

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

PS63QW:

Can you please advise what arrangements you have provided to **defer** the payment of rent for tenancies for **assets owned** by your fund as a result of keeping SMEs operational during the COVID-19 pandemic? And to what dollar value has that reduced revenue to your fund since 1 February 2020?

Answer:

Across all property assets owned and controlled by Prime Super, the respective property managers have been engaging with each SME impacted by government trading restrictions and downturn in turnover due to COVID-19 to determine the extent of assistance required. Some have had to shut down their businesses altogether (gyms and nightclub) whilst others have been able to maintain some revenue generating activities (such as take away meals for cafes and restaurants).

Property managers have determined the reduction in turnover per business based on financial statements, BAS returns, or simply on the basis they have not been able to open, and applied this to rent and outgoings due for the pandemic period - 1 April to 30 September 2020. The total value of deferred rent across the portfolio is \$185,821 for the period until 30 September 2020. The period over which this amount is to be repaid ranges from 18-24 months from 1 October 2020, depending upon specific arrangements negotiated with each tenant.

Negotiations with three tenants have not as yet been finalised due to delays with responses from the tenants. It is likely that some of these three tenants will not reopen. In the event that these businesses do not reopen rent from these tenants will be forgone subject to any collection activities undertaken, not deferred.

Prime Super is a unit holder in two pooled vehicles, (LendLease Property Fund and Investa Commercial Property Fund). As a result, Prime Super is an owner of the underlying properties. The managers of these funds have not, at this stage, disclosed to Prime Super the dollar amount of reduced revenue, nor the amount that is applicable to the Prime Super unit holdings. The total value of the investments in these two vehicles represents 1.27% of the total portfolio value of Prime Super, and the income adjustment applicable will be immaterial to the performance of the Fund as a whole.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

Prime Super

PS64QW:

Can you please advise what arrangements you have provided to **defer** the payment of rent for tenancies for **assets controlled** by your fund as a result of keeping SMEs operational during the COVID-19 pandemic? And to what dollar value has that reduced revenue to your fund since 1 February 2020?

Answer:

Assets controlled by Prime Super are the same as assets owned (the details and values of which, are outlined in the response to PS63QW).

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REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

PS65QW:

Can you please advise what arrangements you have provided to **adjust** the payment of rent for tenancies for **assets owned** by your fund as a result of keeping SMEs operational during the COVID-19 pandemic? And to what dollar value has that reduced revenue to your fund since 1 February 2020?

Answer:

The arrangements for rent adjustments with SMEs is the same as outlined in the response to question PS63QW. The total value of deferred rent across the portfolio is \$185,821 for the period until 30 September 2020. The period over which this amount is to be repaid ranges from 18-24 months from 1 October 2020, depending specific arrangements negotiated with each tenant.

In addition, rent increases due during the COVID-19 period have not been applied. Lease securities such as rental bonds and bank guarantees have not been applied to any rent deferred or adjusted for SMEs impacted by COVID-19, and no lease has been terminated. The total value of rent adjusted/waived across the portfolio is \$117,316 for the period until 30 September 2020.

Please note that there is a difference between rent deferred and rent waived as each State enacted their own legislation. South Australia's legislation does not require that at least 50% be waived. Prime Super is complying with the legal requirements in each State.

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Prime Super

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Answer:

Assets controlled by Prime Super are the same as assets owned (the details and values of which are outlined in the response to PS65QW).

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Prime Super

PS67QW:

On 1 January 2020 what was your percentage share and nominal value of your listed and unlisted assets?

Answer:

The value of Prime Super's investment portfolio as at 31 December 2019 is as follows:

Total listed portfolio	\$3,842,914,112.16
Total unlisted portfolio	<u>\$1,622,988,155.63</u>
Total value of investment portfolio	\$5,465,902,267.79

Prime Super values the total portfolio for reporting purposes at month end, and for return purposes at the end of each week, accordingly there was not a valuation undertaken as at the close of business on 1 January 2020.

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Prime Super

PS68QW:

On 1 January 2020 did your fund have liquidity issues resulting from honouring obligations to members?

Answer:

Prime Super did not have any liquidity issues in relation to any obligation to members as at 1 January 2020.

As at 31 December 2019 Prime Super had a total of \$499,415,081 in cash with the Custodian. This was equivalent to 9.14% of total investments at that time.

A further \$9,182,503 was held at 31 December 2019 to meet operational commitments (that is, the payment of member benefits and day-to-day operating expenses).

The total holdings of cash by Prime Super at 31 December 2019 were therefore \$508,597,584.

A further \$552,984,904.52 was held through fixed interest managers. These monies are available with three days' notice with little impact on the carrying value of those funds.

In total Prime Super had over \$1 billion, or 19% of the Fund's assets in highly liquid assets.

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Prime Super

PS69QW:

What write down, if any, has been made to the value of unlisted assets?

Answer:

In light of the significant decrease in listed markets that occurred in February, Prime Super reviewed the carrying value of all direct illiquid investments.

Prime Super has an established valuation process as set out in the Valuation Manual. The Valuation Manual is reviewed on an annual basis with the last review occurring June 2020. The previous review occurred in June 2019.

Prime Super owns a number of property and infrastructure assets directly, and these investments are valued through an external valuation process. The valuation of these investments will generally require an assessment of their specific cash flows and investment terms, with the valuation often based on comparable transaction parameters and risk adjusted discount rates. These investments are generally held at cost for the first twelve months of ownership, unless there is an apparent change in circumstances which would indicate the need for a new valuation. The costs of acquisition are generally capitalised as part of the cost base of the investment.

Prime Super reviews the valuation determined by the external valuer and generally adopts the mid-point valuation recommended by the Valuer.

The following table summarises the carrying value of unlisted investments as at 31 March 2020, and the relevant adjustment that was to be made to the carrying value as a result of the significant listed market downturn in February 2020:

ASSET	NEXT VALUATION DATE	BRING FORWARD VALUATION DATE	LATEST VALUE (MIDPOINT)*	LOW	POTENTIAL % DECREASE
Igasamex	30/04/2020		US\$80.9m	US\$76.4m	5.6%
IPG	30/06/2020		A\$68.2m	A\$66.1m	3.1%
ITE College West	30/09/2020	30/06/20	S\$32.7m	n/a	5.0%
Penlink	30/06/2020		A\$47.8m	A\$46.0m	3.8%
Kinland Group	30/06/2020		NOK528.9m	n/a	5.0%
Rowville	30/06/2020		A\$11.7m	A\$11.4m	2.6%
SAE	31/03/2020		NOK362.2m	NOK354.8m	n/a
Southern Water	30/06/2020		£20.0m	£18.1m	9.5%
Storrin	31/03/2020		€12.2m	€11.8m	n/a
Vopak Term Eemshaven	31/03/2020		€28.6m	€27.2m	n/a
Worsley Cogen	31/05/2020		A\$57.8m	A\$53.5m	7.4%
1 King William	31/05/2020		A\$92.9m	n/a	9.0%
111 Alinga St	30/04/2020		A\$48.5m	n/a	0.0%
313 Adelaide St	31/12/2020	30/06/2020	A\$78.7m	n/a	10.8%
50 Miller St	30/06/2020	31/05/2020	A\$86.6m	n/a	11.7%
Citilink	30/06/2020		A\$81.8m	n/a	4.9%
First Sentier – Wholesale Infra	n/a		A\$24.0m	n/a	5.0%
ICG – Diversified Infra Trust	n/a		A\$43.1m	n/a	10.0%
Investa Commercial PF	n/a		A\$53.7m	n/a	10.0%
Lendlease Retail	n/a		A\$21.0m	n/a	20.0%
Lendlease Communities	n/a		A\$0.3m	n/a	n/a
Blackstone REP6	n/a		A\$1.3m	n/a	n/a
Gresham 3	n/a		A\$21,000	n/a	n/a
Macquarie REEF 7	n/a		A\$0.3m	n/a	n/a

* the valuation is the gross asset valuation as reported through the latest valuation. The carrying value recorded by Prime Super is different as a result of specific asset related liabilities for the direct assets.

In the table above, the colour coding in the final column represents the following matters emerging from the review as at March 2020:

1. **Directly Held Infrastructure Assets of Prime Super** – a recent valuation has occurred and the investment was subsequently written down to the low point valuation as determined by the Valuer. The Valuer was aware of the pandemic and potential impact on valuations,
2. **Valuation date is 30 June 2020** – the current carrying value of the investment is written down to the low point valuation as reported by the Valuer at the previous valuation. The next valuation is due as at 30 June 2020, as such the year end valuation will more fully account for the economic impact of the pandemic and its financial impact.
3. **Directly Held Property Assets of Prime Super** – specific consideration has been given to the tenant mix and the rental relief that is required to be provided, and the potential ongoing impact on future cashflow. A key comparison point for any future valuation is comparative sales, which may provide further downward pressure in the future. However there is no intention of selling, or need to sell, any of these properties in a depressed market.
4. **Unit Trust Managed by Third Party** – monthly unit price received from manager. Initial write down over the current unit valuation of manager. The valuation of underlying assets will be monitored, and any additional write down required will be considered on an ongoing basis.
5. 111 Alinga Street – no write down has been provided as the property is 100% let to the Australian Federal Government. The assumption has been made that rent will continue to be received for the foreseeable future.
6. Remaining assets are unit trusts managed by third parties that have an immaterial value in the overall portfolio. No specific provision has been made against the current carrying value.

As at 30 June 2020 all managers and valuers have taken the potential impact of the pandemic into account in their valuation process, and as such Prime Super has returned to the midpoint value as reported by the Valuer. Investments in unit trusts are valued at the unit price as reported by the manager, with ongoing oversight of the underlying assets.

In addition to the above table Prime Super has investments in a number of Private Equity pooled investment trusts. All investments held by these investment vehicles are in shares on listed markets in Australia or offshore, accordingly the carrying value of these investments is at market.

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Prime Super

PS70QW:

Listed companies holding infrastructure assets have had write downs of around 40 per cent:

- a. How does this compare to your write down of unlisted assets?
- b. If there is a difference, why is there a difference?

Answer:

In Australian dollar terms the valuation adjustment provided across the entire portfolio of infrastructure, property and similar assets is 6.3%. Across the direct infrastructure asset held by Prime Super the adjustment is equivalent to a write down of 4.2%

This write down is below the figure of 40% that is referred to in the question for the following reasons:

1. A number of assets have had an independent valuation since the correction in listed markets, as such the Valuer has taken the potential valuation impact into account and written the asset down and Prime Super has booked this valuation adjustment. The above adjustment is a further write down made by Prime Super for a degree of additional conservatism.
2. Infrastructure assets held by Prime Super have a limited exposure to economic growth and have revenues that are underpinned by strong long term revenue streams that are backed by contracted or more stable revenue streams.

Comments on the specific nature of the investment held by Prime Super that support the amended carrying value of these investments are as follows:

- a. Igasamex – an investment in ‘last mile gas delivery’ in Mexico to businesses and individuals. Broad based customer base of an essential supply.
- b. IPG – car parks attached to hospitals in Australia, revenues are likely to remain strong in the current environment.
- c. ITE College West – Education facility in Singapore backed by Singapore’s Ministry of Education;
- d. Penlink - an investment in a Victorian Freeway which is backed by the Victorian Government on an availability basis.
- e. Kinland - an investment in a Scandinavian child and aged care provider is backed by long term financing arrangement with local governments in Scandinavian countries and backed by the relevant Governments.
- f. Rowville - electricity infrastructure asset in Victoria, revenues are stable and long term.
- g. SAE - investment in a Norwegian waste to power generator is backed by long term take or pay power purchase agreements with a strong listed corporation in Norway.
- h. Sothorn Water – Water infrastructure asset in the UK. Regulated asset with regulated revenues.

- i. Storrún - investment in a Finnish windfarm is backed by long term take or pay power purchase agreement which aligns with the Swedish governments drive for renewable energy to be provided into the electricity grid.
- j. Vopak - investment in a strategic oil storage facility in the Netherlands fully contracted to a Dutch government entity.
- k. Worsley – core infrastructure asset providing power and steam to the Worsley Aluminium Refinery under a long term take-or-pay agreement.

Whilst all investments are backed by sound revenue streams that does not mean there are no risks to future revenue streams. Prime Super continues to monitor all investments and where risks increase the future valuation will be reviewed, and a write down to a carrying value of specific investments considered. Infrastructure and property assets held by Prime Super are subject to six monthly independent third party valuations.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

Prime Super

PS71QW:

Have you had any liquidity issues in honouring your obligations to members as a result of the:

- a. recent decline in the share market?
- b. permission by the Federal government to allow members to remove up to \$10,000 per financial year if they lose their job?

Answer:

Prime Super has not experienced any liquidity issues in honouring obligations to members as a result of the:

- a. recent decline in the share market;
- b. permission by the Federal government to allow members to remove up to \$10,000 per financial year if they lose their job.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
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Prime Super

PS72QW:

What has been the current reduction of the value of your fund, and the unlisted and listed components since 1 January 2020?

Answer:

The value of the Fund at month end since 31 December 2020 is as follows:

	Unlisted Investment (\$ million)	Listed Investments (\$ million)	Other Assets and Liabilities (\$ million) **	Total Fund Value (\$ million) *
31 Dec 2019	1,623.0	3,842.9	(61.9)	5,404.0
31 Jan 2020	1,624.0	3,964.4	(78.2)	5,510.2
29 Feb 2020	1,659.0	3,753.2	(72.7)	5,339.5
31 Mar 2020	1,549.0	3,438.0	(35.3)	4,951.7
30 Apr 2020	1,505.5	3,567.2	(17.6)	5,055.1
31 May 2020	1,461.8	3,665.2	(38.0)	5,089.0
30 June 2020 ***	1,460.2	3,731.3	(57.8)	5,133.7

* The total Fund value is net assets as reported in monthly management accounts and equates to the value of members' vested benefits plus the reserves of the Fund.

** Other assets and liabilities include operational cash holdings, tax assets and liabilities, property plant and equipment.

*** Preliminary numbers, prior to completion of external audit

The reduction in the total value of the Fund since 31 December 2019 has been:

31 December 2019 to 29 February 2020	-1.19%
31 December 2019 to 31 March 2020	-8.37%
31 December 2019 to 30 April 2020	-6.46%
31 December 2019 to 31 May 2020	-5.83%
31 December 2019 to 30 June 2020	-5.00%

Domestic and international equity markets decreased significantly in February and March 2020, and the value of unlisted investments was also written down (as detailed in the response to question PS69QW in this information request).

During this period the Fund has continued to receive contributions from employers on behalf of members as well as voluntary contributions from members and rollovers into the Fund as a result of a request from a member to consolidate into Prime Super. The net value of monies received from members has been greater than the value of benefit payments and rollovers out of the Fund. This net cash flow has increased the value of the Fund over this period.

In addition Prime Super has continued to receive investment income from its range of investments. This income when received as cash has been retained as cash.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

Prime Super

PS73QW:

How many members have **requested the early release** of their superannuation since 12 March 2020, and to what value?

Please also provide monthly updates on the first of the month for the remainder of 2020 to the secretariat.

Answer:

The total number of members that have requested the early release of their superannuation, and the value of those requests for each month since 12 March 2020 are as follows:

Month End	Number of Member Requests	Value of Requests
April 2020	4,661	\$30,900,000
May 2020	6,525	\$44,700,000
June 2020	4,365	\$26,350,000
Total	15,551	\$101,950,000

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Prime Super

PS74QW:

How many members have **had approved the early release** of their superannuation since 12 March 2020, and to what value?

Please also provide monthly updates on the first of the month for the remainder of 2020 to the secretariat.

Answer:

The total number and value of benefits paid under the early release scheme are as follows:

Month End	Number of Payments	Value of Payments
April 2020	3,287	\$22,009,477
May 2020	6,961	\$45,223,881
June 2020	4,859	\$31,794,489
Total	15,107	\$99,027,847

Prime Super has complied with the requirements for the payment of benefits within five days of the receipt of the request for release.

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

PS75QW:

If some members have required the early release of their superannuation since 12 March 2020 and not been approved, please provide details of the grounds on which they have not been approved.

Answer:

A small number of early release requests have not been paid to the member, the sole reason being that the request has been identified as a fraudulent request. All other requests for the early release of superannuation have been paid.

Upon receipt of the data file from the Australian Taxation Office the member is contacted to confirm that they have originated the request. If the member advises Prime Super that they have not initiated the request the transaction is cancelled. Where there is an anomaly with the bank account to which the funds are to be transferred additional review steps are undertaken to confirm that it is a valid request for the early release of superannuation monies.

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR

Prime Super

PS76QW:

Liquidity management:

- a. What is your fund's process for complying with APRA's prudential framework which requires trustees to have a liquidity management plan?
- b. How is the plan being reported to the trustee directors?
- c. Who is responsible for the day-to-day liquidity management for the fund?

Answer:

Prime Super has an established and mature liquidity management programme in place.

Although superannuation is a long term investment there is always a need for short term liquidity, as such Prime Super has a clear allocation to cash in the strategic asset allocation.

- a. **What is your fund's process for complying with APRA's prudential framework which requires trustees to have a liquidity management plan?**

Prime Super has a long established Liquidity Management Plan. This plan was reviewed in light of the current climate and found to continue to be appropriate. The Plan was reviewed by the Investment Committee at their meeting on 8 April 2020, and approved by the Board at the meeting held on 22 April 2020.

In light of the impending liquidity crisis that could arise as a result of the significant decrease in the value of listed and unlisted assets combined with the requirement to provide liquidity to member suffering financial hardship the Board of Prime Super at their meeting on 27 May 2020 approved two additional trigger points for the management of liquidity.

In summary Prime Super has an established Liquidity Management Plan, this Plan is reviewed on a regular basis, and is updated when the need arises to deal with any current event.

- b. **How is the plan being reported to the trustee directors?**

Prime Super instituted two new processes/controls at the onset of the economic event sparked by COVID-19:

1. Weekly updates to all Directors covering the following matters:
 - Website traffic volumes;
 - Call centre traffic volumes;
 - Benefit payments made to members in both number of payments and value of payments;

- Switching by members in the accumulation division;
- Switching by members in the pension division;
- Weekly investment returns across all investment choice options;
- Asset allocation across the entire portfolio;
- Total cash holdings;
- Total free cash holdings (i.e. excluding amounts allocated to member direct holdings of cash);
- Total value of payments made under the early access provisions;
- Total number of members receiving payments made under the early access provisions; and
- Any other matters of concern that may have arisen during the week.

The information provided in this weekly updated ensures directors are fully informed on both the cash holdings of the fund and the liquidity implications of members withdrawing from the fund as well as members moving their holdings that remain in the fund to more conservative options (so increasing the cash needs of the Fund).

2. Trigger points for liquidity management

Modelling of the potential payments to be made under the early release scheme determined a base case, best case and worst case scenario. The output of this modelling in conjunction with the actual cash holdings of the Fund were used to establish liquidity trigger points for the liquidity risks associated with the early release of superannuation benefits.

The established liquidity trigger points for the early release of superannuation benefits are:

a) *Cash Holdings*

Trigger When cash holdings (including notice period accounts) fall below the Strategic Asset Allocation of 6.0% (i.e. below strategic asset allocation for cash)

Action Redeem pro-rata from other asset classes to return to the strategic asset allocation to cash

b) *Cash Flow*

Trigger When period to date withdrawals due to Early Release payments reach the best case scenario of \$230 million

Action Review of cash holdings to ensure sufficient cash is available to fund a further \$200 million in early release withdrawals, and maintain minimum of 6% cash holdings

Upon either of these triggers being reached the full Board of Directors of Prime Super are notified, and the action plan will be instigated.

To date neither trigger point has been reached.

c. Who is responsible for the day-to-day liquidity management for the fund?

The Chief Executive Officer and the Chief Financial Officer of Prime Super have responsibility for the day-to-day liquidity management of the Fund.

The Chief Financial Officer monitors the cash receipts from, and payments to, members (including rollovers out of the Fund). In addition the operational cashflow requirements of the business are also monitored by the Chief Financial Officer. This ensures all operational cash needs of the business can and will be satisfied.

The Chief Executive Officer monitors the cash held at the investment level as well as cashflows from and to investment holdings. This review includes ensuring a sufficient level of cash is held within the investment portfolio:

- To cover the amount selected directly by members to be held in cash, through the cash member investment choice option;
- Meet the strategic asset allocation to cash of the MySuper portfolio, as well as any other discrete investment choice option allocations to cash; and
- To ensure sufficient cash is available on an 11am basis to be provided back to the operations of the business should an extraordinary value of benefit requests be made.

The Chief Executive Officer is also responsible for the reporting of the cash position of the Fund to the Board, and any potential limitations that cash holdings may have on the overall operating requirements of the Fund.