

Superannuation Fund Asset Allocation Trends

By Zoltan Moricz, John Holmes - May 2024

Superannuation funds under management in New Zealand have increased at a rate of c\$13 billion pa since 2014 to more than \$160 billion. This report looks at asset allocations with a focus on real estate, especially direct, unlisted property. It compares New Zealand to Australia and explores reasons for allocation trends and the potential to grow the role of direct property in KiwiSaver portfolios..

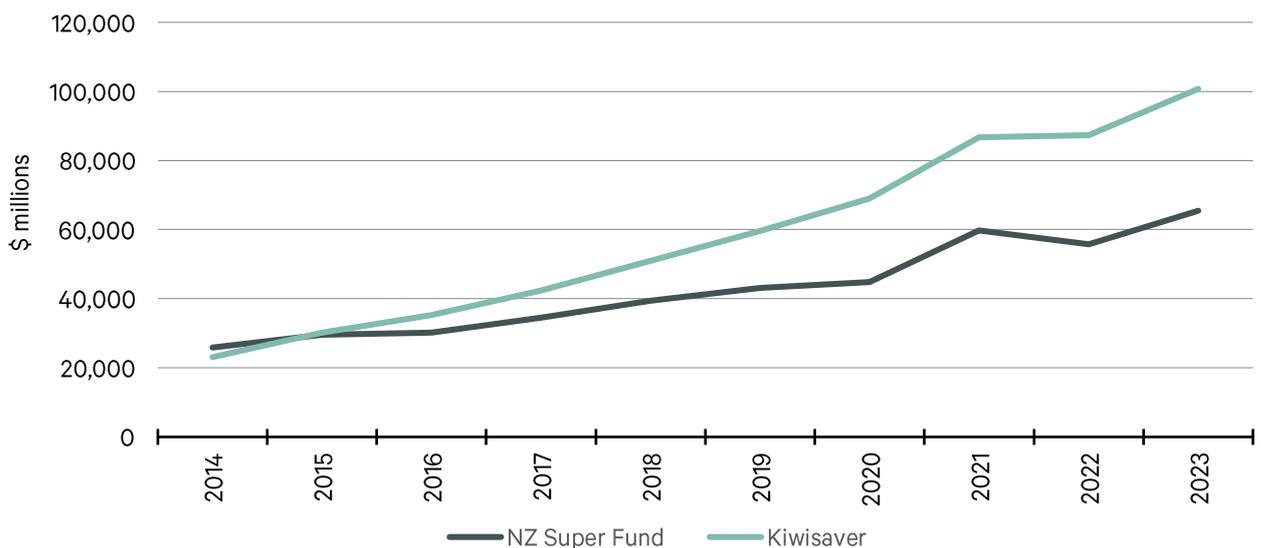
The superannuation industry is a major source of institutional investment capital globally. New Zealand lagged many other countries, but over the past 15+ years, through KiwiSaver and the NZ Super Fund, the local superannuation industry has grown to more than \$160 billion under management, although it is sobering comparing it to the Australian superannuation industry's \$3.7 trillion of funds under management.

The NZ Super Fund and KiwiSaver have both accumulated significant funds, although KiwiSaver has grown more rapidly over the past ten years. KiwiSaver Funds under management have increased from \$23 billion to \$107 billion since 2014, with the NZ Super Fund increasing from \$25 billion to \$65 billion. Between them, New Zealand's superannuation funds under management have increased by an average of \$13 billion pa since 2014.

Superannuation funds under management

KiwiSaver	\$107 billion
NZ Super Fund	\$65 billion
Aus Super	\$3,700 billion

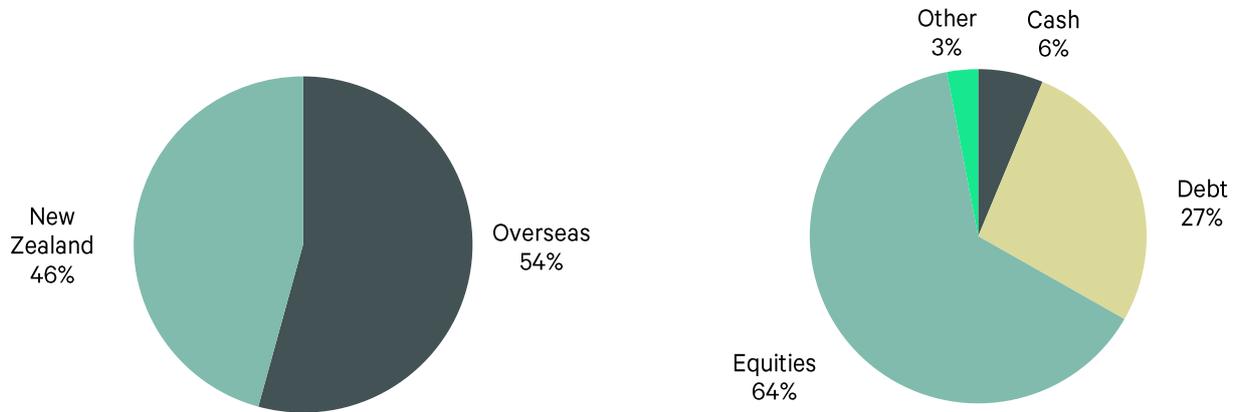
FIGURE 1: New Zealand Superannuation Funds Under Management



Source: NZ Super Fund, MJW

Funds under management are invested according to risk-return targets that drive geographic and sector allocations. Chart 2 below highlights the generic, broad, allocation of KiwiSaver funds. Sector specific asset allocations (such as allocations to real estate) can straddle a number of these broad categories. Real estate investments can take place in New Zealand and overseas, and could be in equities, debt, or direct (represented in the “Other” category in Figure 2).

FIGURE 2: 2023 KiwiSaver Fund Allocations



Source: RBNZ

Allocations to Real Estate

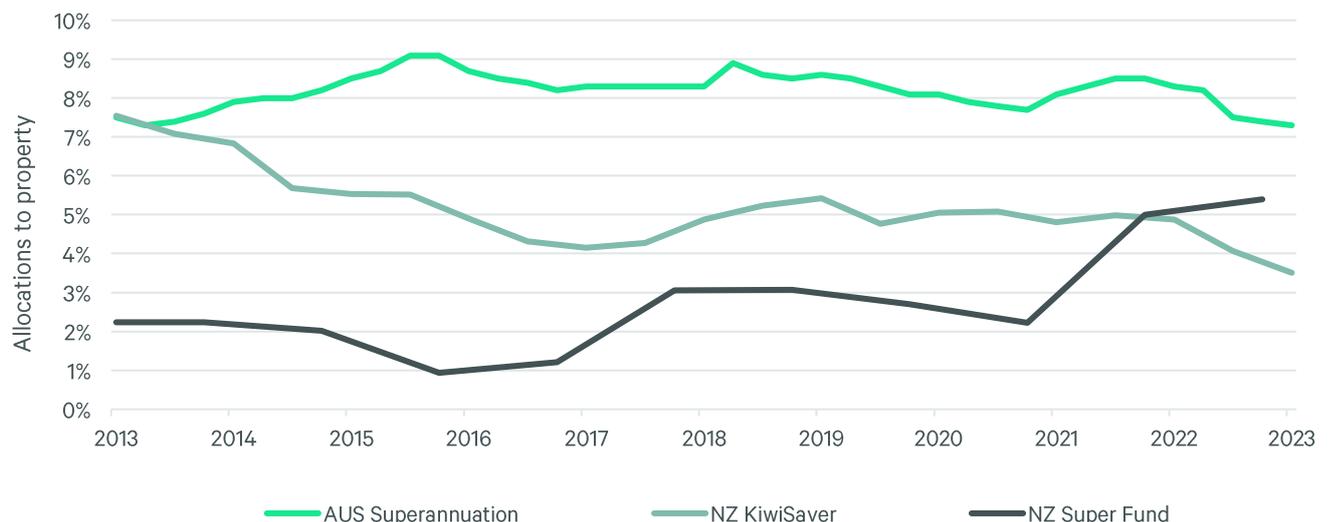
KiwiSaver providers’ and the NZ Super Fund’s allocations to real estate are about 5% of their total funds under management. This is considerably lower than some other markets, with an overall average allocation of 7.3% amongst Australian super fund providers.

Real estate allocations between NZ Super Fund, KiwiSaver providers and the Australian superannuation industry also show significant changes over time. Figure 3 shows that a decade ago KiwiSaver fund allocations to real estate were similar to Australian super funds’ at circa 7.5%, but whereas allocations remained relatively stable in Australia, KiwiSaver allocations declined, especially between 2013 and 2017. The NZ Super Fund by contrast has increased allocations considerably in the past few years.

Superannuation funds in property investments

KiwiSaver	4.7%
NZ Super Fund	5.4%
Aus Super	7.3%

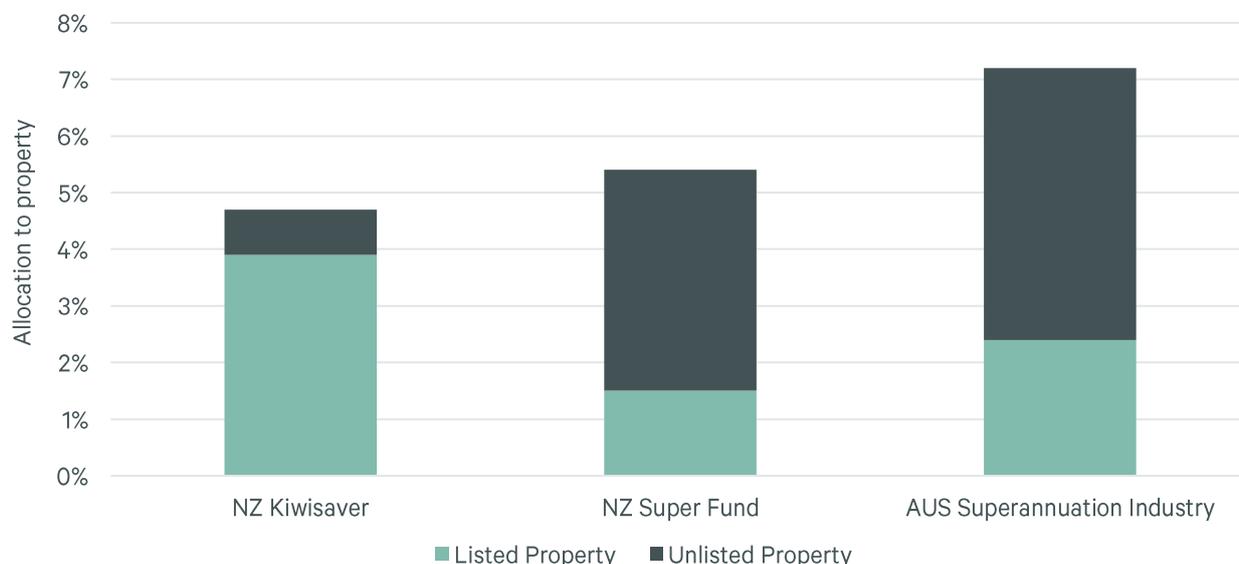
FIGURE 3: Real Estate Allocations Across the Different Super Schemes



Source: NZ Super Fund, MJW, APRA

Apart from the lower overall real estate allocation in New Zealand, the proportion allocated to unlisted property could be much higher, especially amongst KiwiSaver providers. Less than 1% of KiwiSaver funds are allocated to unlisted property, a combination of wholesale (unlisted) equity funds and direct real estate investments. The New Zealand Super Fund’s investment in unlisted property is higher at 3.9% of funds invested, but still materially less than the 4.8% of Australian superannuation funds that are in unlisted property.

FIGURE 4: 2023 Listed vs Unlisted Asset allocation to Real Estate



Source: NZ Super Fund, FMA, APRA

Based on available data, it is difficult to make more detailed assessments, but the recent reduction in KiwiSaver fund allocations to real estate appears to have occurred via a reduction in exposure to listed assets, while the NZ Super Funds increased allocation occurred via unlisted property investments. The NZ Super Fund’s unlisted property investments stood at \$2.7 billion in April this year, with significant allocations across several property sectors in New Zealand and overseas.

It is also noteworthy that property, especially unlisted, plays a substantial role across the spectrum of fund types in Australia, a stark contrast to New Zealand. Figure 5 highlights this by contrasting AustralianSuper, the largest Australian superannuation fund with c\$300 billion in funds under management, with the major KiwiSaver providers. Regardless of fund profile, AustralianSuper’s unlisted real estate allocations range between 7% and 8%, a consistent strategy. In contrast, KiwiSaver fund allocations to real estate are mainly focused on the higher growth/higher risk end of the fund spectrum, indicating a different approach. Based on the data in Figure 4, most of this is concentrated in the listed property sector, further emphasising the contrast.

FIGURE 5: Real Estate Allocations by Fund Type

	AustralianSuper		NZ KiwiSaver
	unlisted	listed	overall
Growth	7.5%	1.5%	4.2%
Balanced	8.0%	1.5%	3.6%
Conservative	7.0%	1.5%	1.9%

Source: Australian Super, MJW

The lack of KiwiSaver allocations to unlisted real estate is likely influenced by individual fund sizes, with many funds lacking scale. Only three managers have over \$10 billion of funds under management, with the majority below \$1 billion. Individual funds are even smaller. Only a handful of funds have more than \$2 billion under management.

Our data does show a correlation between real estate allocation and fund size. Funds of \$2 billion or more under management allocate an average of 5.8%. With one exception, most of this allocation appears to be invested in listed real estate. Funds with under \$1 billion under management have an average real estate allocation of 3.8%.

Conclusions – the case for unlisted direct property investments

There is significant diversity in how the superannuation industry, locally and overseas, allocates investment funds under management. Real estate allocations in New Zealand tend to lag Australia, especially in relation to unlisted, direct real estate investments. While the New Zealand Super Fund increased its allocations in recent years after developing a long-term strategy for real estate investment, very little KiwiSaver investment has been flowing into direct property.

Lack of scale may limit the ability of many KiwiSaver funds to invest in direct property, but it does appear to be a missed opportunity to optimise funds' risk-return metrics. [AustralianSuper considers](#) that unlisted assets have been a good long-term investment for its members, given that they have distinct characteristics that provide benefits to a balanced portfolio.

AustralianSuper lists several factors that favour direct property investment. Unlike listed assets, unlisted property and infrastructure are less prone to short-term market volatility and have historically produced better risk adjusted returns. Unlisted assets and superannuation funds also share a long-term investment outlook, which helps improve the long-term value of unlisted assets.

With the rapid growth in total KiwiSaver funds under management, greater allocations into direct real estate would also bring a welcome injection of liquidity into the industry.

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