

Infrastructure New Zealand Submission on MBIE Discussion Document: Enabling Kiwisaver Investment in Private Assets

1. Introduction

1.1 Infrastructure New Zealand (INZ) welcomes this opportunity to submit on MBIE's Discussion Document: Enabling Kiwisaver Investment in Private Assets.

1.2 INZ is New Zealand's membership organisation for the infrastructure sector. We promote best practice in national infrastructure development through research, advocacy, and public and private sector collaboration. Our members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

1.3 This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations. We have also encouraged our members to make their own submissions raising those issues specific to their areas of interest or expertise.

2. General Remarks

2.1 Much of the discussion surrounding investment in new and existing infrastructure assets has focussed in recent years on the opportunities for foreign direct investment (FDI). While FDI will serve an important role and bring with it overseas expertise and delivery capability, rule changes to unlock the potential of domestic investors, including via KiwiSaver, to invest in New Zealand's infrastructure and help address our infrastructure deficit, and provide a platform to keep returns on these investments in New Zealanders' hands.

2.2 While there is some private asset investment from KiwiSaver funds under the existing rules, regulatory setting change and further guidance is needed to unlock the potential of the \$122 billion (as of September 2024) under management. Current disincentives have restricted New Zealanders from accessing investment opportunities that could offer higher financial returns and deliver positive environmental, social, and economic impacts over the long term. Compared to other jurisdictions, the current private asset investment rate (around 2%) leaves KiwiSaver

members, New Zealand and our infrastructure worse off. Comparatively, Australia sits at closer to 17% invested in private assets.

2.3 Infrastructure New Zealand welcomes this discussion document and strongly support progress to further enable KiwiSaver investment in private assets, including infrastructure.

3. The Case for Investment

3.1 Tapping into domestic funds, including KiwiSaver, for infrastructure investment provides wider benefits for the economy, and will also benefit KiwiSaver members over the long term. INZ's view is that the duration match of the long term money into long term assets makes perfect sense.

3.2 Unlocking further investment can deliver substantial economic benefit by delivering projects earlier than they otherwise would be. In 2022, an Infrastructure New Zealand commissioned report highlighted that more efficient decision making on the Waikato Expressway could have unlocked wider economic benefits equivalent to 1.2 times the total capital cost of the project. The case for investment speeding up delivery of projects relative to them needing to wait for Government Budget decisions, and rely on sustained political will, goes further than just the direct benefits of investment in the specific projects.

3.3 Further diversifying KiwiSaver investments and investing in longer term assets with the potential to return significant gains, also carries benefit for KiwiSaver members.

3.4 The fiscal pressures of an aging population have been clearly articulated by the Treasury in recent months. In the 1960s there were around seven people aged between 15 and 64 for every person aged 65 or over. Today there are only four, and in 50 years, the ratio will be about two. Thinking strategically about the role of KiwiSaver as a critical part of our retirement system and the benefits it can deliver to support our wider economy is an important part of how New Zealand considers its fiscal sustainability in the coming decades.

4. Clarifying the Availability of Liquidity Management Tools

4.1 Side pocketing

- 4.1.1 INZ supports greater use of side pocketing of private assets when necessary, in acknowledgement of illiquidity of long term investments in infrastructure assets.
- 4.1.2 We agree that the legislation and guidance on side pocketing could be more explicit in supporting the availability of side pocketing.
- 4.1.3 Guidance on when fund managers should be able to side pocket, and the criteria by which they should make decisions on when to return the assets to the main fund is required.
- 4.1.4 We also suggest that member education is required around the proportion of the fund's investments that sit with private assets, and the conditions under which investment in private assets might be side pocketed, as well as the relative potential gain from investment in private assets.
- 4.1.5 INZ also supports changes to Section 53 of the Act clarify that side pocketing should not be considered the establishment of a new fund for the purposes of requiring membership to only one scheme.
- 4.1.6 We do however acknowledge overseas examples where side pocket management has been the subject of maleficence, and that strong oversight, and an effective penalty regime implemented by the Financial Markets Authority will be required to ensure the ongoing success and acceptability of this approach to KiwiSaver members.

4.2 Redemption gates

- 4.2.1 INZ supports an opt-in model which allows KiwiSaver members to waive their right to transfer or withdraw from KiwiSaver funds within 10 working days.
- 4.2.2 Such a change would have to be met with independent, adequate education for KiwiSaver members whose risk appetites enable them to sensibly opt-in to these funds. We would support a clear requirement for the detail of redemption gate implementation being spelt out in trust deeds.

- 4.2.3 Alongside the availability of domestic funds for infrastructure investment, the ongoing social licence of such a practice and the financial safety and education of members is a crucial consideration.

5. Valuation Requirements

- 5.1 INZ supports greater time flexibility in fund managers' ability to value illiquid assets to support investment in infrastructure which is often valued less frequently than more liquid assets.
- 5.2 INZ agrees that pathway one in Section 139 of the FMC Act as related to requirements for changes to governing documents is onerous and unrealistic. Our preference would be for pathway two to be used. Clarity on what comprises a material adverse effect is needed and further FMA guidance on this test would be a useful addition to the regulatory environment for KiwiSaver investment.

6. Improving disclosure of private asset categories

- 6.1. INZ supports better visibility over how much KiwiSaver funds are investing into private assets.
- 6.2. We support option two or four in the category change section of the discussion document – both include an infrastructure specific category, with New Zealand investment delineated helpful to demonstrating the value of investing in New Zealand infrastructure that contributes directly to our success as a country. Alignment of these categories with Australia, where pension fund private asset investment is much higher, and where third-party managers may also operate is also helpful.

7. Regulation of KiwiSaver Fees and Relevant Inclusions in Fee Breakdown

- 7.1. INZ supports change to stop disincentivising private asset investment via third-party fee disclosure without adequate explanation and education of members.
- 7.2. The capability of fund managers to manage more complex private asset investments, particularly as it relates to infrastructure projects, is a significant risk,

that may be mitigated with some success by the use of third-party fund managers.

7.3. Where third-party managerial fees are already included in the unit price or overall returns of the underlying private asset, our view is that they should be included in the total expense ratio, but clearly delineated in member communications with an explanation of the purpose of using third-part managers to manage infrastructure and other private investments.

7.4. We agree that this appears to mainly be a communication problem. Alongside changes to improve disclosure reporting, including describing the ratio of private and other assets in a fund, disclosure requirements might include further guidance on best practice communication of what the TER fees represent to members.

8. Other Considerations (18b-f)

8.1 We note the point made in 18e on page 7 of the discussion document referencing a concern that there is a lack of suitable private investments, particularly in New Zealand, for KiwiSaver funds to invest in.

8.2 We disagree and would suggest that investment to meet the infrastructure deficit and future needs, in a political environment that is more amenable to private investment in infrastructure than in recent years, will support an array of potential opportunities for fund managers. New Zealand's upcoming National Infrastructure Pipeline, valued at \$150 billion, has a funding gap, with \$60 billion yet to have identified financing sources. The pipeline includes both private and publicly initiated projects.

8.3 New Zealand also has the opportunity to think strategically about its asset mix and consider recycling the proceeds of existing assets via partial ownership, temporary ownership (lease or concession), temporary-partial ownership, or full ownership (permanent monetisation) into new infrastructure. The monetisation of existing assets could also provide an opportunity for KiwiSaver investment.

8.4 The increased use of tolling, and work to support the introduction of other revenue streams to support returns on KiwiSaver investment in infrastructure projects should aid in making more infrastructure projects viable for private investment.

9. Conclusion

9.1 INZ welcomes this work to support further investment in private assets by KiwiSaver funds across New Zealand.

9.2 Current disincentives have restricted New Zealanders from accessing investment opportunities that could offer higher financial returns and deliver positive environmental, social, and economic impacts over the long term. Compared to other jurisdictions, New Zealand's settings restrict our ability to realise these benefits.

9.3 An aging population, and an infrastructure deficit that requires significant investment, gives us an important opportunity to consider the role domestic investment via KiwiSaver funds can play in helping us address historic underinvestment and future need.

9.4 INZ would like to be involved in further consultation on this issue as relevant.

Yours sincerely,



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