

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

LUCRF Super

LUC63QW: 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: LUCRF has a partial interest in three property office assets (totalling less than 0.2% of total Fund assets in aggregate) where LUCRF may be interpreted as having some level of control over the asset.

There has been no indication that any of the tenants at these three assets are under financial duress and no rental relief has been sought. As a result, it has not been necessary for any rental relief arrangements to be put in place in respect of these property assets.

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LUCRF Super

LUC64QW: 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: Please refer to LUC63QW.

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LUCRF Super

LUC65QW: 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: Please refer to LUC63QW.

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LUCRF Super

LUC67QW: **On 1 January 2020 what was your percentage share and nominal value of your listed and unlisted assets?**

Answer: On 1 January 2020, LUCRF's default Balanced option held interests in approximately \$4,921 million (81.37%) in listed assets and \$1,127 million (18.63%) in unlisted assets.

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LUCRF Super

**LUC68QW: On 1 January 2020 did your fund have liquidity issues resulting from
honouring obligations to members?**

Answer: No.

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LUCRF Super

LUC69QW: What write down, if any, has been made to the value of unlisted assets?

Answer: Since 1 January 2020, LUCRF has incurred a -6.84% negative return on its unlisted assets, with an estimated negative impact of -1.53% on LUCRF's default Balanced option.

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LUCRF Super

LUC70QW: **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: Please refer to LUC69QW. All unlisted assets are valued by independent valuers in accordance with LUCRF's Valuation Policy and relevant accounting and prudential standards (including SPS 531).

Changes in the valuation of specific assets held by listed companies will not necessarily be reflective of the valuation of all unlisted assets. Valuations of assets are fact specific, with the impact of any economic downturn varying across individual assets. The pricing of listed assets is, in part, a product of market sentiment. As a result, the pricing of listed assets is typically more volatile than unlisted assets. Market sentiment can lead to overvaluation of a listed asset, which results in significant falls in value if that sentiment changes. There is substantial evidence that the strong share price returns from listed infrastructure assets in 2018/19 had caused equivalent assets (e.g. airports) to have implied valuation metrics in excess of their unlisted infrastructure equivalents.

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LUCRF Super

LUC71QW: 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: No.

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LUCRF Super

**LUC72QW: What has been the current reduction of the value of your fund, and the
unlisted and listed components since 1 January 2020?**

Answer: As at 31 March 2020, LUCRF's default MySuper Balanced Option has
experienced a return of -10.56% since 1 January 2020 (after investment fees
and taxes). The unlisted component of this return (as outlined in LUC69QW)
is estimated to be -1.53%, with an implied estimated return of -9.03% for the
listed component.

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LUCRF Super

LUC73QW: **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 ATO receives and administers requests for the early release of superannuation. Given this, the ATO has the most up-to-date and accurate details about the requests made by members and the status of those requests.

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LUCRF Super

**LUC74QW: 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: Please refer to LUC73QW.

The ATO commenced approving applications on Monday 20 April 2020 with LUCRF receiving its first ATO file of approved applications on Tuesday 21 April 2020. As at Friday 24 April 2020, LUCRF had received notification from the ATO that it had approved 5,458 applications for \$42.5m since 21 April 2020.

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LUC75QW: **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: Please refer to LUC73QW. LUCRF is not involved in the process of approving application requests. However, as at 28 April 2020, LUCRF has been advised by the ATO that it had revoked 9 applications that they had previously approved, and that 44 applications were unable to be processed by the ATO due to the member either closing their account prior to receipt of the ATO request or the member requesting the cancellation of the ATO application.

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LUCRF Super

LUC76QW:

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:

LUCRF has a Liquidity Policy, which contains its Liquidity Management Plan (**LMP**). The Policy (including the LMP) was developed in accordance with the relevant regulatory standards, including APRA Prudential Standard SPS530.

LUCRF's Liquidity Policy is designed to enable LUCRF to effectively manage the liquidity of investments when formulating and implementing an investment strategy, while also considering the Fund's expected cash flow requirements.

The Trustee is responsible for the liquidity of the Fund and the MIC options offered to its members. The Investment Committee (**IC**) has been delegated the authority by LUCRF's Board to set, review and approve LUCRF's Liquidity Policy. The IC regularly reports to the Board.

The IC is ultimately responsible for ensuring that there are sufficient funds available to meet payments, transfers and withdrawals for LUCRF's members, while retaining member equity. The IC assesses the liquidity of LUCRF's portfolio under a range of scenarios to ensure that the level of liquidity risk is not excessive, with the outcome of liquidity stress testing used to inform how the portfolios are developed.

The IC delegates to the Chief Investment Officer (**CIO**) the day to day monitoring and management of the liquidity of LUCRF and the underlying MIC options. This is implemented via weekly meetings of the Investment Team, to consider the asset allocation of LUCRF and rebalancing decisions. LUCRF's liquidity status is regularly reported by the CIO to trustee directors.

Investment consultants retained by LUCRF also provide investment analysis to assist the IC and Investment Team on liquidity issues, including undertaking stress testing and ensuring Strategic Asset Allocation (**SAA**) advice aligns with the IC's desired liquidity tolerances.

While the Trustee expects the Fund to consistently have sufficient liquidity to meet its obligations in the normal course of events, the Trustee believes it is also important to understand and plan for liquidity requirements in stressed environments. The Trustee therefore carries out stress testing of LUCRF's liquidity at least annually or more frequently if circumstances changes (such as SAA changes or major changes in asset classes), and in accordance with LUCRF's Liquidity Policy.