

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

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

TWUSUPER

TWU63QW:

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:

TWUSUPER does not own any properties directly. Therefore, it is not in a position to negotiate rent deferral.

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TWUSUPER

TWU64QW:

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:

TWUSUPER does not own any properties directly or control any property management. Therefore, it is not in a position to negotiate rent deferral.

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**REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
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TWUSUPER

TWU65QW:

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:

TWUSUPER does not own any properties directly or control any property management. Therefore, it is not in a position to adjust rents.

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TWU66QW:

Can you please advise what arrangements you have provided to **adjust** 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:

TWUSUPER does not own any properties directly or control any property management. Therefore, it is not in a position to adjust rents.

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TWU67QW:

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

Answer:

The breakdown of assets as at 1 January 2020 is set out in the table below. Note that we have categorised assets as publicly traded or not as opposed to listed or unlisted.

	Value (A\$)	Allocation (%)
Total assets not publicly traded	1,601,969,803	26.6%
Total publicly traded assets (e.g. bonds) that are not listed	1,350,038,674	22.4%
Listed shares	3,066,713,275	51.0%
Total	6,018,721,752	100.0%

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TWU68QW:

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

Answer:

No

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TWUSUPER

TWU69QW:

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

Answer:

The write-down of assets varies according to the nature of the investment. In some cases, values have not changed as managers have noted no impact to revenues from the Coronavirus pandemic (e.g. electricity generation assets).

Others have adjusted for revenue impairments. These include assets that have patronage risk such as toll roads and airports. Property managers have allowed for reduced revenues and potential tenant defaults. In general, Private Equity managers have not devalued assets to date and, in some cases, are yet to finalise their December 2019 valuations.

Asset class	Weighted average COVID 19 write-down to 17/04/2020(%)
Infrastructure	-1.7
Property	-4.4
Absolute Return Funds	-5.0
Unlisted Equity	0.9

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TWU70QW:

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:

- a. We note that returns in the S&P/ASX indices for listed property and infrastructure from 20 Feb to 13 April 2020 are -22.7% and -32.4% respectively. However, the Australian market is very narrow and listed sectors are a poor proxy for TWUSUPER's unlisted infrastructure & property assets which have been written down by 1.7% and 4.4% respectively.
- b. Listed assets are subject to market sentiment. Consequently, equity values tend to move too high in strong market conditions as analysts hold optimistic expectations for future earnings growth. Conversely, markets typically undervalue assets in bear markets as analysts reflect uncertainty by increasing the discount rate on future earnings. In the long term, returns depend on the returns generated by the underlying assets. In normal market conditions, differences between unlisted and listed sectors are relatively small and are due to financial factors such as relative expenses and relative gearing ratios.

In 2020, markets have moved dramatically from a bullish tone to a bearish tone. This has caused a significant fall in the value of all shares, including those of companies that are unaffected or benefit from the COVID-19 pandemic (e.g. CSL Limited). This factor is not present in the valuation of equivalent unlisted assets. This means that unlisted assets typically underperform in a bull market and outperform in a bear market. If we review returns over short periods where the market sentiment has turned from bullish to bearish, we would expect unlisted assets to substantially outperform their listed equivalents. This is because they were typically not overvalued at the start and were not undervalued at the end of the period.

In our view, devaluations of the magnitude experienced in AREITS and listed infrastructure would undervalue TWUSUPER's property and infrastructure assets. The property and infrastructure funds that TWUSUPER invests through have low or nil debt (in contrast to their listed equivalents) and generally invest conservatively with contracted revenue streams.

Our fund managers have generally been proactive in updating valuations. TWUSUPER does not believe it is appropriate to overrule each manager's valuations as (after our own investigations) we are satisfied that they are based on the best information available.

We are vigilant to the risk that some valuations may lag behind market developments and stand ready to impose directors' valuations where we see evidence of overvaluation in unlisted assets.

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TWU71QW:

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:

- a. No
- b. No (based on highest likely demand)

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TWU72QW:

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 10 April 2020 the TWUSUPER's total assets under management were \$5.4 billion. This compares with \$6.0 billion as at 31 December 2019. Changes are due to the revaluation of assets, the impact of members switching between options and the investment of net positive cashflows received since the beginning of the calendar year.

Asset values are set out in the table below. Caution should be exercised given the volatility in the market and the uneven impact of the economic downturn.

	31/12/2019 Value (A\$)	10/04/2020 Value (A\$)
Total assets not publicly traded	1,601,969,803	1,593,532,323
Total publicly traded assets (e.g. bonds) that are not listed	1,350,038,674	1,175,973,754
Listed shares	3,066,713,275	2,639,007,689
Total publicly traded assets	4,416,751,949	3,814,981,443
Total	6,018,721,752	5,408,513,766

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TWUSUPER

TWU73QW:

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:

Requests for early release are made to the ATO. Details of requests for early release are being provided by the Commissioner of Taxation and reported to APRA. It would be more efficient and accurate for all concerned to rely on the official figures that will be reported by the ATO and regulator.

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TWUSUPER

TWU74QW:

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:

Early release is approved by the ATO. See TWU73QW.

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TWUSUPER

TWU75QW:

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:

Early release is approved by the ATO. See TWU73QW.

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TWUSUPER

TWU76QW:

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:

- a. TWUSUPER maintains and adheres to a Liquidity Management Plan (LMP), which has been designed to satisfy the requirements of APRA Prudential Standard SPS530 Investment Governance as they relate to liquidity management. Each year the Fund conducts liquidity stress testing using a range of stressed market scenarios, as required under APRA's SPS530. The LMP is reviewed annually by the Board.
- b. The Liquidity Management Plan is reviewed by Directors each year, as required by law. The liquidity position of the Fund is reported at each Board and Investment Committee meeting.
- c. TWUSUPER's investment team is responsible for implementing the Liquidity Management Plan, with the Chief Investment Officer having ultimate responsibility. The Finance team and the Risk & Compliance team provide independent oversight.