

28 February 2020

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**House of Representatives Standing Committee on Economics  
Review of the Four Major Banks and other Financial Institutions – Superannuation Sector  
Re: Questions in Writing**

- 1 This letter responds to your letter of 31 January 2020 requesting responses to additional questions in writing of IFM Investors Pty Ltd (“**IFM**”).
- 2 IFM welcomes this opportunity to further assist the House of Representatives Standing Committee on Economics (“**Committee**”) in its Review of the Four Major Banks and other Financial Institutions (“**Review**”), including the important work of ensuring that the superannuation sector operates efficiently, fairly and to the benefit of fund members.
- 3 These responses build upon the information previously provided to the Committee in IFM’s letter to the Committee dated 11 November 2019 (the “**prior IFM letter**”), the appearance of IFM Chief Executive, Mr Brett Himbury and IFM Global Head of Infrastructure, Mr Kyle Mangini, at the Committee’s hearing on 22 November 2019, as well as IFM’s responses to the Committee’s questions on notice, furnished to the Committee on 12 December 2019.
- 4 IFM also provided evidence to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (“**Royal Commission**”), and one of IFM’s investments was the subject of a case study by the Royal Commission. The Royal Commission made no findings of misconduct regarding IFM, nor recommendations focused on the kind of products and services offered by IFM.

**Background**

- 5 IFM is a unique and successful Australian business, competing in the global funds management industry. As at 31 December 2019, IFM managed funds on behalf of 443 institutional investors globally, including superannuation and pension funds, sovereign wealth funds, insurers, endowments, foundations and universities. IFM manages approximately A\$163 billion worth of assets across four asset classes – namely infrastructure, debt investments, listed equities, and private equity. IFM’s investments support economic activity and have improved public outcomes through responsible long-term ownership. IFM also provides debt and equity financing to help grow Australian businesses employing thousands of people.
- 6 IFM is one of few Australian exporters of financial services, with approximately 75 per cent of Fiscal Year 2019 revenue, and the majority of IFM’s profit, attributable to investors domiciled outside of Australia. The pooling of investments of overseas investors with Australian investors has enabled Australian investors to enjoy lower costs and global expertise.
- 7 As outlined in the prior IFM letter, IFM is part of the IFM Group, the wholly owned investment management business of Industry Super Holdings (“**ISH**”). The shares in ISH are held by the trustees of 27 not-for-profit Australian industry superannuation funds.

8 IFM is the main operating entity within the IFM Group and is an investment manager. IFM provides investment management and advisory services to IFM Group funds and mandates established as part of the IFM Group's infrastructure, debt investments, listed equities, and private equity business lines.

9 IFM is headquartered in Melbourne, and has offices in Sydney, London, New York, Berlin, Zurich, Tokyo, Hong Kong, and Seoul.

#### *Improving outcomes in the superannuation sector*

10 Superannuation plays an important role in Australian households. For most Australians, superannuation is their primary source of retirement savings, and represents the most significant asset aside from the family home.

11 IFM was established by superannuation funds that are run only to benefit their members for a specific purpose: providing world class investment services on their members' behalf, which today is approximately seven million Australians. IFM's distinct ownership model and the nature of superannuation bring a focus on responsible investing for the long term.

12 IFM makes a substantial contribution to outcomes for superannuation fund members principally through market-leading risk-adjusted investment returns net of fees, together with high-quality investment advisory and client service. IFM performed strongly across all asset classes in 2018/19, with 85 per cent of products performing at or ahead of their stated objectives on a rolling five year basis, and achieved a client satisfaction score of 8.0, a result in the top 10 per cent of funds managers.

13 In the past year, IFM provided a 7.5 per cent management fee rebate to its investors, while delivering A\$6 of alpha per dollar of fees charged to investors.

14 Over the past five financial years, IFM has delivered A\$31.3 billion in net returns to investors, including alpha of A\$5.9 billion. Put another way, the millions of people on whose behalf IFM invests received almost A\$6 billion more wealth and retirement security than they would have if their investments had been undertaken by a manager that achieved benchmark returns.

15 IFM's heritage has created a member-first culture and helped attract world-class talent, driving superior investor and shareholder value.

16 Since 2010:

- (a) the number of clients for whom IFM invests has grown from 52 to 443;
- (b) IFM funds under management has grown from A\$23 billion to approximately A\$163 billion;
- (c) the value of the IFM business has increased from A\$227 million to over A\$1 billion, an increase in value to shareholders of 17.4 per cent per year, which is nearly double the average return of the ASX 200 over that period; and
- (d) the number of IFM employees has grown from 112 to approximately 500.

17 The superannuation sector in Australia also promotes the Australian economy more broadly. As the Committee will be aware, superannuation has played a major role in improving Australia's national saving rate, reducing Australia's reliance on foreign capital, and diversifying household balance sheets. The investments made by superannuation fund managers like IFM promote economic growth by providing necessary support for critical parts of the economy (such as infrastructure and private equity) that may not be available through other means.

18 IFM has a strong track record of supporting significant investments to improve and expand the infrastructure assets it owns and operates. In the past five years, A\$6.6 billion has been spent

within these critical assets on capital projects to improve and expand them. These investments alone have generated over 13,000 estimated new jobs.

- 19 Investments have been made on a broad range of projects, including:
- (a) a new parallel runway at Brisbane Airport;
  - (b) Melbourne Airport Terminal 4 development;
  - (c) Melbourne Airport aviation capacity upgrades and commencement of third runway redevelopment program;
  - (d) Melbourne Airport ground transport upgrades and commencement of elevated road and forecourt redevelopment projects;
  - (e) Port of Brisbane's Port Drive Upgrade project, and other upgrades to ground access and transport;
  - (f) a terminal expansion at Darwin International Airport; and
  - (g) NSW Ports Enfield Intermodal Facility and commencement of port rail improvement program.
- 20 IFM recognises and takes seriously its responsibilities as a significant Australian institution with increasingly global influence. IFM participates constructively in Australian delegations organised by the Commonwealth and state governments, and regularly engages with major national and multilateral organisations to support sound investment and policy frameworks. IFM is the only Australian business on the US Investment Advisory Council, an advisory body to the US Secretary of Commerce on foreign direct investment to the United States.

#### **Additional responses to specific questions**

- 21 IFM has responded to the Committee's questions below, ensuring that in answering the Committee's questions IFM does not prejudice the interests of the approximately 7 million Australian industry super fund members, and the beneficiaries of our investors in other countries, who ultimately benefit from IFM's investments.

#### *Governance*

- 22 IFM provides below its response to the question concerning governance (IFMQW44).
- 23 We refer to the prior IFM letter, which sets out IFM's corporate structure, the number of directors and composition of the IFM Group Boards ("**Board**"), the IFM Group Boards charter, our governance practices, and director remuneration and length of service.
- 24 The prior IFM letter also sets out the investor advisory committee meetings for IFM's Australian Infrastructure Fund and Global Infrastructure Fund, and the briefings provided to IFM's equities clients.
- 25 IFM has in place a comprehensive conflicts policy that applies to Board members and employees within the IFM Group and their immediate family (collectively, "**Covered Persons**"). The purpose of the policy is to establish the core principles to which Covered Persons must comply in discharging their duties in relation to conflicts of interest and disclosure of relevant interests. Such conflicts of interest include perceived, potential and actual conflicts of interest. The policy also outlines IFM's approach when managing conflicts of interest between investment types, funds and investors, as well as between IFM or its employees and IFM's clients, as defined by the US Securities and Exchange Commission ("**SEC**").

- 26 In relation to the Board, the first agenda item at each meeting of the Board is a declaration of conflict of interest in relation to the matters under discussion or any other matters. Responses (including negative responses) are minuted.
- 27 Australian Financial Services Licence (“**AFSL**”) holders are subject to the Corporations Act requirement to have in place adequate arrangements for the management of conflicts of interest that may arise in relation to the provision of those financial services for which they are licensed. The ability to manage conflicts of interest is also essential to ensure that in providing the financial services, the AFSL holder is acting "efficiently, honestly and fairly" to recipients of those services. These requirements apply to all IFM entities who are AFSL holders.
- 28 Industry Funds Management (Nominees) Limited (“**IFMN**”), which forms part of the IFM Group, holds a Registrable Superannuation Entity Licence (“**RSE**”) as well as an AFSL, and is therefore subject to both the Australian Prudential Regulation Authority (“**APRA**”) and Australian Securities and Investments Commission requirements regarding management of conflicts of interest.
- 29 IFMN’s RSE obligations in relation to conflicts of interest are contained in the Superannuation Industry (Supervision) Act 1993, Prudential Standard SPS 521 – Conflicts of Interest and Prudential Practice Guide SPG 521 – Conflicts of Interest.
- 30 The IFM Board is composed of an equal number of men and women.
- 31 IFM recognises the value of ensuring a diversity of views, cultures and opinions in the way it assesses investments and makes decisions. IFM’s Responsible Investment Charter acknowledges its belief that diversity drives better performance. IFM is a member of the Australian Council of Superannuation Investors (“**ACSI**”) and has endorsed and implemented ACSI’s Diversity Voting Policy in relation to the listed companies in which it invests.

#### *Clients and commercial relationships*

- 32 IFM provides below its responses to the questions concerning clients and commercial relationships (IFMQW21-24, IFMQW26-31).
- 33 IFM manages funds on behalf of 443 institutional investors globally, including superannuation and pension funds, sovereign wealth funds, insurers, endowments, foundations and universities. Many of these investors are organised as trusts.
- 34 IFM does not have any retail clients or clients who are individuals. IFM’s clients are large, sophisticated institutional investors, with all or substantially all having funds under management in excess of A\$100 million.
- 35 As Mr Himbury advised when he gave evidence to the Committee on 22 November 2019, IFM does not manage funds for self-managed superannuation funds (“**SMSFs**”) or co-invest alongside individuals or SMSFs. Nor are any of IFM’s investors trade unions or registered organisations.
- 36 IFM does not own Ausfund. Ausfund is one of the 443 institutional investors on behalf of whom IFM invests. The revenue received for services rendered to Ausfund is commercially sensitive.
- 37 Regarding sponsorship and marketing expenditures, including to ACTU Member Connect and ACTU Superannuation Partnerships, we refer to the prior IFM letter, which provides this information. The expenditures paid to these programs were for the purposes specified by Mr Himbury in the Committee’s hearing of 22 November 2019; they were not donations.
- 38 In relation to IFM’s use of external managers, IFM has committed capital to private equity and venture capital funds which are managed by external parties. The terms of these arrangements are commercially sensitive.

- 39 Like any global investment manager, IFM retains communications consultants to protect and grow the value of investments by ensuring that any media coverage of assets or other matters is well-informed. The terms of these arrangements are commercially sensitive.
- 40 IFM's operations interact with law and regulation in a number of jurisdictions. Accordingly, a number of employees and external consultants undertake policy research, analysis and engagement as part of their roles at IFM. IFM is also a member of industry organisations that provide information about public policy and regulation, and undertake public policy advocacy. These include the Australian Investment Council, the Australian Council of Superannuation Investors, and the Global Infrastructure Investor Association.

*Investments, valuations and performance*

- 41 IFM provides below its responses to the questions in writing concerning investments, valuations, and performance (IFMQW25, and IFMQW32-43).
- 42 IFM's investments in unlisted assets include infrastructure equity, debt, and private equity. As at 30 June 2019, the total funds under management in these asset classes was approximately A\$74.5 billion. The weighted average net performance of these investments over the five years to June 2019 was approximately 14.6 per cent on average per annum. According to APRA, the weighted average performance of the portion of the superannuation system it regulates was approximately 7.3 per cent on average per annum over the five years to June 2019.
- 43 IFM does not offer any products in the buildings and real property asset class, although some operating companies in which IFM invests do have real property interests in commercial buildings. None of IFM's unlisted asset portfolios have material risks arising from flammable cladding.
- 44 Regarding the questions concerning IFM's approach to valuing unlisted assets, we refer to the prior IFM letter, which included a copy of the IFM Group valuation policy, and to the responses of Mr Mangini regarding IFM's infrastructure valuation practices provided to the Committee at its hearing on 22 November 2019. These materials set out the methodology for valuation, including the frequency with which unlisted assets are valued.
- 45 IFM's valuation policy and practices are robust and the integrity of valuations is of paramount importance to both our investors and to IFM. IFM's valuation policy is informed by relevant accounting standards and APRA prudential guidance.
- 46 The valuation of IFM's investments increase and decrease from time to time due to a range of economic, public policy, company and other factors.
- 47 IFM, and the sophisticated institutional investors who retain IFM to manage their investments, have a high degree of confidence in IFM's valuation practices, which meet or exceed applicable standards.
- 48 Regarding the questions concerning the effect on valuations or performance of changes in interest rates, changes in income, exchange listing, regulatory actions and other factors, speculation on these matters is not possible without assumptions regarding the behaviour of a broad range of public and private actors, and could prejudice the interests of IFM's investors and their beneficiaries.
- 49 IFM is confident in its investment strategy in respect of unlisted assets. Issuers of listed securities must weigh the costs and benefits of listing, taking into account the facts and circumstances of the company. Financial instruments are often listed to facilitate secondary market trading. IFM's unlisted investments are not acquired with the intention of such trading in the ordinary course. Further, unlisted infrastructure, debt and private equity are well-understood asset classes that complement the needs of our investors.

- 50 Regarding the question concerning tax regions, IFM invests on behalf of pension funds, superannuation funds, and like-minded institutional investors on a global basis. This involves complying with the tax rules of a number of jurisdictions, and managing businesses and assets in tax jurisdictions that may differ from those of the ultimate investors. IFM recognises that tax plays a key role in economies and societies and is a responsible global corporate citizen.
- 51 IFM seeks to achieve efficiency and scale by pooling the capital of our investors. However, investment through any pooled or collective investment structure adds a potential layer of tax over and above what would be payable if the investors were to own the underlying assets directly.
- 52 IFM aims to structure its investments so that its investors find investing with IFM to be tax neutral relative to investing directly. This means taxes should be paid at the investment level (where the economic activity from an investment arises) and at the investor level (where capital is sourced and investment income is ultimately received) without additional layers of tax.

### *Remuneration*

- 53 IFM provides below its responses to the questions concerning remuneration (IFMQW45-51).
- 54 The skills and expertise of IFM's employees are critical to IFM achieving its strategic goals, consistent market-leading returns and generating significant value for its investors and their beneficiaries.
- 55 There is a high degree of competition for talented and experienced investment professionals. To recruit and retain the best people globally, IFM must pay competitive remuneration.
- 56 The IFM Board approves remuneration structures, which are aligned to results for investors, global comparisons with comparable roles, and the culture of IFM. Performance-based remuneration for investment professionals is based primarily on whether IFM products exceed investor return benchmarks net of all fees.
- 57 The Royal Commission found that, too often, entities put the pursuit of profit above all else, in particular the interests of customers and compliance with the law. As indicated in the prior IFM letter, IFM does not have remuneration structures of the kind linked by the Royal Commission to misconduct or conduct falling below community standards. In fact, IFM's remuneration structures prioritise the outcomes of its investors. The largest factor in corporate performance that affects remuneration is investor returns.
- 58 Over the last five financial years, IFM has delivered A\$31.3 billion in net returns to investors, including alpha of A\$5.9 billion. These figures are net of fees and expenses, including remuneration paid to IFM's employees.
- 59 The prior IFM letter outlined IFM's remuneration structures in detail. It also set out the individual remuneration of IFM's Chief Executive and Deputy Chief Executive, which had previously been disclosed to IFM's shareholders.
- 60 IFM's competitive position, including its ability to retain and attract staff, could be compromised by further disclosures, which would ultimately harm the interests of IFM's investors and their beneficiaries. This risk is amplified given IFM's competitors have not, to its knowledge, been requested to disclose similar information.
- 61 IFM is subject to and complies with the corporate and financial services industry laws and regulations in a number of jurisdictions including Australia, the United Kingdom and the United States. The laws and regulations regarding the disclosure of private company investment manager remuneration are carefully calibrated by policy makers to reflect the impact on competition, the commercial environment, compliance and other costs, and the regulatory interests involved. Additionally, under European privacy laws (*General Data Protection*

*Regulation (EU) 2016/697*, IFM is prohibited from disclosing the information that could be used to personally identify individuals, subject to only limited exceptions.

- 62 The information being sought of IFM by the Committee departs from market practice and regulatory requirements in major financial services hubs including London and New York. Public authorities in Europe, the US, and the UK do not require private fund managers like IFM to disclose the remuneration information being sought by the Committee.

### **Conclusion**

- 63 IFM looks forward to engaging further with the Committee as to how the superannuation sector as whole can work together to ensure that the sector continues to operate efficiently, fairly, and to the benefit of fund members, in line with the findings and recommendations of the Royal Commission.

Yours faithfully

IFM Investors Pty Ltd