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	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.
2	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)?
	Angel Association New Zealand (AANZ) has concerns about how the current legislative framework for KiwiSaver interacts with liquidity risk management tools, particularly in the context of transfer and withdrawal times. The use of liquidity risk management tools, such as redemption gates or liquidity buffers, could be a key element in allowing KiwiSaver funds to engage more freely in investments like private assets, including startups, which are typically more illiquid and longer-term in nature. 1. Restrictions on Liquidity Due to Withdrawal Rules • The legislative framework governing KiwiSaver imposes certain liquidity requirements for KiwiSaver funds to ensure that members can access their funds within a reasonable time frame, particularly at the point of withdrawal (e.g., upon retirement, first home purchase, or other specified conditions). • The rules around timely withdrawals can limit the ability of KiwiSaver funds to make significant allocations to illiquid assets, such as startups, venture capital, or private equity. These investments often require longer investment horizons (e.g. 5-10 years) and might not be easily converted to cash on short notice. This is a structural barrier to increasing institutional investment in startups, which are inherently illiquid and do not fit easily into the fast-moving nature of KiwiSaver withdrawals. 2. Need for Liquidity Risk Management Tools (e.g. Redemption Gates) • To allow KiwiSaver funds to invest in more illiquid assets like private equity or startups, these funds would need tools to manage liquidity risk, especially in times of heightened redemption pressure. Tools such as redemption gates (which allow funds to temporarily suspend withdrawals under certain circumstances) or liquidity buffers are commonly used in asset management to prevent funds from being forced to liquidate illiquid assets at unfavourable times. • The current restrictions in the KiwiSaver framework are a hindrance to the use of such liquidity risk management tools. If KiwiSaver funds were allowed more flexibility to implement these tools without breaching regulatory requirements or facing significant penalties, it could encourage more capital to be allocated into private assets, including startups. 3. Regulatory Constraints on Redemption Gates • While tools like redemption gates are an effective means of managing liquidity risk in illiquid markets, their use may be limited by existing KiwiSaver regulations that require immediate liquidity or prompt transfers to other funds. This is often the case in instances where members want to transfer or withdraw their savings quickly. • Flexibility in redemption rules is essential to foster greater investment in illiquid assets. Using redemption gates or similar tools with clear regulatory guidance will help ensure that members are not disadvantaged but that the funds also have the freedom

to make long-term investments in startups. AANZ would advocate for short-term suspensions of withdrawals (or restrictions) when necessary to preserve the integrity of investments in illiquid assets, without jeopardizing the interests of KiwiSaver members.

- By controlling the redemption process, KiwiSaver funds are better positioned to weather periods of market volatility without disrupting their startup investments. This allows startups to have access to more consistent capital as KiwiSaver funds can avoid a situation where they need to sell startup investments to meet redemption demands.

4. Balancing Withdrawal Rights with Investment Strategy
   - There is a tension between withdrawal rights (which are enshrined in the KiwiSaver scheme) and the long-term investment needs of the fund managers who seek to allocate a portion of the capital into startups and private equity.
   - Allowing KiwiSaver funds to create investment options where members are informed up front about the liquidity constraints associated with certain types of investments including more flexible withdrawal options for investments with a longer lock-up period, such as those in venture capital or private equity.
   - If investors had a clear understanding that certain funds may be subject to temporary redemption suspensions or limited liquidity, they might be more inclined to accept these conditions in exchange for higher potential returns from startups or private equity.
5. Impact on Startup Investment
   - Without sufficient liquidity risk management tools, KiwiSaver funds may be reluctant to invest in startups, which could result in underinvestment in the high-risk, high-reward area that could benefit New Zealand's economic growth and innovation.
   - Greater access to liquidity management tools (e.g., liquidity buffers, redemption gates) would help mitigate the risks involved in investing in startups and other illiquid assets.
   - By being able to manage redemption risks effectively, KiwiSaver funds could feel more comfortable allocating a portion of their portfolios to early-stage businesses, which are essential for fostering innovation in New Zealand.
6. Supporting a More Dynamic Investment Ecosystem
   - The current legislative framework is too rigid in its approach to liquidity and withdrawal rules limiting the range of investment strategies available to KiwiSaver funds. This prevents them from investing in more dynamic and innovative asset classes like startups or private equity.
   - A more dynamic regulatory approach that encourages KiwiSaver providers to invest in a broader range of assets would require clearer rules around the use of liquidity management tools. This would allow funds to invest in illiquid startups without being unduly constrained by the need for fast liquidity. This flexibility could help align KiwiSaver investments with the evolving needs of the startup ecosystem.

While the current legislative framework for KiwiSaver aims to protect investors and ensure liquidity, it inadvertently limits the ability of KiwiSaver funds to fully engage with the private asset and startup sectors, which are typically illiquid and long-term in nature. Greater flexibility in the use of liquidity risk management tools such as redemption gates and liquidity buffers would make it easier for KiwiSaver funds to invest in startups.

AANZ sees these tools as crucial for balancing the need for liquidity with the desire for higher returns from long-term, illiquid investments. By adjusting the legislative framework to allow for these tools, KiwiSaver funds could be more willing to allocate capital to startups and other high-growth private assets, fostering a more dynamic investment ecosystem in New Zealand's startup sector.

3	For KiwiSaver managers: If you cannot use these tools, can you please explain the reasons for this and the impacts in terms of: a. your ability to increase investment in private assets b. risks associated with your current allocation of private assets.
4	Please provide any other comments on the availability of liquidity management tools.
	Angel Association New Zealand (AANZ) sees several benefits from other liquidity management tools that KiwiSaver funds might utilise, particularly when it comes to increasing the flow of capital into startups. • Stability for Long-Term Investments: By holding cash reserves, KiwiSaver providers can ensure that they have enough liquidity to handle member withdrawals without needing to sell illiquid assets, such as startup investments, in a hurry. This would reduce the risk of being forced to exit startup investments prematurely and at a loss. • Increased Willingness to Invest in Startups: With a stable cash buffer in place, KiwiSaver funds would be more confident in allocating a portion of their capital to illiquid and high-risk investments like startups, knowing that they won't be pressured to sell early due to liquidity issues. • Encourages Capital Flow to Innovation: This stable funding mechanism supports the startup ecosystem, as more capital from KiwiSaver funds could be directed toward high-growth businesses without worrying about short-term liquidity demands. • Risk Mitigation with More Startup Investments: Diversification allows KiwiSaver funds to take on the risk of investing in startups while still managing their overall portfolio's risk. This could lead to a greater willingness to allocate funds toward early-stage companies. • Patient Capital: By holding a mix of asset types, including less-liquid investments, KiwiSaver providers could feel more comfortable committing to startup investments, knowing that they are not overly reliant on short-term market movements or needing to sell those investments for liquidity purposes. • New Funding Sources: By diversifying, KiwiSaver funds can tap into the higher potential returns from startups, helping to increase the flow of institutional capital into the startup ecosystem. This can help startups secure the funding they need to scale and grow. • Increased Investment in High-Growth Sectors: Asset allocation adjustments could lead to increased investment in startups during times when liquidity pressures are low. This would allow KiwiSaver funds to maintain or even increase their commitment to startups, especially in sectors with high growth potential. • Strategic Long-Term Focus: Adjusting the portfolio to align with long-term objectives, such as investing in startups, can create a more sustainable investment strategy for KiwiSaver providers. This ensures that they can commit the capital needed to help startups thrive without sacrificing short-term liquidity needs. • Greater Flexibility for Startup Funding: If KiwiSaver funds are able to adjust their allocations flexibly, they can increase their investments into emerging industries or high-risk, high-reward startups without being constrained by short-term market fluctuations. • Better Prepared for Market Shocks: Stress testing ensures that KiwiSaver providers are prepared for market disruptions, allowing them to avoid forced sales of startup investments during times of stress. This means startups can benefit from a more stable investment environment. • Confidence in Investing in Riskier Assets: By running scenario analyses and stress tests, KiwiSaver providers can have more confidence in their ability to handle the risks

	associated with startup investments. This could result in increased willingness to allocate funds toward the startup ecosystem. • Mitigating the Risk of Forced Exits: By being prepared for potential liquidity challenges, KiwiSaver funds are less likely to be forced to exit startup investments prematurely during a crisis, providing startups with the stable capital they need to grow. Liquidity management tools employed by KiwiSaver providers would help create a more stable, reliable, and long-term investment environment for startups. Ultimately, these liquidity management tools would provide the financial stability and confidence needed to increase institutional investment in New Zealand startups, driving innovation, job creation, and economic growth.
5	Do you support the proposed approach? Why/why not?
6	If redemption gates were allowed, would you consider developing new products more focussed on private assets?
7	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?
8	Do you have any comments on the detailed design considerations noted above?
9	Please provide any further comments on this issue of liquidity management tools.
Liquidity management tools—questions for the public	
10	Do you support more investment by KiwiSaver funds into private assets? Why / why not?
	Greater investment in private assets through KiwiSaver funds brings substantial benefits to New Zealand, increasing the supply of private capital, contributing to a stronger New Zealan economy. Exposure to different asset classes provides KiwiSaver members greater diversification of risk and potentially higher returns. KiwiSaver is a long-term investment tool, so allowing more KiwiSaver investment into private assets aligns with the growth expectations of these private asset which are also medium to long term. There is currently over $110 billion in total funds under management through KiwiSaver accounts. The level of KiwiSaver investment in private assets is low at around 2-3%, which is particularly low compared to pension funds in other jurisdictions. Investing in New Zealand

private assets will have broad economic benefits for New Zealand businesses and the wider economy.

The current regulatory settings for KiwiSaver do no support investment in private assets by KiwiSaver providers.

11	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.

There are both the strategic and practical advantages of side pocketing for investors, funds, and the New Zealand startup ecosystem.

- Investing in early-stage startups is inherently long-term, with most successful exits (through IPOs, acquisitions, etc.) taking a minimum of 5-10 years or more. KiwiSaver investors, typically focused on long-term retirement savings, are well-positioned to support this timeline. Side pocketing allows KiwiSaver funds to participate in startup investments without worrying about short-term liquidity, which aligns with the long-term horizon of retirement savings.
- Side pocketing allows KiwiSaver funds to maintain the liquidity necessary for daily redemptions or withdrawals, while also enabling them to invest in illiquid assets like startups without affecting the overall liquidity of the fund. This creates a more stable and attractive fund structure, where both the liquid and illiquid assets can be managed appropriately. This flexibility can result in better portfolio management, and more strategic, long-term investment decisions.
- Side pocketing protects investors who may need to withdraw funds in the short term from being adversely affected by the performance or illiquidity of startup investments. Conversely, investors who stay in the fund are not unfairly penalised by a short-term valuation of illiquid startup assets. Because startups are difficult to value on a day-to-day basis (due to the lack of a public market), side pocketing helps ensure these assets are fairly valued, rather than inflating or deflating the value of the entire KiwiSaver fund. This helps preserve fairness and transparency for investors.
- The side-pocketing mechanism provides a pathway for KiwiSaver funds to invest in high-risk, high-reward sectors like startups. This is particularly important for the growth of New Zealand's innovation ecosystem, where startups often struggle to secure early-stage capital. Startups, particularly in technology and innovation sectors, are crucial to the growth and diversification of New Zealand's economy. KiwiSaver funds have a unique opportunity to contribute to economic development by investing in startups, and side pocketing makes this a more viable option for fund managers.
- Startups have the potential to generate significant returns over the long term. KiwiSaver investors, typically looking for solid growth in their retirement savings, stand to benefit from the high returns that successful startup investments can offer.
- Including startups in KiwiSaver portfolios can offer investors a diversification benefit, spreading risk across different asset classes. Side pocketing ensures that this diversification does not introduce unnecessary risk to the liquid assets, which are necessary for the fund's daily operations and overall portfolio risk profile.
- Many global retirement funds, including those in the U.S., are increasingly investing in private equity and venture capital. By facilitating startup investments through side pocketing, KiwiSaver funds could align with these global trends and help KiwiSaver investors access a broader range of asset classes that can drive superior long-term returns.
- Side pocketing could help strengthen New Zealand's venture capital ecosystem by attracting more capital into early-stage investments. This could create a virtuous cycle of funding that helps startups succeed, creates jobs, and leads to successful exits that benefit both KiwiSaver investors and the broader economy.

	Side pocketing is essential for creating a mechanism that allows KiwiSaver funds to invest in New Zealand startups in a way that is both prudent and beneficial for investors, while also helping foster innovation and economic growth. By addressing liquidity concerns, offering clear valuation mechanisms, and ensuring fairness across different types of investors, side pocketing can help unlock critical capital for New Zealand's growing startup ecosystem. This, in turn, helps KiwiSaver investors gain access to high-growth opportunities that can contribute to their long-term retirement savings goals.
12	Please provide any further comments on the proposed approach.

Private asset categories – questions for KiwiSaver providers or other industry

13	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.
	The current asset classes outlined in the Financial Markets Conduct Regulations 2014 (FMCR) may present some challenges when it comes to investing in private assets (like startups or early-stage companies). These regulations govern how financial products can be marketed, offered, and sold to investors, and their treatment of private assets can sometimes limit the ability of KiwiSaver funds and other institutional investors to allocate capital to startups. • The FMCR defines certain asset classes and financial products, but these classifications can be restrictive when it comes to private assets like venture capital and private equity. The rules do not easily accommodate these asset classes, especially for institutional investors like KiwiSaver funds. • Startups are illiquid, and don't fit neatly into the standardized asset classes prescribed by the regulations. This can limit the ability of KiwiSaver funds to invest in them, as private equity and venture capital may not align with the prescribed regulations or may require more complex regulatory approval processes. • Startups and early-stage businesses often don't have the resources to produce the level of disclosure that is required under the FMCR for public market offerings. This puts an additional burden on both startups and institutional investors looking to allocate capital to these companies. The administrative and compliance costs involved may deter some investors, particularly KiwiSaver funds, from participating in private asset investments. • The FMCR primarily deals with more liquid financial assets such as publicly traded stocks and bonds. Private assets, by definition, lack liquidity, making them harder to fit into the existing regulatory framework. • KiwiSaver funds are required to maintain a certain level of liquidity to meet withdrawal demands from members. The illiquid nature of private assets makes it harder for these funds to commit capital to startups without running afoul of liquidity requirements. This creates a mismatch between the regulatory framework and the needs of the startup ecosystem, making it harder to channel long-term capital into high-risk, high-reward investments. • The FMCR requires disclosure of material information for investors, which includes regular valuations of assets, particularly in the case of illiquid assets such as private equity or venture capital investments. • The difficulty in obtaining accurate valuations for early-stage companies could create challenges for KiwiSaver providers when reporting on their portfolios and meeting regulatory requirements. The lack of consistent and transparent valuation

methodologies for private assets could further discourage investment in startups by institutional investors, including KiwiSaver funds.

While the current regulatory environment may present challenges, AANZ can see certain benefits to the FMCR as it relates to private assets and how it can help shape the investment landscape.

- The FMCR helps ensure that investors are protected by requiring that financial products, including investments in private assets, are properly regulated and subject to certain standards of disclosure. This regulatory oversight builds investor confidence, which is crucial for attracting institutional investors like KiwiSaver providers into the startup ecosystem.
- While the regulatory burden can be onerous, AANZ acknowledges the importance of ensuring that KiwiSaver funds are not exposed to undue risks in the venture capital and private equity space. Proper regulation and transparency could make the startup investment space more attractive and safer for both institutional and retail investors.
- The FMCR provides a standardized framework for financial products, which can lead to greater market efficiency and more streamlined investment options. This can help reduce some of the complexities around investing in private assets, which would benefit institutional investors looking to make large-scale investments in startups.
- There is value in having a regulated environment that ensures private assets are evaluated and disclosed in a consistent manner. This can help in the long-term sustainability of investments in startups, as it could encourage more institutional investors to feel comfortable allocating funds to high-risk early-stage companies.

AANZ would support reforms or clarifications that balance the need for investor protection and market transparency with the need for greater flexibility and innovation in how private assets like startup investments are regulated.

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How do think the categories should be described?

The categories of financial products and assets in the Financial Markets Conduct Regulations 2014 (FMCR) need to be described in a way that reflects the unique characteristics of private assets, particularly those associated with startups and early-stage ventures. These assets require a regulatory framework that accommodates their illiquidity, growth potential, and long-term investment horizon.

- AANZ advocates for a broader, more flexible definition of private assets, which includes private equity, venture capital, and angel investments. These types of investments don’t always fit into traditional asset classes like public equities or bonds, so they should have a separate category that acknowledges their distinctive characteristics. By recognising private assets as a distinct class, regulators could create rules that better reflect the illiquid, high-risk, long-term nature of startup investments, encouraging more capital to flow into these ventures.
- Consideration should be given to creating a specific asset class that categorises all forms of private equity or venture capital dedicated to early-stage companies, regardless of the size or stage. This could include both angel investing and venture capital funds. By having a dedicated category, it becomes easier to develop clear rules that apply specifically to these types of investments. This could make the process of investing in startups less cumbersome and more attractive to institutional investors like KiwiSaver funds, which may otherwise shy away due to the perceived complexity or risk.
- Allowing for longer-term investment horizons and limited liquidity windows in a newly created category would acknowledge that private investments generally cannot be

liquidated quickly. A more flexible framework would ensure that investors like KiwiSaver funds can engage with these asset classes without being forced to liquidate prematurely due to liquidity concerns or regulatory constraints.

- Have simplified disclosure requirements for private assets compared to those required for publicly traded assets. These requirements should focus on providing essential information about the financial health, potential growth, and risks of the startup or early-stage business, rather than requiring extensive public market-style disclosures that may not be feasible for smaller companies. While transparency is crucial, the disclosure requirements should be tailored to the size and stage of the company, which would make it easier for investors to assess the risks and opportunities in a more streamlined manner.
- Within the newly created category, risk-based categories could be introduced that differentiate between types of private investments based on their stage of development and associated risk. For example, seed-stage investments could be categorized separately from growth-stage investments. Different stages of startup funding (e.g., seed, early stage, growth) come with different risk profiles, and investors should be able to understand these distinctions easily. Categorizing these investments based on their risk level and stage would help institutional investors, like KiwiSaver providers, make more informed decisions about the types of investments they want to engage in. Additionally, it would help startups seek the appropriate type of funding for their specific stage of development.
- AANZ proposes regulatory incentives or allowances to encourage institutional investors, including KiwiSaver funds, to invest in startups. This could include relaxed liquidity requirements for funds that allocate a portion of their assets to startup investments or tax incentives for investing in high-growth early-stage businesses.
- KiwiSaver funds have a fiduciary duty to manage liquidity, but they are also tasked with generating returns for their members. Incentivising institutional capital to flow into startups would benefit the broader economy and innovation ecosystem. Special provisions for startup investments could mitigate the perceived risks of liquidity and help institutional investors feel more comfortable with these allocations.
- Adding specific categories that recognise impact investments or innovative sectors such as clean tech, healthcare innovation, or social enterprises. This would make it easier for institutional investors to identify and invest in startups that align with their social responsibility or ESG (Environmental, Social, and Governance) goals. Having specific categories for these types of investments would encourage more capital into high-impact startups that are working on solutions to global challenges, such as climate change or public health issues.

AANZ advocates for a regulatory framework that better accommodates the unique nature of private assets, particularly in the startup and venture capital space. By recognising the distinct characteristics of startup investments—such as illiquidity, long-term capital needs, and higher risk—AANZ believes that the FMCR could be better aligned to encourage institutional investors, like KiwiSaver providers, to allocate more capital to the startup ecosystem. This would ultimately benefit New Zealand's economic growth, innovation, and job creation.

15	Please provide any other comments on the lack of private asset categories.
16	Which option do you think is best and why?

17	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?
18	Please provide any further comments on this issue of including private assets in asset categories.

Private asset categories—question for the public

19	Do you think it would be useful to have better visibility over how much KiwiSaver funds are investing into private assets?

AANZ would like to see greater visibility over how much KiwiSaver funds are investing in private assets. Increased transparency in this area could provide valuable insights into the amount of capital being allocated to early-stage companies and startups, and also help inform policy decisions, investment strategies, and startup ecosystem growth.

1. Tracking Capital Flow into Startups
    - Startups and early-stage companies are a significant driver of economic innovation and job creation in New Zealand. For AANZ, having better visibility over the amount of KiwiSaver funds being invested in private assets, particularly startups and growth-stage companies, would allow the startup community to understand the level of institutional support these businesses are receiving.
    - By tracking these investments, AANZ could get a clearer picture of how much capital is flowing into the startup sector. This could help identify gaps in funding and areas where more capital is needed, as well as highlight the level of interest that institutional investors, like KiwiSaver providers, are showing in this high-risk but high-reward asset class.
2. Improving Data for Advocacy and Policy Making
    - AANZ advocates for policies that support the startup ecosystem, including more favourable regulations and incentives for investing in startups. If there's better visibility over KiwiSaver fund investments into private assets, AANZ could use this data to advocate for policy changes that encourage more institutional investment in startups.
    - Knowing how much KiwiSaver capital is actually allocated to startups would give AANZ a stronger evidence base for engaging with regulators and policymakers. For example, if the data showed that KiwiSaver funds were under-investing in startups, AANZ could push for tax incentives or regulatory reforms to make it easier for KiwiSaver providers to invest in higher-risk, higher-growth assets like startups.
3. Building Investor Confidence

- Transparency into how KiwiSaver funds are allocating capital could provide assurance to other investors—such as angel investors and venture capitalists—that institutional players are actively participating in the private asset market. If KiwiSaver funds are investing in startups, this could help validate the potential of the sector and encourage other institutional and retail investors to follow suit.
- AANZ would likely see this as a way to build confidence in the venture capital ecosystem. If KiwiSaver funds are visibly backing startups, it signals to other investors that these companies are considered credible and worthy of investment. It could also attract more capital into the startup sector.

4. Monitoring Market Trends and Performance

- With visibility into KiwiSaver fund investments in private assets, AANZ could track the performance and trends in the market. For instance, if a significant portion of KiwiSaver funds is being allocated to certain industries (like fintech or cleantech), this could signal emerging opportunities or areas of sectoral growth in the startup landscape.
- This level of insight would help AANZ to spot new investment trends, sector growth, or areas that may be underserved by capital. It would also allow AANZ to adjust their strategies or focus areas based on what institutional investors are prioritizing.

AANZ would like regular, public reporting on how KiwiSaver funds allocate capital to private assets, such as:

- Quarterly or Annual Reports: KiwiSaver providers could include detailed information about the portion of their portfolio invested in private equity, venture capital, or startups.
- Sector Breakdown: Disclosing the specific sectors or industries where these investments are being made would provide further insights into where institutional money is flowing (e.g., biotech, software, renewable energy).
- Investment Type: KiwiSaver funds could clarify whether their investments are in direct equity in startups, through venture capital funds, or via private equity routes.

This transparency could help AANZ track funding trends, better advocate for policy changes, and encourage more capital flow into the startup ecosystem.

Valuation requirements – questions for KiwiSaver providers or other industry

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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:

a. the extent to which your governing documents require amendments to allow for the inclusion and pricings of private assets within your funds.
b. 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.

AANZ has significant concerns about the valuation methodologies included in KiwiSaver governing documents when it comes to valuing private assets (like startups or venture capital investments). These assets often present unique challenges compared to more liquid, publicly traded assets (like stocks or bonds). AANZ is particularly focused on the impact these valuation methodologies might have on KiwiSaver funds' ability to invest in startups and other private equity, as well as the broader implications for the pricing and valuation of such assets.

- Traditional valuation methodologies used in KiwiSaver governing documents, such as market-based pricing (using market prices of listed assets) or net asset value (NAV) methods, are challenging to apply to private assets like startups, venture capital, or private equity. These private assets do not have a readily available market price, and their valuation often relies on subjective models or estimates, such as discounted cash flow (DCF) or comparative valuation approaches. These methods can be complex and less standardized, making it difficult to provide an accurate, fair valuation of these assets.
- If the governing documents of KiwiSaver funds require the use of standard or rigid valuation methodologies, it could limit the ability of funds to invest in private assets. The inability to properly value illiquid and long-term investments may result in mispricing or overstating the value of these assets, leading to investor concerns over transparency or fairness. This could ultimately discourage KiwiSaver funds from allocating capital to startups or other private assets, as the valuation process would be seen as too complex or too uncertain for proper reporting and performance tracking.
- The valuation of private assets can also affect liquidity and redemption capabilities in KiwiSaver funds, especially since private assets are often illiquid and harder to sell in the short term. The lack of a clear market price for private assets could complicate the determination of the value of members’ holdings in a fund, especially if the fund has to process redemptions or transfers.
- If the valuation methodology doesn't align with the nature of private assets, it could create uncertainty around the real-time pricing of those assets, affecting the fund’s ability to offer transparent withdrawal options.
- KiwiSaver funds need more flexibility in their governing documents to allow for alternative valuation models that are more suited to illiquid assets, which could encourage more institutional capital into New Zealand’s startup ecosystem. The governing documents of KiwiSaver schemes (which include the fund’s investment statement and disclosure rules) may not be structured to accommodate the unique characteristics of private assets.
- Private assets, particularly in early-stage ventures, carry a higher risk profile, and their valuations can fluctuate significantly over time. Standard valuation methodologies in governing documents might not adequately reflect the risk-adjusted returns or long-term potential of these investments. For instance, mark-to-market methods may not capture the potential upside of private companies that are still in their growth phase.
- The inability to properly account for the risk and future growth potential of private assets could discourage KiwiSaver funds from integrating these assets into their portfolios, even though they may offer higher returns in the long run. The changes required would need to allow KiwiSaver funds to better manage the risks and capture the value of private asset investments balancing the long-term reward potential with the current valuation requirements in governing documents.

	AANZ would recommend amendments to KiwiSaver governing documents to help facilitate investment in private assets. These amendments would address the challenges of valuing private assets while ensuring that funds remain transparent, compliant, and attractive to KiwiSaver members. • AANZ would propose that KiwiSaver governing documents be amended to allow for more flexible and diverse valuation methodologies. These could include approaches specifically designed for illiquid assets, such as discounted cash flow (DCF) models, comparative market analysis, or even third-party valuations from specialized valuers. This flexibility would enable KiwiSaver funds to more accurately reflect the true value of private assets like startups, venture capital, and private equity, which often experience non-linear growth and volatility. • AANZ suggests the creation of specific guidelines or frameworks within the governing documents that are designed to accommodate private asset investments which could address key aspects like valuation frequency, methodology disclosure, and how to handle fluctuating valuations of illiquid assets. This would help ensure that the valuation process is transparent and consistent, promoting confidence among KiwiSaver members and ensuring regulatory compliance. • AANZ recommends that KiwiSaver governing documents include clear risk disclosures that explain the long-term investment horizon and potential volatility associated with private assets. By ensuring that members understand the nature of these investments and the valuation challenges, funds could align expectations and reduce potential misunderstandings or disputes. The current rigidity in KiwiSaver governing documents regarding valuation methodologies is a barrier to increasing investment in private assets, including startups. AANZ advocates for amendments to the governing documents that incorporate flexible, transparent, and appropriate valuation methodologies, enabling KiwiSaver funds to invest in private assets with a clearer understanding of their true value and risk. These changes would ultimately help foster greater institutional investment in innovation and early-stage ventures in New Zealand.
21	Please provide any other comments on the valuation methodologies in governing documents.
22	Do you agree that this is an issue that needs addressing?
23	Do you have views on how it should be addressed?
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?

25	Please provide any further comments on this issue of valuation requirements.
Total Expense Ratio—questions for KiwiSaver providers or other industry	
26	Do you currently outsource fund management for private assets?
27	Do you see any issues with the current TER calculation and if so, what are they?
	AANZ has some issues with the current Total Expense Ratio (TER) calculation as it pertains to KiwiSaver funds, particularly in terms of the impact on investments into startups. • The current TER calculation often includes all costs associated with a fund, which can be penalizing for funds with a higher allocation to illiquid assets like startups. Investments in startups typically involve higher upfront costs (e.g., due diligence, legal fees, and the cost of managing these investments) and longer investment horizons, but these costs are often spread over time as the investment matures. • If the TER includes these higher costs without distinguishing between different types of assets (public equities vs. private equity or startups), it may artificially inflate the TER for funds that are investing heavily in startups. This could make these funds appear less attractive from a cost perspective compared to funds with a larger focus on liquid assets like public equities or bonds. KiwiSaver providers, concerned about keeping their TER competitive, may be discouraged from allocating capital to startups if the TER appears high, even though the investment could offer significant long-term returns. • The TER does not account for the long-term growth potential of startup investments, which can produce substantial returns over time. The costs incurred in investing in startups (due diligence, management fees, etc.) are front-loaded and do not necessarily correlate with the eventual high returns that can come from successful startup exits (e.g., through IPOs or acquisitions). • The TER calculation is generally uniform across different investment strategies, and does not differentiate between funds focused on startups and private equity versus those focused on more liquid asset classes. Investing in startups often involves a different set of expenses and risks compared to traditional investments. For funds that focus on private equity or venture capital, the TER could fail to capture the specific dynamics of these strategies, such as the need for active management or specialized expertise in sourcing and evaluating high-growth companies. This lack of differentiation might make startup-focused funds appear more expensive than they actually are, deterring KiwiSaver funds from investing in these types of funds. KiwiSaver providers may choose more passive, low-cost strategies that focus on liquid assets instead of actively managing a portfolio of private investments.

- Early-stage venture funds, which are often focused on investing in startups, typically incur higher upfront costs due to factors like specialized expertise, due diligence, and legal costs associated with complex startup investments. These funds are also more likely to have high management fees given the more intensive work required to actively manage early-stage investments.
- If the TER does not adequately reflect the unique costs of managing illiquid assets like startup investments, KiwiSaver providers might be deterred from allocating to funds with significant exposure to startups. This could lead to under-investment in the early-stage venture capital space, which is crucial for fostering innovation in New Zealand.

Given these issues, AANZ proposes several adjustments to the current TER calculation to make it more reflective of the unique characteristics of startup-focused KiwiSaver funds:

1. A separate category or adjusted TER calculation for funds that focus on illiquid, high-growth assets like startups. This would better reflect the actual cost dynamics involved in managing these types of investments.
2. That TER calculations take into account the long-term return potential of startup investments, recognising that the costs of startup investments are often front-loaded while the returns materialize over a longer period could provide a more accurate representation of the fund’s value proposition.
3. Greater transparency in reporting the liquidity characteristics of funds investing in startups. This would allow KiwiSaver members to understand the trade-offs between liquidity and higher potential returns, thus better aligning expectations.

28

Does the current TER calculation impact your decision to invest in private assets, or to utilise third-party fund management?

The current Total Expense Ratio (TER) calculation could indeed have an impact on KiwiSaver funds’ decisions to invest in private assets (such as startups, private equity, or venture capital) or to utilize third-party fund management. The TER, as it is currently calculated, discourages KiwiSaver funds from investing in private assets, especially if those assets are illiquid, high-risk, or require more active management, such as early-stage startups.

- Private assets, such as startups or private equity investments, typically have higher management fees and due diligence costs compared to more liquid asset classes like listed equities or bonds. These investments also require specialized knowledge and active management, which adds to the overall expenses for a fund. Providers might be reluctant to invest in these higher-cost asset classes because of the increased TER, which could make them less competitive when compared to other funds focused on more liquid or low-cost assets.
- KiwiSaver funds looking to invest in private assets often rely on third-party fund managers, such as venture capital or private equity managers, who have the expertise to manage these investments. These third-party managers typically charge management fees, which can be high relative to traditional

asset classes, especially in the early stages of venture capital or startup investment.

- If these external management fees are included in the TER, it could make the fund's total expense ratio appear unappealing to KiwiSaver members, particularly those who prioritize low fees.
- A high TER could dissuade members from selecting certain KiwiSaver funds if they are concerned about high costs, even if the long-term returns of investing in private assets could be much higher. This issue is particularly pronounced in funds that invest in early-stage ventures, where the returns are more uncertain and might take longer to materialize.
- KiwiSaver providers are likely to be sensitive to the perception of high costs in their funds, especially if they are competing for members in a crowded market.
- The short-term cost focus of the TER could lead to underestimating the long-term potential of private asset investments. KiwiSaver funds might hesitate to invest in private assets because the upfront costs (management fees, due diligence, legal costs) inflate the TER in the early years, without recognizing that these investments could yield substantial returns in the long run.

To address these challenges and promote greater KiwiSaver investment into private assets, AANZ proposes several adjustments to how the TER is calculated and applied, including:

A separate TER category or at least a differentiated calculation for funds investing in illiquid or high-growth assets like startups, venture capital, and private equity. This would help better reflect the true cost structure of these investments and avoid penalizing funds for managing higher-cost, long-term investments.
A longer-term view in the TER calculation for funds that invest in private assets. By spreading the costs of private asset management over a longer period and emphasizing the potential long-term returns, this would make the upfront costs (which increase TER) more palatable.
Incentivizing Third-Party Management for Private Assets through regulatory changes that allow KiwiSaver funds to outsource management of private assets (through third-party managers) without negatively impacting the TER in a way that discourages investment. There could be specific guidelines on how third-party fees are calculated and disclosed to ensure they are transparent but not overly punitive.

The current TER calculation creates significant barriers for KiwiSaver funds to invest in private assets, primarily because it tends to overstate the costs of managing high-growth, illiquid investments like startups or private equity. High management costs and the use of third-party fund managers may result in a higher TER for these funds, which could make them less attractive to KiwiSaver members focused on low fees.

AANZ would like to see changes that differentiate the costs associated with private asset investments and provide greater flexibility in the TER calculation. These changes would make it easier for KiwiSaver funds to invest in venture capital, private equity, and startups, thus helping to fuel innovation and long-term economic growth in New Zealand.

29	Are there any other issues you would like to draw attention to on the TER?

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?
31	What do you think should be included in any figure that is called “KiwiSaver scheme fees”?
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.

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).

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.