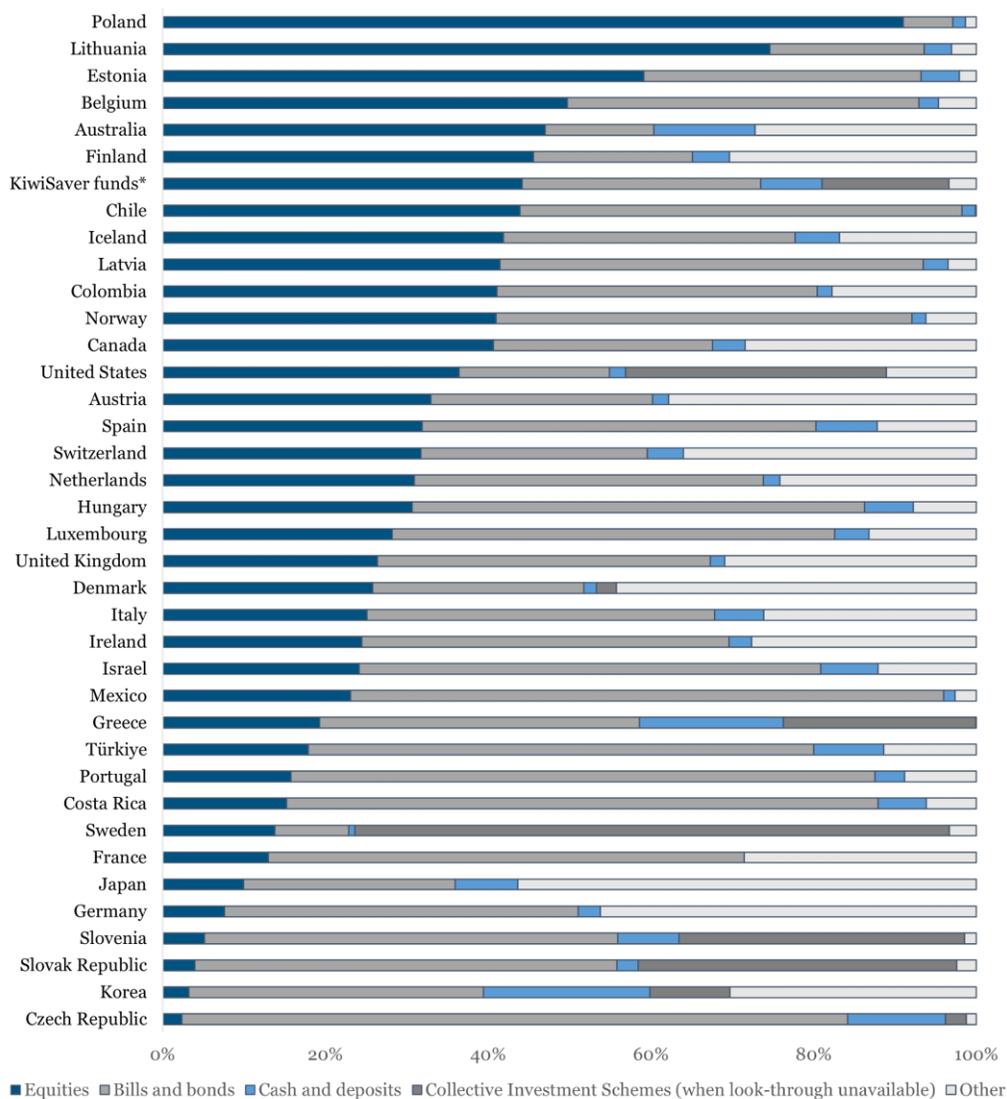
¹⁵ [KiwiSaver Act 2006](#) [Last accessed on 10 July 2023]



Annex 3 - Comparison between KiwiSaver and other similar pension schemes in other developed markets

As shown in **Figure 1** below, KiwiSaver schemes in aggregate have a higher exposure to equities than most OECD countries. In OECD countries, both public and private pension schemes have a wide variation in asset allocation. In comparison to countries with similarly structured tier-three, privately provided and defined contribution pension schemes such as Australia and Chile, New Zealand's KiwiSaver has similar level of exposures to equity securities, however, Australia has a much higher exposures to other types of assets including private assets, which indicates a greater degree of diversification.

Figure 1: Pension fund asset allocation for selected asset classes and investment vehicles across OECD countries, 2021 or latest year available (As a percentage of total investment)



Note: The "Other" category includes loans, land and buildings, unallocated insurance contracts, hedge funds, private equity funds, structured products, other mutual funds (i.e. not invested in equities, bills and bonds or cash and deposits) and other investments. * KiwiSaver assets are grouped by using OECD's asset class categories and the latest data from Reserve Bank of New Zealand (i.e. as of March 2023).

Source: OECD Global Pension Statistics, Reserve Bank of New Zealand, and the WG own analysis



Te Ara Ahunga Ora Retirement Commission published a policy paper in 2021, which compared the institutional structure and performance of retirement income policies in New Zealand to retirement income systems in other OECD countries.¹⁶

- The paper concluded that each pension system has evolved over time due to specific preferences or events, and pension systems are not as ordered or uniform, and noted that overall “*New Zealand compares well with other OECD countries on pension coverage, replacement rates and pension wealth for low earners and elderly poverty rates*”.
- The paper also finds that “*pension reforms in OECD countries (including New Zealand) over the last 50 years have trended towards transferring risk from the state to the individual*” and notes KiwiSaver as one of the examples “*where the individual bears a lot of risk*”.

Table 1: Assessment of New Zealand’s retirement income system against OECD indicators (the below table is extracted from the above-mentioned policy paper published by the Retirement Commission)

OECD indicator	Description	Assessment (current state)	Future risks
Coverage	Very high (NZ Super – close to 100%; KiwiSaver - 80%)	Excellent	The high rate of non-contributing KiwiSaver members is a concern for the future coverage of KiwiSaver-derived retirement income
Income replacement	High for low earners, low for high earners	Excellent from a redistributive point of view but risk of low-income replacement for mid- and high earners	KiwiSaver is meant to increase the income replacement rate. The extent to which it can do so depends on amount saved and how much is taken as income until it runs out. There is no longevity insurance to guarantee income can last throughout life
Elder poverty	Low (based on internationally accepted measures)	Very good	Living in owner-occupied homes is an important factor in the current low elderly poverty rate but there is risk of increased elderly poverty rate if home ownership among pensioners decreases.
Elder income inequality	High	Inequality is high, but this is a result of differences in accumulated wealth and ability to work while receiving NZ Super, rather than any differences in pension entitlements	/
Pension wealth (the total amount paid to an individual over pension lifetime)	High pension wealth for low earners, relative to other OECD countries	Excellent from a redistributive point of view	/
Pension spending as a proportion of GDP	Low	Very good	Everything else being equal, pension spending will increase as New Zealand’s population ages

¹⁶ Te Ara Ahunga Ora Retirement Commission (2021) [NZ retirement income policies and how they compare within the OECD](#).



Table 2: Tax treatment of private pensions (as at 1 July 2016)¹⁷

Countries	Acquisition of asset			Holding of asset			Disposal of asset		
	Personal income tax (PIT)		Transaction tax	PIT	Other taxes		PIT or capital gain tax (CGT)		
	Interest expense deductible	Amount of acquisition deductible		Income from asset	Income from asset	Value of asset	Realised income from asset	Original value of asset	Capital gains
Australia	N	Y	N	N	Y	N	N	N	NA
Austria	N	Y	N	N	N	N	N	N	NA
Belgium	N	Y	N	N	N	N	Y	Y	NA
Canada	N	Y	N	N	N	N	Y	Y	NA
Chile	N	Y	N	N	N	N	Y	Y	NA
Colombia	N	Y	N	N	N	N	Y	Y	NA
Costa Rica	N	Y	N	N	N	N	Y	Y	NA
Czech Republic	N	Y	N	N	N	N	Y	Y	NA
Denmark	N	Y	N	N	Y	N	Y	Y	NA
Estonia	N	Y	N	N	N	N	Y	Y	NA
Finland	N	Y	N	N	N	N	Y	Y	NA
France	N	Y	N	N	N	N	Y	Y	NA
Germany	N	Y	N	N	N	N	Y	Y	NA
Greece	N	Y	N	N	N	N	Y	Y	NA
Hungary	N	Y	N	N	N	N	N	N	NA
Iceland	N	Y	N	N	N	N	Y	Y	NA
Ireland	N	Y	N	N	N	N	Y	Y	NA
Israel	N	Y	N	N	N	N	N	N	NA
Italy	N	Y	N	N	Y	N	Y	Y	NA
Japan	N	Y	N	N	N	N	Y	Y	NA
Korea	N	Y	N	N	N	N	Y	Y	NA
Latvia	N	Y	N	N	Y	N	N	N	NA
Luxembourg	N	Y	N	N	N	N	Y	Y	NA
Mexico	N	Y	N	N	N	N	Y	Y	NA
Netherlands	N	Y	N	N	N	N	Y	Y	NA
New Zealand	N	N	N	Y	N	N	N	N	NA
Norway	N	Y	N	N	N	N	Y	Y	NA
Poland	N	Y	N	N	N	N	Y	Y	NA
Portugal	N	Y	N	N	N	N	Y	Y	NA
Slovak Republic	N	N	N	N	N	N	Y	N	NA
Slovenia	N	Y	N	N	N	N	Y	Y	NA
Spain	N	Y	N	N	N	N	Y	Y	NA
Sweden	N	N	N	N	Y	N	Y	N	NA
Switzerland	N	Y	N	N	N	N	Y	Y	NA
Türkiye	N	N	N	N	N	N	N	N	NA
United Kingdom	N	Y	N	N	N	N	Y	Y	NA
United States	N	Y	N	N	N	N	Y	Y	NA

Note: Lithuania is not included in the dataset of this OECD study as it only became a Member of the OECD on 5 July 2018.

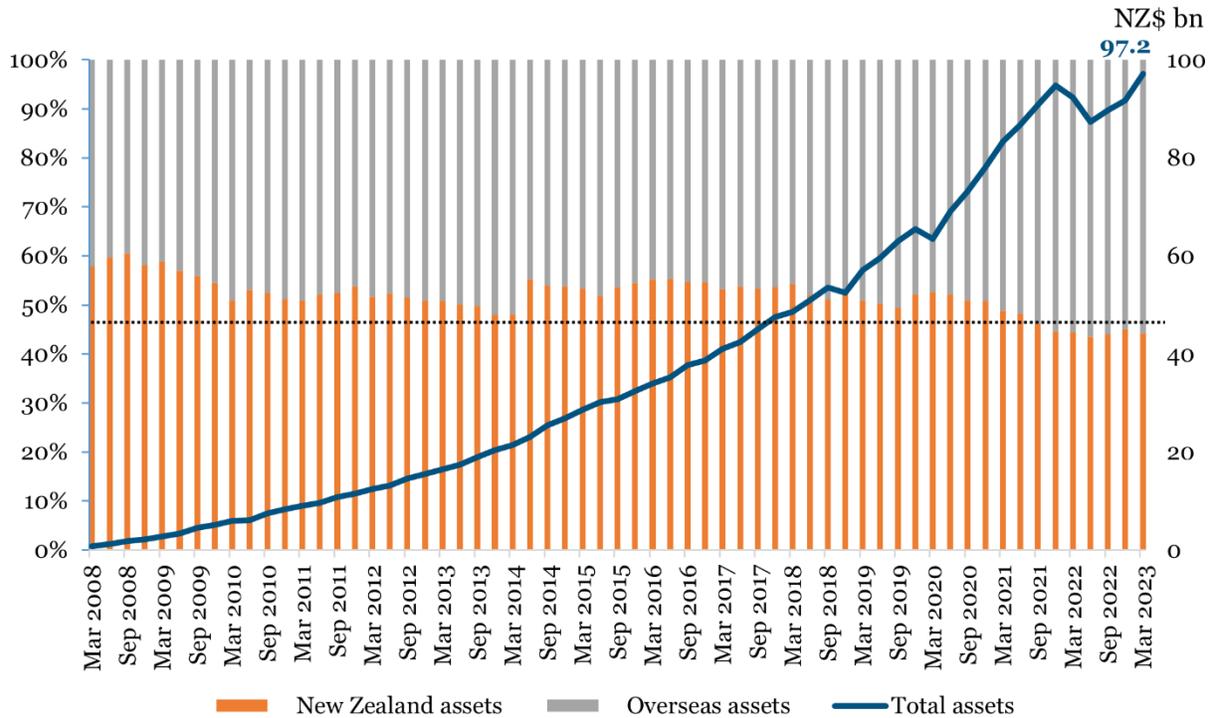
¹⁷ OECD (2018), Taxation of Household Savings, OECD Tax Policy Studies, No. 25, OECD Publishing, Paris, <https://doi.org/10.1787/9789264289536-en>



Annex 4 – Overview of the KiwiSaver investments

By the end of the first quarter of 2023, the total assets under KiwiSaver funds reached nearly NZ\$97.2 billion, 44.2% of which are invested in New Zealand assets, the third lowest percentage since the quarterly data are available (see **Figure 2** below; the first and second lowest percentages to date were 43.5% in June 2022 and 44.1% in September 2022).¹⁸

Figure 2: KiwiSaver funds – total assets



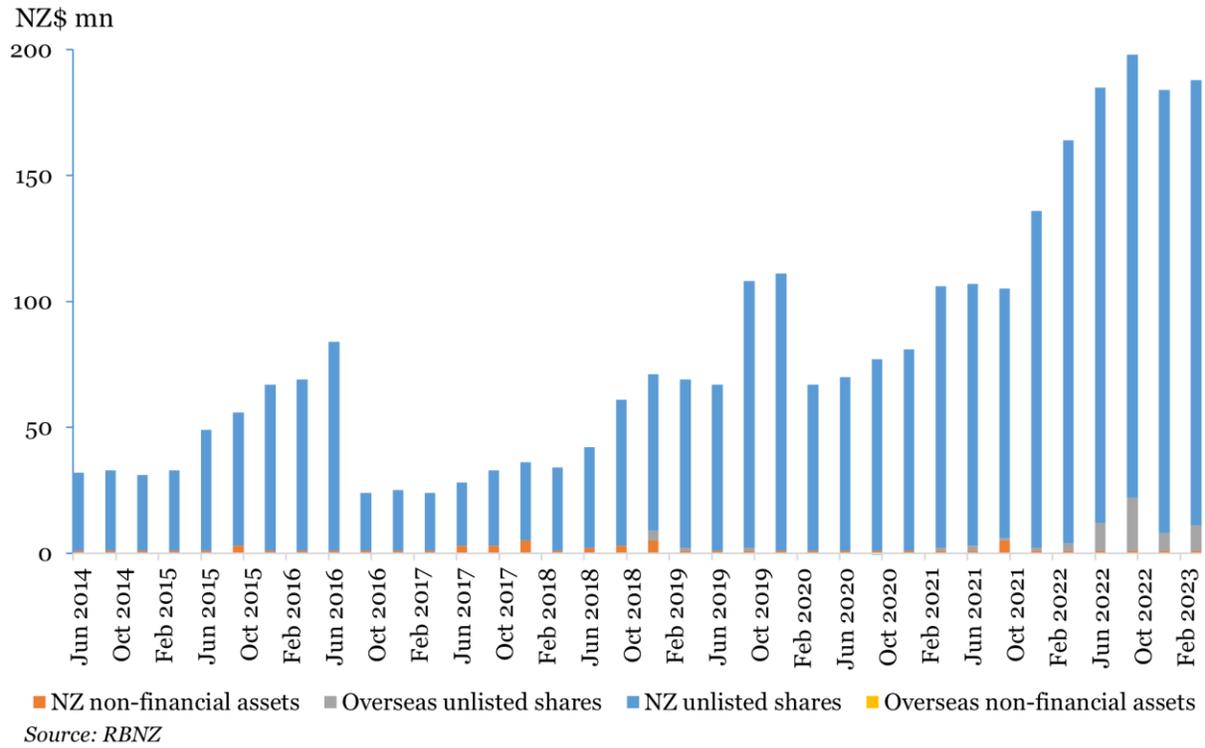
Source: RBNZ

In the Reserve Bank of New Zealand (RBNZ)'s published survey data, the data points that could be clearly identified as private assets include two categories, unlisted shares and non-financial assets, both of which are reported separately for New Zealand assets and overseas assets. As of March 2023, these two categories of assets together amounted to NZ\$188 million (see **Figure 3** below), representing merely 0.2% of the total assets.

¹⁸ Reserve Bank of New Zealand, [KiwiSaver: assets by sector](#), released on 31 May 2023.



Figure 3: KiwiSaver funds – private assets



Non-financial assets in RBNZ's survey include all economic assets other than financial assets that do not represent claims on other units but are stores of value and provide benefits in the form of property income. These include: forestry, farming, direct property, infrastructure, and physical commodities.

KiwiSaver members' rising interest in socially responsible funds

According to FMA's KiwiSaver Annual Report 2022, Membership of 'socially responsible' funds jumped 64.1% to 36,307 members, while their holdings climbed 60.8% to \$891.1 million. At the start of 2022, roughly 5% of the 1,029 managed funds registered in NZ (304 of which were KiwiSaver funds) could be identified as an integrated financial products (IFP) fund by name alone (e.g., 'ethical', 'responsible', 'sustainable'); while 17% could be identified as such based on their detailed fund descriptions on the Disclose Register.¹⁹

The report also noted that, while 68% of Kiwi investors prefer their money to be invested ethically and responsibly, only 31% had selected a fund manager based on ethical credentials. Most did not read a product disclosure statement.

¹⁹ FMA, KiwiSaver Annual Report 2022



Annex 5 - List of Technical Working Group members

(In alphabetical order by surname)

1. John Berry (Pathfinder)
2. Rob Everett (NZ Growth Capital Partners)
3. Sam Kellar (Ngāi Tahu Holdings)
4. Merrin Laurenson (ASB)
5. Ainsley McLaren (Harbour Asset Management)
6. Jamie Rihia (Tauhara North No.2 Trust)
7. Helen Skinner (ANZ)
8. Frances Sweetman (Milford Asset Management)
9. Susan Walker (BNZ)
10. David Whyte (Independent)

In addition, the Working Group has consulted with the following group of relevant stakeholders:

1. Craig Weise, Former Chief Executive, New Zealand Green Investment Finance (NZGIF)

The Centre and the Working Group also intend to approach and consult other relevant stakeholders on the recommendations proposed in this paper. Feedback and suggestions will be incorporated in future revisions of this paper.



Annex 6 – Examples of KiwiSaver investments in private assets

The below list is not exhaustive and does not capture all the investments in various types of private assets from KiwiSaver schemes.

Month & Year	KiwiSaver Provider	Private Asset Target	Type of Private Asset	Investment Amount (if information is available)	Other investors (if information is available)	Sustainability features (if any)
October 2020	Generate	Salvation Army Community Bond	Debt (impact bond)	NZ\$15 million	Tindall Foundation, Lindsay Foundation, Foundation North and the Matua Foundation	Social housing
May 2021	Pathfinder	Mentemia	Private equity	NZ\$800,000	ACC	N/A
August 2021	Pathfinder	Wool+Aid	Private equity	N/A	N/A	N/A
March 2022	Generate	Te Puna Hapori - Verdi Social Housing Bond	Debt (impact bond)	NZ\$13.7 million	N/A	Social housing
December 2022	Generate	Community Finance, Ōtautahi Community Housing Trust	Debt (impact investment)	NZ\$14 million	N/A	Social housing
December 2022	Generate	Movac	Venture capital	NZ\$20 million	N/A	N/A
June 2023	Generate	Icehouse Ventures' Growth Fund II	Venture capital	NZ\$20 million	N/A	N/A
July 2023	Simplicity	DataTorque	Private equity	N/A	N/A	N/A
August 2023	Simplicity	The Pure Food Co	Private equity	N/A	ACC	N/A



For more information please contact:

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