COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Australia's four major banks and other financial institutions: superannuation sector

(Public)

THURSDAY, 10 SEPTEMBER 2020

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON ECONOMICS

Thursday, 10 September 2020

Members in attendance: Dr Aly, Mr Falinski, Ms Hammond, Dr Leigh, Dr Mulino, Mr Simmonds, Mr Tim Wilson.

Terms of Reference for the Inquiry:

To inquire into and report on:

The Standing Committee on Economics will review Australia's four major banks and other financial institutions. Specifically, the committee will inquire into matters relating to:

- how financial institutions deal with their customers, including indigenous customers, on specific issues and ensure they do not charge default interest on loans secured by agricultural land when there is a drought or natural disaster declaration (recommendations 1.8 and 1.13), and to deal appropriately with distressed agricultural loans (recommendation 1.14);
- the approach taken by financial institutions to review and regularly assess culture, governance and remuneration arrangements, as required under recommendations 5.4 and 5.6, to ensure that these not only comply with the law but also meet community expectations;
- implementation of the recommendations of the Sedgwick Review as they concern staff remuneration (recommendation 5.5);
- remediation of customers in a fair and timely manner following conduct that has fallen short of the law or community expectations; and
- actions being taken by institutions to put customers at the heart of their business and to achieve the letter and spirit of the Royal Commission's recommendations.

WITNESSES

BROWNING, Mr Daryl, Chief Executive Officer, ISPT Pty Ltd

GRANT, Mr Simon, General Counsel, ISPT Pty Ltd

Evidence was taken via teleconference—

Committee met at 10:01

CHAIR (Mr Tim Wilson): I declare open this public hearing of the House of Representatives Standing Committee on Economics for the review of the four major banks and other financial institutions. Given the widespread misconduct across the financial services sector identified by the Hayne royal commission, the heightened challenges and the current pandemic environment, it remains important that financial institutions are held publicly accountable, and we continue our important work. Today's hearing will focus on the superannuation sector, and we will have at least one more of these before the end of the year. The committee will hear from key groups and superannuation funds in the sector. As part of the remit, we don't just have funds but also representative bodies and other parts of the infrastructure of the super sector.

The COVID-19 pandemic has raised a number of issues in the financial sector, including how banks in the super sector are supporting customers and members in the crisis. The early release scheme has allowed people financially affected by COVID-19 to access up to $10,000 of their super savings in different financial years. APRA statistics show that, to 30 August 2020, funds have paid a total of $36.2 billion to COVID-19 affected members, with average payments of $7,680. The committee has been monitoring and will continue to scrutinise the sector on how it is meeting its responsibility under the early release scheme and upholding the best interests of its members in this challenging environment.

I remind witnesses that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Browning: Thank you for the opportunity to appear before the committee today. ISPT was launched in 1994 by four industry funds—Cbus, HESTA, Australian retirement fund and super trust of Australia—to invest in the property market post the 1990s recession. By combining their might, they were able to invest at a scale that they would not be otherwise able to individually. Importantly, ISPT is not a super fund but rather it is a property funds management company. Our clients are mainly wholesale superannuation funds and some other investment bodies, and we invest their funds in the property sector with the aim of producing strong, stable returns over the long term. We currently have funds under management of about $19 billion. Our investors are wholesale clients. We do not have any retail investors invested in the funds; although, clearly, the ultimate ownership of the assets is by members of the various super funds.

Since inception, the trustee company, ISPT Pty Ltd, has been owned by its investors who are invested in the ISPT funds. Over time, additional investors have invested in the funds and some have been issued a share in ISPT the company. There are currently 19 shareholders of ISPT. ISPT has an all-profit-to-members business model, which enables all profits to be delivered to investors in the form of trust distributions; dividends are not paid to ISPT shareholders. Like all companies, ISPT Pty Ltd is governed by its constitution, which details, amongst other things, the rules for membership and appointment of directors. ISPT Pty Ltd is the parent company of the group, and the board currently comprises 10 directors. It is largely a representative board, with seven of its directors appointed or elected by investors and three independent directors, including our chair, being appointed by the board. Over the years, the directors have included directors of super fund trustees, current or former union officers, industry experts, commercial executives, some fund executives and property sector experts. Typically their terms are three to four years with reappointment possible. The board has established people and culture, audit and compliance, environmental safety and operational risk, conflict governance and nominations committees.

ISPT's trusts or funds are governed by their trustees which prescribe, amongst other things: authorised investments; eligible investors; and constraints on activities in the various funds such as levels of debt, level of development, how the fund is managed, how it can raise capital, how units can be transferred or redeemed, how distributions can be reinvested and other matters such as valuations, the cost of management et cetera.

There are a few important things to note. The construction of an investor's portfolio and the decision of what allocation to make to property is done by the investor's professional investment staff with assistance from their asset consultant. Property, on average, represents about 10 per cent of the super fund portfolio. Property competes for capital against other sectors such as domestic and international equities, infrastructure, cash, private equity et cetera. ISPT competes against other property fund managers for a share of allocation to property. Early on in its life, ISPT did have a significant proportion of its investors' allocation to property; however, as they have grown and achieved scale, our investors have diversified their manager allocations and appointed more property fund managers to manage those property allocations on behalf of their members, and some have brought capability in house as well. That trend is certainly continuing.

ISPT shares vary from fund to fund; there is no common measure that they use. Our relatively good investment returns over the 25 years of our existence—for example, our main fund of 9.4 per cent after fees—is why we continue to attract investment and have a healthy list of investors looking to invest with us. I hope the committee found the background helpful, and we welcome your questions.

CHAIR: Thank you very much, Mr Browning. Just touching on that, I just want to seek clarity. Does ISPT then buy the assets or does it simply invest in shares of the equity of assets?

Mr Browning: No, we buy the assets directly and then hold and manage those on behalf of the funds that own them. So we don't own—

CHAIR: How many assets do you currently hold outright?

Mr Browning: In aggregate across the funds, about 125 across all sectors—

CHAIR: That's 125—

Mr Browning: Assets.

CHAIR: Assets. And it's all in the property space, so it includes retail property, commercial property—

Mr Browning: Correct.

CHAIR: Is there anything outside of what we classify as retail and commercial property?

Mr Browning: Retail, commercial, logistics and warehouse, or some call it industrial. We have some initial investments in the education sector but within CBDs, and we're certainly looking at a couple of other sectors, such as health and housing.

CHAIR: When you say 'education', do you mean assets which are leased by education sector providers?

Mr Browning: Correct. Our initial investment is with Victoria University in the Melbourne CBD. That's a circa 30,000 square metre campus that we're building for them near the corner of Queen and Little Lonsdale streets.

CHAIR: Thank you. You say you don't pay dividends, but you pay trust distributions to investors. Is that correct?

Mr Browning: Correct.

CHAIR: On that basis, how are they allocated—

Mr Browning: The proportional ownership of each trust varies, so distributions are paid in accordance with the proportion of ownership that each investor holds in the trust.

CHAIR: Just to clarify, proportionate to the shareholding in each of the funds, the distribution through the trusts is provided back to the investors. Is that correct?

Mr Browning: In proportion to the unitholding rather than shareholding, yes.

CHAIR: Unitholding—thank you. Because it's so critical for how assessments are made, particularly around distributions through trusts, how does ISPT ensure integrity in its valuations?

Mr Browning: Each trust has a policy on the valuations and how the assets are to be revalued. By and large, the minimum requirement is once per annum. However, our valuation policies for our investment funds dictate quarterly valuations. Importantly, for ISPT, that is done of all assets. So we value every asset on a quarterly basis, which is done by independent valuation using a panel of valuers, the industry experts, across the market and across the various categories. They are also limited to conducting eight assessments over a two-year period, and then they rotate off. There are some other limitations—there's no concentration of any one valuer or valuation group in conducting all of the funds. So it's a very broad based assessment of the value of the assets individually, and then they are aggregated to form the valuation of the trust itself.

CHAIR: In terms of valuations, who completes the assessments?

Mr Browning: Some of the names are the big real estate agencies—groups like Urbis, m3property or other consultancy businesses. It's a very broad spectrum, but well regarded.

CHAIR: I've no doubt that you would expect them to be well regarded. On notice, could you outline to us the valuers that you have used over the past decade for your valuations so that we can establish who is valuing the assets and therefore the basis for the integrity of the system. Does it include internal and external valuers?

Mr Browning: They're all external, and then the other step I would highlight is that, when our audit is completed each year, which we're just doing at the moment, our external auditor, Ernst & Young, who have a real estate group, also overview a big cross-sample of assessments of assets in the portfolio and, as part of their audit attestation or assessment, confirm the validity of the valuations. So it's really a two-step—all external valuations and then an oversight, annually, at the time of preparing the accounts for the various trusts.

CHAIR: When it comes to the EY doing an audit, can I clarify whether EY does any of the valuations.

Mr Browning: No, it doesn't. It takes a selection—let's say 25 properties are selected randomly across the portfolio—and it reviews those valuations for, as you say, integrity and that the principles being used are well-founded and that the evidence is appropriate. Then they provide endorsement, I suppose, to their audit partners as they sign off the accounts.

CHAIR: But that wasn't the question that I asked. The question I asked is: if Ernst & Young are doing the audits, have any valuations been done by a team at Ernst & Young?

Mr Browning: No, definitely not.

CHAIR: Okay. I just needed to clarify that. In light of the fact that obviously there is going to be a reduction in the value of unlisted assets over this COVID-19 period and the potential particularly for a reduction in commercial rents and the like, and probably in most of the asset classes that you have outlined, because even ones in the education sector are likely to be doing it tough, have you provided any relief to those who rent the assets that you provide?

Mr Browning: Yes. We have responded and we are working with the federal government recommended code of conduct that the Prime Minister outlined with that concept of proportionality. So we have been working across the portfolio. We took a number of steps. Obviously the uncertainty of COVID did create a lot of angst and concern right across our tenant community. When there was a period of uncertainty about how to tackle it, the industry obviously wasn't able to reach agreement, and then the Prime Minister or the government put forward some guidelines, which were helpful. What we did was write to all of our tenants and suggested that, while we would still bill them, we would not be taking any collection action or pursuing anyone until such time as there was clarity on a national code and, equally, state government input into those arrangements. So what we're doing at the moment is—

CHAIR: What is the average of the relief?

Mr Browning: It varies, because the test for small and medium enterprises was that there was a threshold of a 30 per cent reduction in revenue, but it varies from business to business. It's quite dramatic, particularly in food, hospitality, events—a range—and obviously, at the other end, supermarkets and the like are doing reasonably well. So we're currently dealing with something like 1,400 various applications. We've processed about 700 of them. The relief varies from 10 per cent through to up as high as 100 per cent of the rent, but the industry is doing it on a month-by-month basis. So it really does—

CHAIR: Are you giving greater assistance to investments in Victoria or returns in Victoria?

Mr Browning: Correct. Yes, we are. Obviously they've been drastically affected in the majority of circumstances. That's being done month by month, and we hope that there's some relief, but I think we're going to be doing it for quite a while. Our view is that what we want to do is partner with the customers, the tenants, and help them get through, because that's in the interests of our investors. As I said, it varies from 20 per cent or 30 per cent rent relief through to 100 per cent in some instances.

CHAIR: When was the last round of valuations you completed, in light of the fact that there's likely to be a downgrade in the value of your assets at the end of this financial year?

Mr Browning: We completed a full round at 30 June, and we are in the process of doing the September quarter right now.

CHAIR: Was there a downgrade in the value of any assets?

Mr Browning: Yes, certainly. Across the portfolio there were significant write-downs across virtually all sectors. The one that's held up in the short term is logistics and warehouse, where there is quite a level of demand at the moment. Certainly retail has borne the brunt of the declines. Office is starting to soften. The challenge for the valuers is a lack of transactional evidence upon which to base that, but they are increasing provisions for reductions in rent, increases in vacancies and, potentially, defaults over time.

CHAIR: On notice, can you provide us with the average reduction in the valuations of assets in the different classes of retail, commercial, industrial and the other sectors you've outlined—education and logistics—to give us a sense of how much you are downgrading them in light of the COVID crisis. The secretariat will formally submit that to you. I'll now hand over to the deputy chair for 12 minutes.

Mr Browning: Thank you.

Dr LEIGH: At the outset I wanted to make a couple of comments to people who are watching the hearing. It's worth people watching the hearing being aware that today's schedule was set entirely by the Liberals. Labor would have preferred to hear from the superannuation funds that were called before the royal commission, but this request was ignored by the coalition, which is using this committee to wage an ideological war against superannuation. Over recent months, the chair has snowed industry superannuation funds with vast amounts of questions going into—

CHAIR: A point of order, Deputy Chair. You're actually misleading the committee. The number of questions submitted before members—you can lie as much as you want.

Dr LEIGH: Today's schedule reflects the ideological predispositions of the coalition. That's very clear from the fact that this committee has not called retail funds that were the subject of serious investigation by the royal commission. Labour suggested—

CHAIR: A point of order, Deputy Chair. You should read the agenda and not seek to mislead the committee, the parliament or the public.

Dr LEIGH: Labor suggested that a range of retail funds named by the Hayne royal commission be called. This request was not actioned. Instead, before today's hearing we have five industry fund bodies and just one retail fund body, AMP. AMP came out of the royal commission in worse shape than any other body, yet while we have an hour with ISPT now and an hour with another superannuation body, we have only 45 minutes with AMP.

Ms HAMMOND: Chair—

Dr LEIGH: They have suffered scandals galore and yet—

CHAIR: A point of order.

Dr LEIGH: It is vital for people watching this to know the superannuation witch hunt being conducted by the coalition.

Ms HAMMOND: Chair, a point of order. We've got very limited time. Can we please—

Dr LEIGH: My opening question to ISPT—

CHAIR: Ms Hammond, he's eating into his time. It's fine.

Dr LEIGH: It's vital that people watching know that this is a coalition witch hunt and part of the coalition's endeavour to back away from their pledge to increase superannuation, which will make workers poorer and hurt governments in the future. I want to extend on the questioning the chair began on rent relief from COVID. Is it the case that only those firms eligible for JobKeeper were provided rent relief, or did you use other criteria to determine eligibility?

Mr Browning: We've used a variety of criteria. The primary one is: has the business been severely affected by COVID? That's the primary thing. One of the measures is certainly JobKeeper. At the end of the day, for the most part, businesses rely on customer transactions and turnover to be viable. Where they are able to demonstrate that by producing BAS or profit and loss accounts, we have taken that into account and made our decisions to grant various levels of relief, as I detailed before in answer to the Chair's question. It does vary across industries. For example, in an office building, office tenants by and large are still paying their rent. However—particularly, say, in the Melbourne CBD—the cafes and various service businesses at the foot of many towers simply have no customers. They therefore have no capacity to meet their rent obligations, and rent abatement is being granted to those.

Dr LEIGH: How do you expect to transition that? What's your plan for phasing down rent relief? Related to that, what are your expectations as to how you'll be managing evictions?

Mr Browning: We took the view we would not evict anyone under COVID conditions, and that still holds true. Any eviction or even consideration in our organisation requires my approval as the CEO, and we have not done that. We, like everyone else, are extremely concerned about the economic circumstances of business generally, and in particular those who we've partnered with for many years in our buildings. Our objective is to work with them and provide appropriate relief. Hopefully we see some easing of restrictions so the economy can get back into full run. That does not look likely in the short term, so we believe we will have to continue to support tenants well into 2021. Hopefully there is some relief after that.

Dr LEIGH: What do you see the long-term future of commercial property looking like? I'm struck by the fact that changes in commercial property valuations don't seem to have been that large, and yet just about everybody is talking about COVID as having an impact on reducing the pace of urbanisation and increasing teleworking. You would've thought this would be a massive hit to the values of commercial property, but I don't see that in the numbers. What am I missing?

Mr Browning: Potentially—I think your statements are correct. There is dramatic change going on in the economy. Some of it was already underway, and I think the general consensus is that COVID has merely accelerated a number of the changes. Retail had its challenges well before COVID. The uncertainty arises because there's a lack of transaction activity for people to get a gauge on what is value. The principle of value is one of negotiation between a buyer and a seller that depends on their perspectives of the market. One could say that a buyer is an optimist and a seller is something of a pessimist. At the minute, the difficulty is actual volumes of transactions that can give a pointer to what is the right value.

As I mentioned, valuers are making adjustments about rental levels, how long it takes to lease a building and the level of incentives that might be provided to cover fit-out works et cetera, but there's a lack of evidence to enable people to bite the bullet and make some of those decisions, otherwise you're introducing an element of volatility. If you want daily pricing, the share market provides that opportunity and invests through the listed rates. It is a challenge. I don't think there's any doubt values will fall. It's been well reported. The listed rates have been reducing values. We are reducing values. But the markets can only do it based on evidence, otherwise it is a bit of guesswork, frankly.

Dr LEIGH: Are you anticipating significant costs and changing fit-outs? I've been a long-time critic of open-plan offices. I think they're terrible for productivity, I think there's very little evidence in favour of them and I think a silver lining of the pandemic has been the decline of the open-plan office. But that's, of course, also a massive expense for all of these firms that have moved towards open-plan in recent years. Is there going to be significant infrastructure costs as offices are remodelled?

Mr Browning: I think there will be a key to what will be the occupancy levels and the return of workers to the CBD. I don't believe it will get back to the same density levels that we've had, as you point out with open-plan offices, agile working and the like. That will mean businesses will have their workforce working remotely and also in the office. There will have to be some modifications—if nothing just to achieve the physical distancing requirements recommended by the various health groups. Yes, that will be a cost to the occupier, but the owner is also responsible for the common areas and the like, navigating lobbies, lifts, accessing amenities, toilets et cetera. All of that's being modelled. There are different examples being tested. For the most part, office floors are being done on a one-way basis—either clockwise or anticlockwise—to appear to avoid the crossover. Traditional congregation areas, like kitchens and staff break-out areas, will have to be modified—and have been modified—to reduce density. So there is quite a cost to business. Equally, the downside is that the collaboration that everyone desires and hopes for in the office is more difficult.

Dr LEIGH: As I mentioned in the opening, Suncorp, BT, Colonial First State, OnePath and Mercer were among the superannuation funds named by the Hayne royal commission. This committee's mandate is to ensure that the Hayne royal commission is properly followed up upon. Were there adverse findings made against your organisation in the Hayne royal commission?

Mr Browning: No, we weren't called before the commission.

Dr LEIGH: It does make it extraordinary that the committee has scheduled an hour to speak with you today then. I wanted to ask, finally: what do you see as potential for diversification given what is going on in your sector? How do you look to provide diversification, and how does having investments in ISPT through a superannuation fund provide greater diversification to an individual than, for example, owning a house?

Mr Browning: As I highlighted, the actual construction of the superfund portfolio is done by staff within the super fund, and they make those allocation decisions between domestic and international equities and with infrastructure et cetera. Property, typically, is about 10 per cent. Investors will then diversify within that property allocation amongst a range of managers, or some of them internally manage some of their portfolio, and then they will invest with managers who, in turn, might be specialists or with funds that offer a diversified product. For example, ISPT's main fund, the ISPT Core Fund, is worth about $16 billion. It is a diversified investment trust. The current allocation is about 55 per cent commercial, about 30 per cent retail and about 15 per cent logistics and warehouse, and that is further diversified across the main states geographically. But the bulk of our investment is on the eastern seaboard through Victoria, New South Wales, the ACT and Queensland. That gives a diversification, in turn, back through the number of occupiers, ranging from those in the commercial portfolio and Westpac bank to the government. The federal government is one of our big occupiers in Canberra. We've got some of the super funds in some offices in Melbourne but quite a broad based source of income from Coles and Woolworths through to the commercial tenants that I listed, and then there is obviously further diversification through the logistics and warehouse space with distribution companies again. So all in all—

CHAIR: Your time's up, Deputy Chair.

Dr LEIGH: I think you're cutting off the witness rather than me there.

CHAIR: Sorry. You may finish, Mr Browning.

Mr Browning: That fund is broadly diversified. We do have a sector-specific fund called IRAPT that invests in neighbourhood shopping centres. Its diversification comes from Coles, Woolworths and specialty retailers and the geographic spread of that portfolio across the country.

CHAIR: Thank you, Deputy Chair. Thank you, Mr Browning. For clarity, the questions that have been submitted by this committee have been submitted to retail and industry super funds. So I'm sorry; you've misled the committee, Deputy Chair. In addition to that, we have also called other funds that have not appeared before today but are appearing at future hearings. I've already outlined this to the secretariat. You're well aware of this, so your hysterical rants are not accurate. I now hand to Ms Hammond for 10 minutes.

Ms HAMMOND: Thanks, Mr Browning and Mr Grant. Forgive me for going back to basics a bit, but I'll go back to the structure of ISPT. You only use super funds. Is that right?

Mr Grant: No. Perhaps I'll provide some broader context to that. The trustee, ISPT Pty Ltd, is a company, and it's a property funds management company. As its shareholders, it has a range of organisations that are predominantly super funds, but they do include a couple of other organisations. Our investor base goes broader than that and does include a range of different types of organisations. We've got about 32 investors in total. Our investor base comprises 18 industry super funds, five government statutory bodies or authorities that also provide funds to ISPT and invest in property on their behalf, five religious organisations and four others. So there is, in fact, a reasonable diversity of investors behind ISPT, recognising we were initially formed by the industry super funds. Over time, as other investors have joined us, that base has diversified.

Ms HAMMOND: So, when you talk about investors, there are 32 in total.

Mr Grant: That's right.

Ms HAMMOND: Of the shareholders of ISPT Pty Ltd, did you say they were industry super funds and some others?

Mr Grant: Yes, there are 19 investors who hold a share in ISPT—15 of those are industry funds, and there are two religious bodies and two other types of bodies.

Ms HAMMOND: This is getting clearer for me; thank you. When you talk about returns, I think the comment—and I may have misheard it—was that there was an average of 9.4 per cent return after fees to investors. In that context, is it not the shareholders you're talking about but investors?

Mr Browning: It's the actual investors, yes.

Ms HAMMOND: The investors have been getting 9.4. That depends each year, I presume?

Mr Browning: Correct, but that is the average. Yes, it goes up and down according to the property cycle and the economic cycle.

Ms HAMMOND: Right. Are you anticipating that that will go down in 2020?

Mr Browning: Yes. Our most recent return for that fund was one per cent. That was still better than the index, which was negative. I think, in our 25-year history, we had one negative year in the depths of the GFC. Otherwise, we've been able to produce property returns because we're coming off a strong level of income in the portfolio.

Ms HAMMOND: How were the returns to the shareholders determined? I think you said they were done through a trust allocation.

Mr Grant: No. In fact, just to clarify that, ISPT has an all profits to investors model. It does not pay dividends to its shareholders. That was a core principle of its foundation. Essentially that means that the trustee recovers its costs and all profits earnt within the funds are distributed through to investors. There are no dividends paid to shareholders by ISPT.

Ms HAMMOND: Okay. So no dividends, but wasn't there an earlier comment about returns based on the proportional ownership of the trust?

Mr Browning: Yes. The distributions in the trust are proportional to how many units you had in the trust.

Mr Grant: For example, if you held eight per cent of the units in one of our funds then you would receive eight per cent of the distributions out of that fund.

Ms HAMMOND: So it's got nothing to do with the 15 shareholders?

Mr Grant: No.

Mr Browning: No.

Ms HAMMOND: What is the regulatory environment in which you work? The trust company is a proprietary limited, so you're obviously covered by the Corporations Act, but are you covered by financial services regulations? What are the other regulatory bodies that you report up to and into?

Mr Grant: We do have a financial services licence. Our primary regulator is ASIC. We are not a superannuation fund or a registered superannuation entity, so we are not regulated by APRA. We are an ASIC regulated entity that has been granted an Australian financial services licence and that licence authorises us to deal and manage money on behalf of institutional investors. What I mean by that is wholesale investors.

Ms HAMMOND: So that's overseen by ASIC. There was some evidence or some information provided to us that at least 50 per cent of people with super would have property invested in ISPT through their super funds. Would that be correct? Is that your understanding.

Mr Grant: Yes. Correct. On a look through basis, yes.

Ms HAMMOND: So 50 per cent of working Australians have their super invested in ISPT properties. That's an extraordinary coverage. You've got extraordinary reach over people's super don't you? Would that be the largest in Australia?

Mr Browning: It would be very high, but obviously the big super funds have got a lot of membership. It's not to say the members have got massive amounts per person. But, yes, it spreads across the portfolio, and that, I think, is one of the things that our team take pride in, that's it's mum and dad's money invested in good assets across the country in a range of different markets and working with different customers. It's been a good model and produced good returns over the long term.

Ms HAMMOND: You do cover such a lot—to make sure that the regulatory environment is correct. If we go back to the financial services licence, what do you actually have to do to get your financial services licence? What do you have to report up every year? How much oversight is provided?

Mr Browning: The financial services licence regime applies to everybody who is looking to deal with money on behalf of retail and wholesale investors. It's a [inaudible] regime and it's a very rigorous process that you need to go through to secure a licence. You need to be able to demonstrate that you have a necessary expertise across each of the elements of service that you're looking to provide. It is a process that takes a considerable amount of time, subject to detailed scrutiny by ASIC and some toing and froing with requisitions about aspects of your business.

In our case, we obtained the licence when we first were formed. You need to go through that process, as everybody does. Having been granted a licence, there is a requirement to lodge financial accounts. There are requirements to report serious breaches and things of that nature moving forward, and, of course, there are ongoing obligations as a financial services licensee to ensure that your governance framework is appropriate and that a whole range of elements of that are maintained and in appropriate shape. At ISPT we take that very seriously. We've got qualified resources that are dedicated to monitoring our behaviours, and the board is very active also, both directly and through its committees, in monitoring management and the performance of the business and its compliance with its regulatory obligations.

Ms HAMMOND: Okay. On notice, how many times have you reported breaches in the last five years? And, quickly, in your opinion does ASIC take a light-touch or a heavy-touch approach? Once you've got your licence, does ASIC ever follow up with you on queries when you submit annual reports?

Mr Grant: I think it's generally on an exception basis. I'm sure that when we lodge details, if we were to make a disclosure of a breach, they would follow up accordingly. In relation to that question on notice about breaches, I can say that about five or six years ago we recorded one breach. There was a minor unit [inaudible]. In the last five or so years that's the only issue I'm aware of that we've actually needed to report through to ASIC in accordance with our licence.

CHAIR: I'm afraid I'm going to have to cut you off there, Ms Hammond. Dr Aly? Dr Mulino?

Dr MULINO: Can I just begin by associating myself with the opening remarks of the deputy chair. I won't repeat them all, but it's important to state the facts that we have five industry funds or related entities. You have already given evidence that you weren't even called before the royal commission, let alone adverse findings. We have AMP, the only retail fund, for 40 minutes; you for an hour; and ISH for an hour. I just want to put that on the record right at the start.

You've touched on this already, but I would just appreciate it if you could spell out the rationale for funds investing in ISPT. Part of the rationale is that you provide an expertise and a capacity to invest in large assets that individual funds would struggle to invest in on their own, don't you?

Mr Browning: That's correct. We were created as a collective investment vehicle and we remain that today. As Mr Grant highlighted, our main fund has got 30-odd investors across a broad spectrum of investors. We think—I suppose as we would—it's a very efficient way for all super funds to invest. They get the benefit of scale. Every investor pays the same relative cost of management, whether they've got the minimum investment, which is $3 million, or they have, like our biggest investor, about $4 billion with us, so it's very efficient. It's very transparent. It also means that the risks of property investment are managed by experts in ISPT, whether that's workplace health and safety, compliance, even the COVID response. We have an in-house team of about 170-odd people but we have a broader cross-section of business partners who help us deliver our services, so it's quite efficient. It's proven its mettle over the journey through the GFC. I'm sure we'll manage COVID well and get investors in the best position that they possibly can be in these difficult times.

Dr MULINO: Some of the assets that you invest in require very detailed and complex due diligence with very specific skills for that specific sector, don't they?

Mr Browning: We're a specialist property house, but we're trying to buy not just good investments but great investments and create great long-term investments for the members of the funds. We do have specialists in development, transactions, tax, accounting et cetera. When we're looking at assets, we apply those skills, supplemented by external consultants, to do rigorous due diligence across an acquisition, a joint venture or whatever. That then informs the board in its investment considerations about whether to proceed with a transaction or development and ensure the best chance of success in that endeavour.

Dr MULINO: Like in any asset class, property will go up and down. Clearly there are some areas of property that are struggling at the moment. You referred earlier to long-term returns of over nine per cent. Obviously with superannuation we're talking about investing people's retirement savings over decades. Can you talk a little bit about putting that nine per cent plus into context and in particular that there is an illiquidity premium that benefits investors when their fund is able to invest in secure, stable assets over the long term?

Mr Browning: The long-term nature of it is one of security. When I first joined, Mr Bill Kelty was a trustee of one of the funds and he said, 'Son, we can accept lower returns but don't lose the capital.' That has certainly driven my career in running ISPT and investing in property for the benefit of members. For example, we're a big investor in Canberra and clearly we enjoy a very good relationship with one of the best long-term tenants you can possibly get in the Commonwealth government. The construction of the portfolio is to minimise risk, to minimise volatility and to diversify our sources of income and exposure to any industry, to any one tenant et cetera. We do take great pride with that sense of purpose that we are looking after mum and dad's money. Our job is to build that and do our part, acknowledging that property is only 10 per cent, in giving them great returns from fairly stable assets. That's why, even in the main fund, we have a limit on the volume of development and a limit on the level of gearing that can be in the fund so that we're not putting those investments at risk.

As you highlighted, yes, markets are cyclical and at times can be volatile. Property over the long term has proven to be a good investment and one that can deliver good returns with a very high proportion of the return coming from rent from many of the leading companies in Australia. We acquire assets via direct purchase, either solely or in joint venture with other property owners, or, where we have got expertise or access to land and opportunities, we develop those assets directly on behalf of the members, because in certain circumstances that's the most efficient way of being able to create an asset. When the market is running hot it is difficult to get good assets and having the ability to both acquire and develop gives you more opportunity to meet the requirements of investors.

Dr MULINO: You talked with the chair a lot about the various aspects of your valuation processes. Is it fair to say that the processes you undertake to value unlisted assets are standard practice or best practice?

Mr Browning: I think we would say that they are better practice, certainly with the frequency and rigour of valuations. We have a team of people who supervise it. They're separated from the investment staff so that we get integrity into the system. They review the valuations to make sure they're properly based, that the evidence is there. And then, with our audit and compliance committee, they oversee that process and the policy and make sure that it's observed through the process. As I highlighted, there's that extra layer of governance over the top as well, where independent assessment or overview is done of a big sample by EY. I have a lot of confidence in the integrity of the valuations. They are market based on the principles that are well established. Whether it's an unlisted trust or a listed trust, the valuation process is exactly the same; there is no difference. The bodies that I mentioned, the experts who value, they value for us, for those in the listed markets and for corporations that are just valuing assets on their balance sheets. So, it's a well-established process. We think the frequency we've got, at quarterly, is appropriate to the nature of the asset class, because otherwise one is cost, but equally the market doesn't have the volume of transactions where there are big changes if it was reduced to say monthly pricing. We just wouldn't have the evidence.

Dr MULINO: I've just got one last yes/no question.

CHAIR: Very quickly.

Dr MULINO: I just want to clarify this. I think you've already said this, but funds, if they want to invest in property, they don't have to invest with you. They will choose to invest with you where they feel that's the best option, but they can invest in property by other means if they choose to.

Mr Browning: Absolutely, and I would say it's prudent to diversify your managers, but I would hope, based on our performance, we could still command a sizeable part of it.

Dr MULINO: Great, thank you.

Mr FALINSKI: How many times have you appeared before this committee?

Mr Grant: None.

Mr FALINSKI: How many other parliamentary committees have you given evidence before?

Mr Browning: None.

Mr FALINSKI: How many tenants in your investment are government departments or government agencies?

Mr Browning: Probably about 30 per cent. I can take that on notice, but there's a reasonable proportion in the office portfolio.

Mr FALINSKI: So how many tenants would you have in total, and is that by value or by number?

Mr Browning: By number.

Mr FALINSKI: By number, okay. Could I please get a breakdown of that by value and by number? How many tenants would you have, just as a ballpark figure?

Mr Browning: A couple of thousand.

Mr FALINSKI: So about 600 of your tenants are government departments and agencies?

Mr Browning: No, it wouldn't be that many, but in the commercial portfolio there would be a higher proportion because they occupy, let's say, 20,000 square metres—Prime Minister and Cabinet, our other buildings; the state government in Victoria has got 50,000 square metres. I'm happy to provide that on notice, if that helps.

Mr FALINSKI: Thank you very much. Have you applied for and received JobKeeper?

Mr Browning: No, we're not eligible.

Mr FALINSKI: Have you given donations to any political party?

Mr Browning: No.

Mr FALINSKI: Do you give donations or sponsorship money to any associated entities?

Mr Grant: By associated entities, you're saying associated with political parties?

Mr FALINSKI: It's a specific meaning under the act, but it includes people like Get Up!, unions et cetera.

Mr Grant: Okay. Our approach to sponsoring is where we need to support and enhance our brand. Generally speaking, most of our sponsorships tend to be for worthy causes, particularly around breast cancer, diversity, homeless youth, those sorts of issues. Occasionally, we might—we did sponsor an [inaudible] lunch series back in 2019, and we have placed a couple of advertisements in some trade magazines over recent years. But, in summary, no, it's not [inaudible].

Mr FALINSKI: Do you attend ACTU conferences?

Mr Grant: We have occasionally, yes.

Mr FALINSKI: Would you pay to attend those?

Mr Grant: There have been a couple of instances over the last few years where a director has attended. I'm just getting the details in front of me. We did pay, in FY2020, $409.09 for a director to attend the ACTU

Superannuation Trustees Forum. We didn't pay anything in 2019 to the ACTU. And I think a couple of years prior to that, one director also attended an ACTU trustees forum [inaudible] $270 or $272, or thereabouts.

Mr FALINSKI: As a service provider to superannuation funds rather than a superannuation fund yourself, do you need to comply with the sole purpose test under the Superannuation Act?

Mr Grant: No, we don't. Of course, we have our own purpose, which is to place funds in the property sector on behalf of our investors. We're also very mindful that our superannuation investors are subject to the sole purpose test, so I think culturally and the way we conduct ourselves is aligned with that, but we're not subject to that regulation with APRA oversight.

Mr FALINSKI: Thank you. Dr Mulino was asking you questions regarding your liquidity. How do you align your liabilities with your liquidity?

Mr Browning: As we highlighted earlier, each of our investment funds, in essence, is a self-contained balance sheet with various criteria around what it can invest in, what the level of gearing in that trust is, how much development it can do, et cetera. So the equity and debt facilities are specific to the investment fund that investors are in. Our funds are relatively modestly geared, but we do have bank facilities and debt facilities from US private placement markets.

The trust deed is the governing document of the trust and it's basically the set of rules upon which an investor places their money in the fund, and that does cover things regarding distribution policy, redemption policy, and also covers if you want to sell units or transfer units in the trust, and there are mechanisms for each of those. So if an investor wanted liquidity or access to their capital, probably the first step they would take is to make sure the distribution reinvestment plan is flexible. Investors can determine whether they wish to take their distributions as cash or reinvest them.

Mr FALINSKI: I'm sorry to interrupt, it's just I have limited time. There was something you said just then which has piqued my interest. Do you have the capacity to put investments in your back pocket? Do you have a parking mechanism to freeze redemptions if the market ceases to operate?

Mr Browning: The test that the trustee has to apply is to act in the best interest of investors.

Mr FALINSKI: Sorry, is that [inaudible] the framework under which that decision is made?

Mr Browning: Investors can apply to redeem up to 10 per cent of the units on issue in the fund in any one year. The fund has to—

Mr FALINSKI: Sorry, I just want to be clear: can you park or can you freeze redemptions, yes or no? And then please feel free to explain to me the circumstances under which you can do that? I just want an answer on that point.

Mr Browning: Yes, we can, but the mechanism typically is that an investor applies to the trustee for redemption of their units and the trustee has to consider that request in light of the full circumstances of the fund and decide whether it's in the interest of all investors to grant that redemption. So it would depend on what the financial commitments of the fund were in terms of development, capex, whether there was a risk of valuations falling et cetera. The trustee makes that decision. If it was accepted then obviously we would pay out that redemption request. If it was rejected, a unit holder can also offer units for sale to other investors. There is a pre-emptive process, and investors in the funds have first right over any units that are available.

The thing that came out of the GFC was that investors, if they needed liquidity, needed to be able to price that liquidity to gain a transaction. They determine whether they want to offer it at NAV or with a discount to generate liquidity. That mechanism has worked quite well over recent times. Not a lot of redemptions have been granted. There's about $270 million worth of redemptions being granted, but over $1.2 billion of transactions have gone through on the secondary market.

Mr FALINSKI: How many funds under management do you have at the moment?

CHAIR: That is your final question, Mr Falinski.

Mr FALINSKI: No, I have one other question after this.

CHAIR: Be very quick.

Mr Browning: Funds under management was $19 billion.

Mr FALINSKI: How much of that is held in cash?

Mr Browning: At the minute, that main fund has about $150 million in cash. Cash is dilutive to returns. Investors give us the money to invest in property. If they want big cash management they would do that themselves. We would see if they made that.

Mr FALINSKI: Thank you. Chair. If there is any further time, I have some other questions.

CHAIR: We do not have any other time, Mr Falinski. We're on a tight schedule today. As I understand it, all committee members have asked questions, so I will say thank you to the witnesses for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearing. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. You should also reasonably expect some follow-up questions on notice from committee members, depending on circumstances. To touch on a point, that was the first time that ISPT, which holds $19 billion worth of Australia's retirement savings for investment, has appeared before the committee—I think it is the third or fourth time that AMP is appearing—just to highlight the absurdity of the opposition's claims, but that is their choice.

LIM, Mr Joshua, Company Secretary, Industry Super Holdings

WONG, Mr Lawrence, Assistant Company Secretary, Industry Super Holdings

Evidence was taken via teleconference—

[11:16]

CHAIR: I resume the hearing of the House of Representatives Standing Committee on Economics. We have representatives from Industry Super Holdings appearing before today's hearing. You were recommended to appear by Industry Super Australia—I don't think intentionally, but they did. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Lim: Industry Super Holdings is a non-operating holding company that is the parent company for a number of businesses in the old profit-to-member industry super fund sector. It does not have any employees. It was formed in 2007. Collectively, the businesses in the group provide services to Australian industry super funds and their members. The holding company structure is one that has served industry super fund members well. ISH, or Industry Super Holdings, as a company, is independently valued at $1.07 billion—a valuation that has only been achieved through the success of the sector acting in the best interests of members and driving superior performance and returns. By bringing the various parts of the business together as a group, Industry Super Holdings enables more efficient governance of multiple institutions by the industry fund shareholders and achieves synergies across the financial service providers within the holding company. The structure contributes to the ability to achieve scale and enormous success for seven million industry superannuation fund members.

Industry super funds have outperformed the retail fund sector by 1.7 per cent to 2.7 per cent every year over one-, three-, five-, seven-, 10- and 15-year periods. This performance is underpinned by the strong benchmark returns of the collective funds within the ISH group. For every dollar in fees, alpha $16 was generated in the financial year of 2020 for shareholders of Industry Super Holdings. In plain language, this means more money in the accounts of industry super fund members than would be the case if they were invested with another fund manager within Industry Super Holdings. As I mentioned, ISH, or Industry Super Holdings, is a non-operating holding company. This is a structure that was introduced in Australia on the recommendation of the Wallis inquiry into financial services under the Howard government. Thank you, Chair.

CHAIR: Thank you very much, Mr Lim. You don't have any employees of ISH. Is that correct?

Mr Lim: That's correct.

CHAIR: When you say it's a holding company, what does it hold?

Mr Lim: It's a holding company of four separate businesses: Industry Fund Services, IFM, ISA and The New Daily. I'm an employee of IFM and so is Lawrence Wong.

CHAIR: You're both employees of IFM.

Mr Lim: That's correct.

CHAIR: When it comes to the four separate entities, what is their total value as the holding company?

Mr Lim: The total value of all these entities, collectively, is $1.07 billion for the year ended 30 June 2020.

CHAIR: What's its governance structure?

Mr Lim: The governance structure is one that was put in place in 2011. I might get Lawrence, for you, to go through the governance structure. Lawrence?

Mr Wong: Thanks, Mr Lim. The businesses in the ISH group are separate businesses. Each have their independent boards. There's a clear process to appoint directors. The directors have a mix of skills to suit each business.

CHAIR: Sorry, that's not the question I'm asking. The question I'm asking is: what is the governance structure of Industry Super Holdings? Does it have a board?

Mr Wong: Yes, Industry Super Holdings has a board.

CHAIR: Who is on that board?

Mr Wong: The current board comprises Ms Linda Rubinstein, Mr Michael Migro and Mr Greg Combet.

CHAIR: Who is the chair?

Mr Wong: Mr Greg Combet is the chair.

CHAIR: So Mr Greg Combet is the chair of Industry Super Holdings, he is the chair of IFM and he is the chair of ISA. Is he also the chair of IFS?

Mr Lim: No, he's not. Lawrence, if I can step in here: Chair, you are correct; Greg Combet is the chair of ISH, IFM and ISA. He is not the chair of IFS.

CHAIR: It is, essentially, $1.7 billion worth of value, in the assets, so how are the shares held or whom are they held by?

Mr Lim: Lawrence, do you want to take the chair through this? Do you have a stable internet? You are breaking up.

CHAIR: How many shares are there in ISH?

Mr Wong: ISH is held by 27 industry super fund shareholders. Do you want me to give you the exact number of shares? I'll have to take that on notice.

CHAIR: You can provide them on notice, if that's alright. You can provide them to the committee. In terms of ISH, then, it has no revenue?

Mr Wong: Let me take you through the—it has some revenue, in the form of interest income. It receives dividends from time to time.

CHAIR: How much is that?

Mr Wong: It holds some cash to fund its activities, and off that cash it generates some interest income. I don't have all the figures—

CHAIR: What volume are we talking about?

Mr Wong: I don't have all of those details on hand. I can take you through the financials of ISH. It generates interest income, as we mentioned. It's a holding company that is non-operating so generates some interest income, but, otherwise, it receives dividends from IFM from time to time. It also holds some cash to fund its activities.

CHAIR: When you say it receives dividends and holds cash, what quantum are we talking about? Is it zero to $10 million or $10 million to $100 million?

Mr Wong: The finances of the group are confidential.

CHAIR: Even though it's compulsory retirement savings of Australians.

Mr Wong: ISH's funding is a confidential matter. ISH is a group holding company of businesses that work hard to provide a valuable service to funds—

CHAIR: Is it below $100 million?

Mr Wong: The group makes financial disclosures as required by law; ISH is a private company and makes disclosures accordingly.

CHAIR: So Australia's compulsory superannuation savings are held by a number of entities under ISH, which refuses to provide any information about the basis of how much it holds, how much it receives? Just out of clarity, do you make donations to associated entities or political parties or buy tickets to fundraisers and the like?

Mr Lim: ISH has in the past subscribed to a membership with the Labor Business Forum. This was done about four or five years ago. We paid membership payments to the Labor Business Forum in 2016, 2017 and 2018.

CHAIR: Are there other associated programs or associated entities that received money through sponsorship, marketing programs, donations, attendance tickets for events from Industry Super Holdings in addition to those?

Mr Lim: No.

CHAIR: So you have no programs with the ACTU, members of ACTU Member Connect et cetera?

Mr Lim: Not from Industry Super Holdings, no.

CHAIR: But you still won't give us basic information. I'm not asking for specific detail, just broad based information about roughly how much cash you hold on behalf of the Australian people and their compulsory retirement savings?

Mr Lim: The information that we have has been disclosed in accordance with law. We have submitted accounts and the accounts are with ASIC. We are required to disclose and we have disclosed.

CHAIR: I understand that, but the money you hold is the compulsory retirement savings of Australians. How much is provided each year to the New Daily from ISH?

Mr Lim: That is a matter that is confidential. The New Daily has various stakeholders, suppliers, it has employees and it has partners. It's not in the interests of ISH or the New Daily to disclose that.

CHAIR: So you are not prepared to disclose how much revenue—I accept they have other sources of revenue—or how much ISH gives to a so-called independent media organisation, which happens to have very close relationships as part of the same group with IFS, IFM, ISA?

Mr Lim: As I've indicated, the New Daily is owned by industry super holders.

CHAIR: You don't need to give a number. Do you provide it with revenue?

Mr Lim: Can you repeat that question—do we provide it with revenue?

CHAIR: Do you provide any revenue, sponsorship, marketing arrangements et cetera to the New Daily?

Mr Lim: No, we don't but—

CHAIR: But?

Mr Lim: I'm happy to say this: we contribute capital to the New Daily as required. The New Daily—

CHAIR: What the hell does 'you don't provide them with revenue but you provide them with capital as required' mean? So, what, you buy them stuff?

Mr FALINSKI: No, it means when they run out of money.

CHAIR: But not revenue? How many times have you provided capital as required?

Mr Lim: That matter is confidential. As I said, these matters can be prejudicial to the New Daily and we cannot provide that information to this committee.

CHAIR: I'm looking forward to the rant from the deputy chair about how outrageous it is that we've called this body before this committee, when they won't provide even basic information about the revenue that's provided from Australia's compulsory retirement savings to media entities which are then used to push the political agenda, including that of himself. I welcome the questions from the deputy chair.

Mr FALINSKI: I'm just waiting for the next time the New Daily demands answers from us.

Dr LEIGH: I think you are handing over to me; although it is never quite clear. How many times were you mentioned in the 500-page report of Ken Hayne's banking royal commission?

Mr Lim: We were not mentioned. The Hayne royal commission examined Industry Super Holdings. We received a number of requests for information. I received a number of information requests from the commission. I believe Australian Super was also asked quite a number of questions in relation to the New Daily and there were no recommendations from the commission in relation to any of these entities, including ISM, ISH, the New Daily, ISS and ISA.

Dr LEIGH: So it is important to underscore that, because, as the chair said in his opening statement, our committee's remit is to follow up on the misconduct identified in the Hayne royal commission. In a massive door-stopper 500-page report—

CHAIR: We can find new misconduct, don't worry.

Dr LEIGH: Industry Super Holdings was not mentioned once yet here we are with an hour in our schedule to hear from you and the committee is yet to call Suncorp, it is yet to call BT, it is yet to call Colonial First State, it is yet to call OnePath and it is yet to call Mercer. Labor has asked for these super funds to be called but they haven't been. That would be part of the remit. It's very unclear to me what you're doing in front of this committee today. It seems to me that this is a significant waste of your time and, at a moment in which we're through a global pandemic in which there's significant volatility in markets, it seems frankly unnecessary ideologically-driven distraction to be calling you in front of this committee, to be wasting your time with endless series of questions on notice, rather than letting you do your business. We ought to be doing ours and letting you be doing yours. Let me ask you about the broad issue of investments into the economy at a time in which we know business investment has been weak. Industry Super Australia, which, I appreciate, is different from Industry Super Holdings, has estimated that there will be around $20 billion in investments in new infrastructure projects in Australia over the next three years. What would be the impact if that investment were not to take place?

Mr Lim: IFM Investors is one of the operating businesses of ISH—Industry Super Holdings. It is a major infrastructure investor. IFM has said in the past a number of times that it looks forward to contributing to the recovery of the economy. It invests money from institutional investors. It would help the economy for IFM to continue to invest and for policy settings for us to continue to invest to help the nation recover from the COVID crisis.

Dr LEIGH: We're talking about a significant number of jobs—something in the order of a couple of hundred thousand—in that $20 billion of investment, aren't we? So presumably, if that investment doesn't take place, unemployment would be significantly higher?

Mr Lim: Yes. The super funds have indicated that they are prepared to invest to create jobs in the economy through large investment in infrastructure. That was made public. IFM has an important role to play there. You're right: there will be fewer jobs if there is not an amount of investment by the super funds into this economy at a time when we need more jobs.

Dr LEIGH: Wouldn't it follow too that, if the government were to break its promise to increase the level of universal superannuation, that there would be less money invested in infrastructure projects and therefore fewer of the job-creating benefits?

Mr Lim: Yes, that's right. We need an increase in the superannuation guarantee. We also need stability in the policy settings for infrastructure managers such as IFM to confidently invest into the economy. I've got a number of statistics here, one of which is research conducted by Rice Warner that shows that the super guarantee reduces reliance on the aged pension; I think that's clear. It saves the federal budget $17 billion per year right now, which will rise to almost $100 billion by 2058. So, it is important for us to continue the path of a focus on the superannuation guarantee. It's important because it helps investment back into the economy.

Dr LEIGH: So, if the government was then to break its promise to increase the superannuation guarantee, that would come at a cost to future governments, would it not? They'd be paying higher pension amounts, according to that Rice Warner modelling you've referred to?

CHAIR: It would also come at the expense, presumably, of the amount of money you're able to hold and not disclose to this committee. That would also be correct?

Dr LEIGH: Chair, you're very feisty this morning! I notice that no-one else is interjecting on you, but you're in on everyone else! Is there something the matter today?

CHAIR: I'm just highlighting the absurdity that we have witnesses who hold compulsory superannuation contributions on behalf of Australians and are refusing to disclose the amount of money they have and the purposes for which they use it.

Dr LEIGH: Yes, you've said that a few times! Coming back to the question: what would be the impact on future government budgets if this government were to break its promise on universal superannuation?

Mr Lim: Well, future government will have to fund the age pension, and that's not something we would like to see. The industry super funds have spent many years in a setting where they have encouraged savings, where they've encouraged workers to be self-reliant. If the superannuation guarantee were to not be increased then of course the age pension would have to go up, and that would have an impact on future budgets at a time when, because of COVID, budget deficits are increasing.

Dr LEIGH: We've seen the phenomenon that the Productivity Commission referred to in its last *Productivity update* of 'capital shallowing'—a fall in the amount of capital per worker. It's a concern to many of us who care about productivity, given that about two-thirds of productivity growth has historically come from capital deepening. What contribution do you make to capital deepening in Australia and therefore to productivity?

Mr Lim: Through IFM we've taken a long-term perspective on investing into the economy. IFM holds assets such as Ausgrid, Brisbane Airport and New South Wales Ports. These are long-term investments. These are deep capital investments for members of the superannuation funds. They yield a very good return and have been doing so for many years. IFM is making a contribution to the economy and to the retirement savings of close to seven million Australians.

Dr LEIGH: You invest in relatively illiquid assets. What would be the implication on your long-term investment plans if the government were to roll on with its early release super scheme to allow someone to, for example, keep pulling $10,000 out of superannuation every year, as some have suggested?

Mr Lim: I've mentioned a stable set of policies that are vitally important for IFM and industry super funds. We need to have confidence in the ability to invest for the long term. The ability for us to invest in infrastructure is highly dependent on the certainty of the funding and the certainty that there will not be redemptions, because policy settings change, going forward. We don't want to get ourselves in a situation where we buy a long-term asset, such as Ausgrid or Brisbane Airport, only to find that investors demand a redemption and that if we were to sell those assets on short notice then the pricing would be detrimental to the returns of our investors and members of the industry super funds.

Dr LEIGH: How do members of industry super funds benefit from the illiquidity premium?

Mr Lim: We're able to invest for—

Dr LEIGH: And perhaps you could say what it is—sorry—so we're not just purely talking jargon here.

Mr Lim: The illiquidity premium is the premium that you would get by investing in unlisted assets. That is something that IFM has applied for for many years. The ability for us to acquire assets—unlisted assets in this case—cultivate those assets, grow those assets, provide jobs and provide capex builds the returns of those assets. That's where the illiquidity premium comes from—the ability to hold assets for the long term and not have to sell when there is market turmoil. In the past five years IFM has contributed capex of about $6.6 billion to various assets globally and that has created 13,000 new jobs.

Mr Wong: I can add to the value that IFM has added. Over the past five years IFM Investors has delivered $29.3 billion in net returns to investors, including alpha, or outperformance after fees, of $9.5 billion. Consistent with IFM's approach to long-term investing, despite a down year with difficult conditions, IFM's infrastructure assets have still managed to provide alpha of $7.6 billion over the past five years. So, for every dollar in fees, IFM Investors has delivered alpha of $16 in FY20 to shareholders.

Dr LEIGH: I should make clear that you are not the only investment holding company in Australia. Indeed, this committee has chosen not to call UBS Asset Management, AllianceBernstein, BlackRock asset management, First Sentier Investors, Macquarie, Wilson Asset Management and many others. You've clearly been singled out because you work with industry funds, but if this committee were seriously interested in hearing from companies of your kind we would be calling a range of those private sector entities—again, demonstrating that this is an ideological frolic rather than a serious exercise in following up on the Hayne royal commission. Over to you, Chair.

CHAIR: Deputy Chair, it was actually recommended that Industry Super Holdings come, on the advice of Industry Super Australia when we asked them questions. But that's by the bye; facts are a complicated thing.

Mr FALINSKI: Mr Lim, how much are you paid?

Mr Lim: The amount that I've been paid was disclosed at this committee last year. Do you want me to recite that in this forum?

Mr FALINSKI: Yes.

Mr Lim: For financial year '18 my total remuneration was $1.248 million.

Mr FALINSKI: Are you a member of any political party?

Mr Lim: I'm not.

Mr FALINSKI: Have you donated money to any political party?

Mr Lim: Do you mean personally?

Mr FALINSKI: Yes.

Mr Lim: I have not.

Dr LEIGH: Chair, I object to this McCarthyist line of questioning. I would not be questioning witnesses I believe to be members of any political party. I don't believe it's an appropriate use of this committee's time. Witnesses should be able to have a private political life outside their professional life. It is not appropriate; it is a McCarthyist line of questioning.

CHAIR: Deputy Chair, I did not regulate the questions that members can ask, where they can refuse to answer them—and we've had plenty of evidence showing they've refused to answer them so far today.

Mr FALINSKI: Mr Chair, I actually would uphold the point of order; however, I would make the point to the Deputy Chair that it is outrageous for any member of the Labor Party to make that point of order, given the behaviour of their senators in the Parliamentary Joint Committee on Corporations and Financial Services, and it makes me angry that the Labor Party would choose to question a Liberal asking those question when their own party members, on a regular basis, attack people. Also, I find it offensive that the Deputy Chair, given what he did—

CHAIR: You're eating into your time, Mr Falinski.

Mr FALINSKI: Understood. Mr Lim, can you please explain to me: does ISH donate any money to associated entities as defined by the Electoral Act?

Mr Lim: As I've indicated to the chair, ISH Industry Super Holdings has paid for memberships to the Labor Business Forum. This was done in 2016, 2017 and 2018. This was disclosed in the AEC register.

Mr FALINSKI: You work for IFM—is that correct?

Mr Lim: That's correct.

Mr FALINSKI: Have IFM actually done any analysis on the impact on the superannuation sector of reducing Australia's reliance on foreign capital?

Mr Lim: I'm not aware of any such analysis.

Mr FALINSKI: Would it surprise you to hear that Treasury and the Productivity Commission have both uncovered that since we introduced compulsory superannuation in the late 1980s Australia's reliance on foreign capital has not decreased?

Mr Lim: I'm not able to comment on that, Mr Falinski.

Mr FALINSKI: Would it interest you to know that since the introduction of compulsory superannuation the proportion of people retiring requiring or relying on the old age pension or the pension system has not gone down?

Mr Lim: Again, I've got no comment.

Mr FALINSKI: No problem. It's just interesting, given the line of questioning from the deputy chair on this issue, that you don't seem to have these figures to hand. Let me move on. Can you explain to me: is ISH or IFM covered by the SIS Act? Are you required to comply with the sole purpose test?

Mr Lim: Let me comment on this, and Lawrence might have some detail around this as well. Industry Super Holdings is a proprietary limited company. It is not covered by the SIS Act. IFM, the *New Daily* and IFS—each of the subsidiaries of Industry Super Holdings are private limited companies and not covered by the SIS Act.

Mr FALINSKI: So when you continue to invest in loss-making enterprises using Australian superannuation and retirement funds, that's okay; you're not covered by the sole purpose test?

Mr Lim: Well, Industry Super Holdings is a proprietary limited company. Its directors have to act in the best interests of the company and its shareholders. In considering its investments in any entity, it needs to consider whether it is acting in the best interests of the company itself, Industry Super Holdings, and its shareholders.

Mr FALINSKI: But not the members of superannuation funds. That's the key point here, isn't it? Because if you had to, if you were covered by the SIS Act, there is absolutely no way you could justify the $400 million that you spent on political—sorry, advertising every year. There's no way you could justify the investment in a loss-making organisation. There is no way that you could justify some of the other clearly politically defined activities that your entities undertake, using other people's money that is being given to you compulsorily for the purposes of providing for themselves in retirement.

Mr Lim: Mr Falinski, I believe these matters were examined by the Hayne royal commission and there were no recommendations from the commission with regard to these matters.

Mr FALINSKI: Sorry, which royal commission?

Mr Lim: The Hayne royal commission.

Dr MULINO: The one you voted against. You should know it.

Mr FALINSKI: What's the 'end' royal commission?

Mr Lim: The Hayne.

Mr FALINSKI: Oh, Hayne. I'm sorry.

Dr LEIGH: Kenneth Hayne's royal commission.

Dr MULINO: It's not relevant to this witness. I see your confusion; these guys weren't mentioned.

Mr FALINSKI: The royal commission that dare not speak its name! Anyway, moving away from Greek tragedies and on to a more modern tragedy. I understand that. So what you're saying is the Hayne royal commission recommended that ISH continues to sit outside the SIS Act. Is that right?

Mr Lim: There were no recommendations.

Mr FALINSKI: So it wasn't so much that the Hayne royal commission looked at this and sprinkled holy water on it; it's more that it had no view on the issue?

Mr Lim: I can't comment on what the commission thought of all this.

Mr FALINSKI: So maybe it wasn't that the Hayne royal commission didn't look at this; it's just that—

Dr LEIGH: It was a royal commission rather than a baptism!

CHAIR: Mr Falinski, this is your final question. I'd be brief.

Mr FALINSKI: Does it worry you, as an employee of ISH, that you only seem to direct your political activities to one part of the parliament, given that you're meant to represent all Australians and provide for the retirement of all Australians?

Mr Lim: In what respect are you referring to in particular?

Mr FALINSKI: The previous evidence to both Mr Wilson and me.

Mr Lim: The membership payments to the Labor Business Forum were considered by the board of Industry Super Holdings at the time. They were considered in 2016 by the board of ISH, and 2017 and 2018. In 2019 there was a decision by the board not to renew it. I can't speak for the board around this, but they considered the merit of the membership and they made the decision to subscribe or not subscribe.

CHAIR: Thanks, Mr Falinski. Dr Aly.

Dr ALY: Can I start first of all by associating myself with the remarks made by the deputy chair at the beginning of this hearing. Like Mr Mulino, I won't go through those remarks, but I will say that I have an inbox full of questions for AMP, and I'm disappointed that we'll only get 45 minutes with AMP, given the adverse finding against them at the royal commission. Just on that point, to clarify that point and the line of questioning from Mr Falinski: gentlemen, did you appear at the Hayne royal commission?

Mr Lim: We did not. We were not called. We received a number of requests for information and we provided information as requested.

Dr ALY: You provided all the answers that were asked of you by the royal commission?

Mr Lim: Yes. There were close to 10 separate information requests. We provided everything that was asked of us. We were not called to appear.

Dr ALY: Were there any adverse findings against you?

Mr Lim: No, there were no adverse findings against us.

Dr ALY: And, just to be clear, there were no recommendations in the report of the royal commission specifically related to your organisation?

Mr Lim: That is correct. There were no recommendations in relation to Industry Super Holdings, IFM, ISA or The New Daily.

Dr ALY: But, as far as you're aware, there were a number of adverse findings against other organisations that are appearing before the committee today?

Mr Lim: Yes, that's correct, as far as I'm aware.

Dr ALY: Thank you so much for clarifying that. That's all from me.

Mr SIMMONDS: Gentlemen, thank you for your evidence. What benefits does your holding company provide?

Mr Lim: I might turn this over to Mr Wong, who can take you through it.

Mr Wong: As Mr Lim mentioned, ISH is the non-operating holding company of various businesses within the group. ISH enables more efficient governance of the multiple institutions—

Mr SIMMONDS: Thank you; you've already read that answer, and I appreciate your diligence in sticking to your pre-prepared answers. But, if your wage is a million dollars, what's your company doing? Are you providing research? Are you undertaking policy development? What are you doing?

Mr Wong: ISH is a holding company, and it's an efficient one that works well for the shareholders. It prepares a single tax return for the group, it obtains a single independent evaluation for the group and it produces a set of consolidated accounts. Certain services, like insurance, can be procured on a group basis, which makes it cheaper and provides better coverage. For shareholders, it means they have a single shareholding to manage. So it's a structure that works well for shareholder funds and their members, and it contributes to long-term performance.

Mr SIMMONDS: So you're providing a single consolidated set of accounts and a single valuation. I can see why that would be beneficial. So, in choosing to sign up as part of the Labor donation scheme, what was the board's view of the value proposition of signing up to the lobbying efforts of the Labor Party, if the core value that you are seeking to provide is to have a set of consolidated accounts? How was it helpful to lobby the Labor Party on your set of consolidated accounts?

Mr Wong: I don't agree with those assertions. I will ask Mr Lim to comment further on the membership payments that were made.

Mr Lim: As I've indicated, we paid the Labor Business Forum to enable ISH and its subsidiaries to have access to political leaders to discuss policy matters. That was considered by the board to be highly valuable.

Mr SIMMONDS: What access have they sought to leaders of political parties other than the Labor Party?

CHAIR: Like the ones in government.

Mr SIMMONDS: For example, Mr Chair; thank you.

Mr Lim: I'm not aware of other [inaudible] with other leaders, Labor or Liberal or Nationals.

Mr SIMMONDS: So, as a holding company, you've approached no political entities in your lobbying efforts other than the Labor Party; can I confirm that?

Mr Lim: As I said, Industry Super Holdings has made a lot of membership payments to the Labor Business Forum.

Mr SIMMONDS: Sure, but there are other ways to lobby other parties than simply making donations. I accept you've only made donations to the Labor Party. What I'm trying to ascertain is: in your lobbying efforts, can you confirm that you've approached nobody other than the Labor Party?

Mr Lim: Industry Super Holdings is an operating entity. I can't speak for the subsidiaries of Industry Super Holdings.

Mr SIMMONDS: That's alright, I'm not asking you to; I'm just asking you to speak for your organisation.

Mr Lim: To Industry Super Holdings, I'm not aware of any other engagements other than the ones that I have mentioned.

Mr SIMMONDS: Other than the Labor Party. That's fine; thank you for confirming that. So you're providing capital to *The New Daily*. That investment is on the basis of a return you're expecting. What kind of return are you expecting from *The New Daily*?

Mr Lim: *The New Daily* is, first, a valuable service to shareholders.

Mr SIMMONDS: In what way?

Mr Lim: It provides for member engagement and it improves the financial literacy of the members of the industry super funds. So it's a valuable service that shareholders would like us to continue.

Mr SIMMONDS: What are you basing that on? Have you done research about how your shareholders value *The New Daily*?

Mr Lim: *The New Daily* provides reports to Industry Super Holdings from time to time. *The New Daily* started in 2013 with no subscribers. Today it has 1.75 million subscribers. It's projected to hit 2.5 million in this current financial year. So, given the trajectory and given the strong growth success in subscribers, it's clear to—

Mr SIMMONDS: Okay. So you're basing it on subscriber numbers. When you make an investment on behalf of Australians who have given their superannuation money compulsorily to organisations like yours, when you're looking to purchase assets and things, you'd be looking at the returns that they provide to those Australians. I'm just trying to understand what due diligence has gone into ascertaining what financial returns *The New Daily* will provide, or is it simply the case that the flow of finances is one way—that you provide them with capital, as you've put it, but no return comes back to owners of the Australian superannuation accounts?

Mr Lim: That's not necessary the case. As I said, it's a valuable service. The directors of Industry Super Holdings consider the merit of the utility of *The New Daily* both from a service perspective and from a financial perspective. There are many companies out there that are currently making a loss but that are valuable, that can be sold for millions. There are companies—

Mr SIMMONDS: What's the current valuation of *The New Daily*, if you say it could be sold for millions?

Mr Lim: *The New Daily* is currently in a loss-making position, but we do provide capital.

Mr SIMMONDS: If it's currently making a loss as a business, on what basis do you claim that it could be sold for a significant return to Australian shareholders?

Mr Lim: That is something which is on a long-term perspective—invest for the long-term. As I said, it's a valuable service. We look at it from that perspective and also from a financial perspective.

Mr SIMMONDS: Okay. If you're not willing to provide more information on the financial side of the investment—you keep saying that it's an important mechanism to get information out to your members and things like that, that it's a valued service—do you control the editorial content of *The New Daily*? Are you controlling what subjects they write about?

Mr Lim: No. *The New Daily* has a charter of editorial independence. We have no control of what they write about.

Mr SIMMONDS: If *The New Daily* are totally independent editorially, how are they providing any more or less support to your members than any other media organisation, who would be independent from your holding company?

Mr Lim: By sending out an email with news on finance and superannuation, a member that opens that and reads and discovers the financial implications of superannuation. There is advertising as well. [inaudible] consciousness to get around the need to look at their super and be engaged with their super.

Mr SIMMONDS: So the fact they're writing about financial matters is enough for you to consider them a good investment—

Mr Lim: Well, it's a [inaudible]

Mr SIMMONDS: among their entertainment writing and everything else?

Mr Lim: I can't comment on [inaudible]

Mr SIMMONDS: Okay, Chair, I'll hand over then.

Dr MULINO: I just want to clarify a few things, because I think some of the lines of questioning that we've seen have almost implicitly been on the basis that you're a fund, when, in fact, you're not a superannuation fund; you're a holding company of entities that are asset managers. So, for example, you've been asked, 'Are you governed by the SI(S) Act?' when the SI(S) Act doesn't govern other holding companies like you and doesn't govern other asset managers, does it?

Mr Lim: That's correct. We are structured [inaudible] company. Many of our competitors are structured as a proprietary limited company. If they are listed, they are structured as a public company. So we are no different from our competitors in that regard.

Dr MULINO: Your structure is quite common in the financial services sector because of the back-office advantage that it provides.

Mr Lim: That's correct. It's a propriety limited company [inaudible].

Dr MULINO: We had ISPT earlier. They were asked: are you governed by the SI(S) Act? But the SI(S) Act would not govern BlackRock, Magellan, Schroders and State Street, to the extent that retail funds were investing in those, would it?

Mr Lim: No, it wouldn't. And you've nailed some of our concerns there. As I understand it, they're structured as companies as well, and the SI(S) Act would not apply to them. Can I just add that our subsidiaries are structured in very conventional ways. These are companies. I'm an employee of IFM and it's a company. It's a Pty limited company like many other companies.

Dr MULINO: If we had BlackRock, Magellan, Schroders, State Street, Macquarie and all those others here and they were asked, 'Are you governed by the SI(S) Act?' they'd say no. But, of course, they're not here. You're the only one here. We're delving into the industry part of the sector in a way that we're not with any of the other parts of the sector, even though it was all the retail funds that the royal commission made recommendations about. But we are delving into all the innards of the industry sector, asking all these questions as if there's somehow something mysterious in you not being governed by the SI(S) Act when it's very standard practice across the sector, isn't it?

Mr Lim: That's correct.

Dr MULINO: Can also ask about disclosure. You've already disclosed some figures to this committee through a raft of earlier questions that were put to you. There are some aspects of your operations that you don't make public. But I just want to reclarify something. You have made disclosures in relation to all legal obligations, haven't you?

Mr Lim: That's absolutely correct. I would also add that our subsidiaries, IFS, Industry Fund Services, IFM and ISA, Industry Super Australia, have each appeared before this committee and have each provided answers to written questions in the past.

Dr MULINO: Exactly. I think in relation to some of the answers you have given you have gone above and beyond what is strictly legally required. We have basically had in front of this committee elements of the industry sector that have not been brought before the committee when it comes to the retail sector. So you have gone at least as far as your legal obligations and sometimes above and beyond.

Mr Lim: That's correct.

Dr MULINO: I now have a couple of quick questions on *The New Daily*. Isn't it fair to say that, again, across the sector funds have to undertake activities to communicate with existing members and then to try to gain new members? That is standard practice.

Mr Lim: Yes, that is standard practice. By bringing some of these activities together under Industry Super Holdings and under *The New Daily*, it provides synergies and [inaudible] in an efficient and effective manner.

Dr MULINO: These kinds of activities will sometimes be undertaken directly by the fund and sometimes through related entities. It will vary across the sector. But, again, we're not calling any other entities from the retail side, where these kinds of activities might be undertaken by related entities, because we're only calling ISPT, IFM and ISH. But this kind of activity is very common across the sector and indeed it's ironic that government members of this committee are constantly calling for more choice and it's exactly this kind of activity that will become more necessary to undertake.

Mr FALINSKI: Oh, seriously!

Dr MULINO: But it's common across the sector for funds to need to communicate increasingly with both current and prospective members.

Mr Lim: Absolutely. The ability to bring new members into the fund to create scale allows funds to invest for the long term and it allows funds to reduce their costs. The industry funds have done that relatively effectively. I might get Mr Wong to comment on the scale benefits.

Mr Wong: Industry funds, as they've grown, have maintained low expense ratios relative to retail funds, which have historically been more than double industry funds. If we look at some statistics: over the last five years to June 2020, industry super funds' operating expense ratios averaged 0.32 per cent. This compares to a five-year average of 0.4 per cent for the whole sector and 0.73 per cent for retail funds.

CHAIR: Final question, Dr Mulino.

Dr MULINO: Can I just clarify—the back-office savings that you can achieve get fed through directly to better returns for members?

Mr Wong: That's correct. Efficiencies, as a structure, contribute to member outcomes. But the real value of the structure to industry super funds is our scale—the ability to bring down costs and produce strong net returns for members and investors. ISH's valuation has increased by 21 per cent over five years. ISH's value is underpinned in large part by the success of the investment strategies of IFM Investors. Per dollar in fees, IFM Investors delivered alpha of $16 to shareholders in 2020. As well as for industry super funds, IFM Investors manages money on behalf of institution investors globally. It exports financial services capabilities to institutional investors around the world. That value comes back to industry super fund shareholders through the valuation of ISH and ultimately into members' accounts.

Dr MULINO: Thank you.

CHAIR: Another fascinating session. Ms Hammond.

Ms HAMMOND: I want to get back to the corporate structure. ISH Pty Ltd is the holding company, and it owns all the shares in IFS, IFM, ISA and The New Daily. Is that correct?

Mr Wong: Yes, that's correct.

Ms HAMMOND: All of the shares in ISH, the holding company, are owned by who?

Mr Wong: They're owned by 27 industry super funds.

Ms HAMMOND: So it's just industry super funds who own shares in ISH?

Mr Wong: Yes, that's correct.

Ms HAMMOND: Of those, do the shareholders get dividends or annual payouts through their shareholding of ISH?

Mr Wong: ISH paid a dividend to shareholders in October 2019. This was a dividend paid out of a dividend it received from IFM, which IFM paid due to having delivered strong returns on all its asset classes.

Ms HAMMOND: So IFM pays the dividend to ISH and then ISH gives the dividend to its shareholders. Is that correct?

Mr Wong: Correct. That was paid in 2019.

Ms HAMMOND: So, like a lot of corporate group structures, the structure that's been put in place—and I'm not saying it's not legal; it is legal, but it [inaudible] the legal system to the best of abilities, doesn't it, so that you've got these different functions in different companies. But essentially all four of those operating companies are actually run by the industry super funds. Is that correct?

Mr Wong: No, they're separate businesses. They're run by their boards and management. Each have independent boards and independent management. They've been brought under ISH to the efficient holding structure. We've talked through some of those efficiencies and the benefit they bring to members.

Ms HAMMOND: When you say they were brought under ISH—did they exist before ISH was created?

Mr Wong: ISH was created in 2007, I believe. The businesses of IFS, which included IFM at the time, were already owned by the industry super funds, and the industry super funds also owned ME Bank. The companies were brought together in 2007. We talked about the Wallis inquiry. The Wallis inquiry enabled banking groups and non-financial service groups to be brought together into a company group to bring about synergies. So ISH was created in 2007, at that time. Macquarie Group also created a similar structure around that time.

Ms HAMMOND: Yes, I'm saying there are lots of structures like that. I go back to your earlier comment that ISH does have some income: it gets interest income. What was the interest income from?

Mr Wong: ISH holds some cash to fund its operating expenses. It's got operating expenses like paying for audit, valuation and doing tax returns, so it holds some cash and it earns some interest on that cash.

Ms HAMMOND: And it also receives dividends from IFM?

Mr Wong: Correct.

Ms HAMMOND: But all of those dividends get passed back to the 27 super shareholders. Is that correct?

Mr Wong: ISH paid a dividend in 2019. IFM also prioritises reinvestment of its profits into its business, so IFM's success has been responsible for a 21 per cent increase in ISH's valuation. Some of that is reflected through the reinvestment into IFM's capabilities.

Ms HAMMOND: Chair, I will leave it to you to finish up there.

CHAIR: Thank you. On that point: my understanding is that you had about $68.759 million in cash in your 2019 accounts. Is that correct?

Mr Wong: I would have to confirm that number, but that sounds quite high. Is that the consolidated group number that you're looking at?

CHAIR: That's my understanding.

Mr Wong: Yes, that may be at the group level, certainly not at the ISH company level.

CHAIR: Are you sure about that?

Mr Wong: Let me take that on notice and double-check.

CHAIR: I appreciate that. If it's not, could you tell us what the number is? If you're prepared to confirm whether this number is right or wrong then you shouldn't have an issue confirming an alternative number, which would be appreciated.

Of the $1.07 billion, which is the valuation of the assets that are held by ISH, could you break down what share of that $1.07 billion is IFS, what percentage is IFM, what percentage is ISA and what percentage is *The New Daily?*

Mr Wong: IFM contributes to the majority value of the group. It's been very successful and has grown strongly. It's—

CHAIR: But what is the percentage?

Mr Wong: I don't have those figures on me.

CHAIR: But you could take that on notice and provide it to us. I've been told that *The New Daily* is worth a lot of money and could be sold for a lot of money even though you keep having to tip capital into it, so I am curious to know what you're valuing it at considering the circumstances that base the credibility of other valuations. I'm also interested in knowing what you value ISA and IFS at as well as, of course, IFM. Since you've managed to give us a total, I'm sure you won't have an issue with the shares of contribution to $1.07 billion.

Mr Wong: We'll take that on notice, but, as we mentioned before, the funding arrangements within ISH Group are confidential. We provide disclosures in accordance with the law, but we'll take that on notice.

CHAIR: Okay, but you do understand that this is Australians' compulsory retirement savings. It's their money.

Mr Wong: Yes, we've talked that.

CHAIR: But you do understand that. There's a secrecy that seems to be operating around his group, with $69 million in cash and cash equivalents. For everything else, where it goes and what happens with it all seems to be legitimately confidential when it's held on behalf of the Australian people.

Dr MULINO: But let's call all holding companies then and make this a level playing field. They'll all say it's confidential.

CHAIR: I think you'd be surprised. When we ask questions of retail funds, we always get pretty straight answers. When we ask questions of parts of the industry ecosystem—

Dr MULINO: No, those questions are to the funds. That's the point. This is a holding company.

CHAIR: or holding companies, we get opaque answers, nonanswers, refusal to answer questions. Let's ask IFM about the $36 million they have paid out in bonuses to former fund managers. Just out of curiosity—no; because you're a holding company, you won't have non-disclosure agreements. Do you think, Dr Mulino, that IFM investors should give us the details of the $36 million bonuses they paid out to fund managers?

Dr MULINO: I think you haven't called any non-fund entity—

CHAIR: Right, so the answer is no.

Dr MULINO: This is clearly unbalanced.

CHAIR: What a hypocrite you are.

Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearings, including, of course, questions on notice, which may be submitted by committee members, including on things like $36 million payments made out to fund managers, which normally the Labor Party would have an issue with but doesn't seem to when it's funds that are run by their mates and donate to their cause. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

Proceedings suspended from 12:20 to 13:15

COLLINS, Mr Seamus, Chief Investment Officer, Mine Super

MITCHELL, Mr Henry (Harry), Chief Executive Officer, Mine Super

Evidence was taken via teleconference—

CHAIR: I welcome representatives from Mine Super. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Mitchell: Thank you, Chair, and thank you for the opportunity to appear before the hearing today. Mine Super is a profit-for-member, public offer superannuation fund dedicated to serving workers in mining and associated industries. A significant proportion of our membership base resides in regional and rural communities, with some located in large mining areas. Our shareholders are the mining and energy division of the CFMMEU, the NSW Minerals Council and the Queensland Resources Council. In October this year Mine Super will have been delivering exceptional retirement outcomes to its members for 79 years. We take our role in helping people retire very seriously. We do this through offering a comprehensive range of superannuation, pension and insurance products and related services.

Mine Super currently employs in the region of 200 staff and manages over $11 billion in assets for more than 59,000 members. We have a regional footprint, in terms of our operating model, to align with our membership base, and we take pride in supporting and working in the communities that we serve. We welcome the opportunity to participate before the committee today.

CHAIR: Thank you very much for that introductory statement. I want to start by asking what the ESG policy of Mine Super is in light of the fact that you have a lot of workers in areas like mining? That of course becomes a regular focus of ESG policies. Does Mine Super have an ESG policy?

Mr Mitchell: Yes. Let me give a higher level context, and I will pass to Seamus to give some more detail, in terms of how we interact in relation to our investment posture. The nature of the fund is that we don't directly hold a large amount of assets, in terms of managing the assets themselves. Predominantly our investments are placed through fund managers. In terms of ESG issues, we engage through membership of ACSI as well as our governance approach through manager selection. We also do that through how we engage the fund managers directly. That's the overall philosophy. We do have a policy, with ongoing development in terms of operation and how we apply that, as well as the philosophy of the fund, and we undertake that through our investment committee as part of our selection and due diligence process. Seamus, do you want to add any colour to that in relation to the day-to-day implications of ESG?

Mr Collins: Certainly, we are highly alive to ESG issues as a management risk and as a financial risk to our members' outcomes and portfolio outcomes. We are an outsourced fund. We rely on our third-party manager relationships to implement our investment strategy. But, as part of that selection process and ongoing monitoring process, we work with them to understand their ESG policies, how they incorporate the management of ESG risk into their day-to-day portfolio management and how they manage emerging downside risks. As the CEO mentioned, we use ACSI for research, and that informs us independently of our managers on some ESG issues by providing an additional source of information. We incorporate that as well as oversight of various manager proxy activity and active shareholding behaviour, which are critical for a fiduciary overseeing assets.

CHAIR: Getting back to the central point, you said that you don't manage funds directly; you outsource them to fund managers. If I'm not mistaken, you are informed by external agencies about your ESG policies and how they should inform your investment decisions. Are there any ESG policies in Mine Super that cover limitations on investment in mining activities. Self-evidently, that could include environmental on-the-ground things like the impact it can have on local communities or investments in fossil fuel investments?

Mr Collins: We don't have—

Mr Mitchell: We don't have any exclusions in relation to fossil fuels. We do have in relation to tobacco and munitions—cluster munitions—but not specifically to fossil fuels.

CHAIR: Why not?

Mr Mitchell: We understand that that's a challenging area for industry. We are not directly related to mining. We are not coalminers or any other form of miners. We are a financial institution that looks after—we are custodians of retirement pools, so we don't directly involve ourselves in the industry. We are sympathetic to industry's efforts. It's very clear that climate risk is alive. It's something that we're aware of and conscious of. This is a period that will require transition and a mix of energy going forward, but it's not an area that we dabble in. We're custodians of a superannuation pool.

CHAIR: So you have an ESG policy that covers other sectors that are normally covered by ESG policies except when it comes to issues related to mining, and in that case you don't have a relevant ESG policy?

Mr Mitchell: That's correct, yes.

CHAIR: Presumably, that's to avoid, shall we say, the inconsistency between taking money and resources from that sector based on your investment decisions.

Mr Mitchell: No. The contributions we receive from employers are agnostic to the investment decisions.

CHAIR: Sure. But if you're taking money from miners who work in those sectors, to then choose to not invest in those sectors because the ESG policies could be highlighted as being inconsistent with the spirit and intent of those workers and their interests—would that be fair?

Mr Mitchell: It would not be in our interests to see the demise of mine workers, no.

CHAIR: Self-evidently, I would have thought. In terms of liquidity and some of the issues relating to the early draw down, has there been any early draw down from Mine Super associated with COVID-19?

Mr Mitchell: Yes. To date, we've had around 11½ thousand applications for special early release. That equates to around $108 million of funds under management. We've processed those well within the APRA guideline of five days. Our processing time is often one day.

CHAIR: Did you have any underlying liquidity issues within your fund during the period from February through March and April of this year?

Mr Mitchell: No, no significant liquidity issues. We clearly monitored it as an emerging risk, but there was nothing that caused any distress to the fund. Seamus, do you want to elaborate in terms of the impact in dollar terms?

Mr Collins: This was obviously front and centre during this period. It was extremely uncertain. We had a level of members switching out of market assets into cash. We have a cap, under normal market conditions, of 20 per cent of illiquid assets, and there is provision for that to rise to 35 in stressed or challenged markets. We never got higher than around 21 per cent, and that was only for a brief period. So our liquidity, notwithstanding the switching and the market dislocation and impacts, never really challenged us, fortunately.

CHAIR: Considering the number of other committee members online, I'm going to hand over to Deputy Chair for 10 minutes.

Dr LEIGH: Thanks, Chair, and thank you very much, gentlemen, for appearing before us today. Were you called before the Hayne royal commission?

Mr Mitchell: No, I don't believe we were. No.

Dr LEIGH: You didn't give any evidence to the Hayne royal commission, amidst all of the witnesses there?

Mr Mitchell: None whatsoever.

Dr LEIGH: We have you now scheduled to give evidence to us for 45 minutes, and yet this committee hasn't heard, ever, from Suncorp, BT, Colonial First State, OnePath or Mercer, despite the fact that our mandate is to follow up on the work of the Hayne royal commission. It seems pretty extraordinary to me that we have you here today—that we're taking up your time at a moment when you could well be managing members' money and dealing with the significant tumult that we have seen in the financial markets. Can I start off by asking the question of how you've been dealing with the government's super early withdrawal policy and how that's affected your long-term asset investment mix.

Mr Mitchell: Certainly. Obviously we take it seriously. Our natural posture is that members who have made a request for special early release are facing a financial decision that means they require some form of support and they're utilising the facility that's been provided through that legislation. So we receive the file and we process it. We've encouraged members to speak to the fund wherever possible to help them with their decision-making process, to help them understand their circumstances, and we support them through a range of other financial advice communications, written support and access through our website, to help them understand, as well as upskilling and training our contact centre to deal with any issues that may be outside of financial, such as indications of, perhaps, mental health or emotional stress or distress associated with the request for the release. Other than that, we've put in place operational circumstances to help cope with demand. We've adapted our technology systems to help support the processing and other similar business-continuity type activities you'd expect to see in an operation of our size. In terms of the impact on the fund—

Dr LEIGH: One of the things people often forget about superannuation is the role of life insurance in superannuation. Your members work in a particularly dangerous occupation. Can you say a bit about the benefits to members of receiving life insurance as part of superannuation and what it might cost a member in an industry like yours to obtain that on the open market?

Mr Mitchell: Absolutely. We are quite unique as an industry fund in that we service a very specialised industry. We take that role seriously and we provide as much support as we can, and one of those is our very bespoke and unique insurance design. I will add that we are one of only four funds that would offer full cover for dangerous occupations such as mining and particular aspects of mining. So our members are protected in that regard, in that, if they are a member of our fund, they will have access to that very specialised insurance. My understanding is that there are only four funds available that would even offer some form of mining insurance. So it's an important role that we play.

In terms of cost, it really varies depending upon the level of cover. Under our group life arrangements, we have default cover, depending on age as you enter, but an average member will pay anything between $100 and $200 per month for insurance. That would cover things like death or terminal illness or what is known as income protection or salary continuance.

Dr LEIGH: If they were to look for that insurance on the private market, would they be able to get it at similar rates?

Mr Mitchell: They would be able to get it. It would be remiss of me to try and calculate or guess what the rates would be. Traditionally, though, I'm comfortable to say that group insurance provides a cheaper option than stand-alone retail, but, again, that's a very long bow, because it depends on the person's age, health conditions, providers and what other sorts of products are getting bolted on to the insurance design. It's a really difficult one to answer, but I'm comfortable to say that group life is generally cheaper than stand-alone retail.

Dr LEIGH: I'm trying to work out which angle to take. In terms of those members within your industry who are increasingly moving into casual employment, what impact does that have on Mine Super? We've seen a big growth in the casualisation of the workforce. How does that affect you as a superannuation provider?

Mr Mitchell: We're relatively sheltered from that, in the sense that we get involved in the process once the contribution arrives. We have relationships with a number of employers, both industry and contract based. So once the contribution arrives, that comes to us. What we have historically seen is lower contributions from casualisation versus fixed employees and industry-level employees.

Dr LEIGH: What about the shift to labour hire firms? How does that affect things?

Mr Mitchell: Again, it's a very similar impact, because the contribution comes in from those just as it does through the system from mainstream employers. It's just a basic mathematical equation: if somebody's on less salary, there'll be less contributions that come in.

Dr LEIGH: Does that have implications for their ability to hold onto the insurance product? If somebody's out of work, at what point does their life insurance and TPD stop?

Mr Mitchell: They have the ability to dial up and dial down—to switch off their insurance as they see fit and as their circumstances change. One of the benefits of our service model is that every time we engage with a member, whether it's an incoming call or an outbound call, that's a moment of truth for the fund to be able to understand their particular situation. So every time we engage we would seek to explore their current situation in terms of insurance with the fund, to make sure we have the right salary level, to make sure we have the correct occupation and to make sure that they are paying the right amount of premiums relative to their own situation. It's very variable and it depends on the individual member and their personal circumstances, both in employment and out of employment.

Dr LEIGH: What do you see as the long-term future for smaller superannuation funds like yours? In some sense investing is a scale game. We've seen the massive growth of the BlackRocks and Vanguards of the world. How do you see yourself surviving if there's increasing industry consolidation?

Mr Mitchell: I suppose size is a relative concept. With respect, I wouldn't describe us as small; we're probably in the medium bucket. In terms of sustainability, as I said in the opening remarks, we've been here for 79 years and we're configured to be here for another 79. So our sustainably is not an issue. We're just not able to leverage some of the benefits that come with scale. With longer-term infrastructure investment, for example, we have to monitor liquidity a little bit more—it's more front of mind given the fluctuating nature of the member numbers and the contribution levels. So it just sort of doesn't give us the opportunity to leverage the benefits of scale—to drive down our average costs and like matters.

Dr LEIGH: Does it mean that you have to make more of your market niche? In other words, play up to members the benefit of being part of Mine Super? Presumably, with the pricing pressure, you can't compete on price with a fund that's 10 times your size, so you need to be offering a different sort of value proposition?

Mr Mitchell: Yes, absolutely. We leverage our relationships to make sure we can engage members as often and as meaningfully as possible. We use those channels that are available for us to get in front of members, just to reiterate the benefits of being a member of Mine Super. The insurance is one aspect of it; another component is our service model. Our members seek a high level of service—both availability and proximity—which facilitates us being in regional communities. We're co-located with the big mining communities across, particularly, New South Wales, Queensland and WA. So we're close by to help service those members. They expect that, and they're also willing to pay for that.

Dr LEIGH: Chair, I didn't look at the clock when I started, but I feel as though that's probably close—

CHAIR: You've got one more, if you really want it.

Dr LEIGH: No, that's fine. I'm happy to hand on to the next person.

CHAIR: I'll throw to Ms Hammond, but I'll say: do you know what's really hypocritical? It's coming before a witness saying that they're wasting their time if we're not asking questions about the royal commission—and they're not asking questions about the royal commission. Over to you, Ms Hammond.

Dr LEIGH: They' weren't called. There's nothing to ask.

Ms HAMMOND: I think we'll move to me at the moment. Thank you, Mr Mitchell and Mr Collins. I note—and you noted this in response to the chair's questions—that you use fund managers to invest funds. I've looked online. You've got a number of different fund managers that you use for different forms of investment. How do you go about determining which fund managers to use?

Mr Mitchell: I will pass to Seamus on this, but I will say that for high-level contexts we go through a rigorous process through our investment committee, which is a delegation from the trustee board. There's a due diligence process to go through with that, which is aligned to the prudential standards and the expectations of the regulator. So, a higher level—that's how we approach it—backed in by research and process, which I'm sure Seamus will expand on now.

Mr Collins: Just to put a little bit more colour around that: we have our own investment strategy team that sets, if you will, the road map and the asset allocation and essentially identifies gaps or appetite for additional investment in equities, bonds and infrastructure. They set that out to our dedicated research team, who then conduct a search across that universe, and they will use consultant databases to gather data. They will use their own knowledge. They will actively engage with each individual asset manager. That usually involves visiting them, conducting meetings and then entering into a formal investment due diligence process to assess their suitability to fulfil that investment strategy.

Ms HAMMOND: So, you don't do an EOI process or a tender process; you actually identify an approach?

Mr Collins: The cost aspect—there is an element of tender to it. It's certainly competitive. We will certainly look at fees from different providers and whittle it down to a shortlist, and that shortlist will then essentially be selected on the basis of investment attributes and the organisation's fee structures and quantum as well as their track record and strong references from existing investor bases.

Ms HAMMOND: You might need to take this one on notice, but what is the range of fees that fund managers might charge?

Mr Collins: There's a huge variance, and a lot of that is driven by the style of the investment manager. It ranges from very low-cost, passive investment—it might be only two or three hundredths of one per cent—essentially tracking indexes in highly liquid market, and then you might have complex hedge-fund or valuable unlisted infrastructure assets where typically fees are higher and quite often come with performance hurdles and significant fees in the event that those assets perform strongly. That will be a significant quantum higher than those passive ones—and essentially all levels in between.

Ms HAMMOND: In super funds, you give to a fund manager and they invest, and you have to pay them fees. I think you're owned by Auscoal Super Pty Ltd. Does that then take a fee as well?

Mr Mitchell: Effectively, for a superannuant who's participating in the system, there'll be roughly two sets of fees. There'll be the administration component, which is the servicing fee, which relates to the services the fund provides—communications, contact centre, intrafund advice, statements—and then there'll be a set of investment fees that the superannuant will pay, and they vary across the investment options.

Ms HAMMOND: I'm just looking at the 2019 consolidated financial reports. The fees that the trustee company, Auscoal, made in 2019 were $26 million. Does that sound right?

Mr Mitchell: Yes, that would be about right.

Ms HAMMOND: So, all up, revenue is 48. I might, if I get a chance, come back to that. How often do you review or update your fund managers?

Mr Collins: The fund manager selection process is ongoing and continuous. The tenor of that will depend on the risk level. If a fund manager is delivering exactly what we expect that might be a quarterly review process, a monthly performance assessment. But if a manager is something we're starting to get concerns about, we're not seeing it live up to expectations or there may be negative media or issues with staff departures, then that level of oversight dramatically increases and we will conduct a lot more oversight in that situation. As to how often we change managers, that varies year on year. Last year we did a reasonably substantial restructure, and we changed the number of managers to move into more passive low-cost exposures. This year would be more normal, which would be low- to mid-single digits, in the normal course of events, out of a manager cohort of approximately 50.

Ms HAMMOND: I notice, on your list, two investment managers that you use: IFM Investors and ISPT. Are you one of the shareholders of ISH, which is the parent company of IFM Investors?

Mr Collins: Yes, we're a shareholder in ISH and a shareholder in the operating entity of ISPT.

Ms HAMMOND: So, through that ISH-IFM Investors, Mine Super is contributing to The New Daily as well. Is that right?

Mr Collins: Through our investment relationships, we do pay investment fees as a client. I'm not able to answer how those investment fees are distributed. We are a long-term shareholder. We're a foundation, I believe, shareholder but only in a small way. I think our shareholding represents about nine one-hundredths of one per cent of our—it's relatively de minimis.

Ms HAMMOND: Did you have to pay for that shareholding, do you recall?

Mr Collins: I believe so, but I'll take that on notice and I will revert—

Dr MULINO: How many MySuper products do you have?

Mr Mitchell: We have one MySuper product. It's a default life-cycle product. Effectively, it's one protect and we change the risk profile as the member goes through age cycles.

Dr MULINO: Where did that rank on the ASIC dashboard?

Mr Mitchell: On the last published dashboard, last December, in terms of colour we were in what would be described as the red. We were underperforming peers. That was prior to the significant restructure around our investments and our asset allocation and how we invest. We've restructured that to better align with member outcomes. It's part of a legacy situation in that the philosophy going back was very much about guarding and protecting capital. It was designed to try and perform better in downturns as opposed to outperform gross markets. The theory was to protect the capital and take gains where we get them. We've reviewed that and adjusted it slightly, going forward.

Dr MULINO: Are you expecting that the market troubles we're in at the minute will, in a sense, be times that your fund is suited to?

Mr Mitchell: It's really hard to predict future performance, but we're already seeing better performance and more relativity to peers across our various investment options. That would be correct.

Dr MULINO: I think the life-cycle approach is one that a number of experts have recommended—although, of course, even amongst experts, there are a range of opinions as to how quickly you taper and so forth. What's the demographic of your membership in that default product?

Mr Mitchell: It's interesting. We're quite unique in terms of the demographic. A description of our average member is a 46-year-old male with a balance in the region of $180,000, which is really high compared to a lot of other funds in the system. The majority of our members are aged between 35 and 55. We have very few members aged below 25—maybe three per cent of the fund are under 25. A lot of the fund members have been with us for a very long time and they've been in the workforce for a long time, with higher incomes, hence the large average balance. We also have a lot of concentration in the mining sector, because we've been around for so long. We also have a high conversion rate. Over 90 to 95 per cent of members will move from accumulation, or the superannuation product, to the pension product when they reach retirement.

Dr MULINO: You may not be able to provide information on economy-wide averages or other sectors, but do you have a sense of what the average retirement age is for your members compared to the economy or other sectors? Do you think it's earlier, given the physical nature of the work, and does that inform your life-cycle investing?

Mr Mitchell: The information we used around the life-cycle investing was predominantly more around the asset allocation, and we effectively start to take risk off too early. We're taking it off at around age 45 to 50. We've decided to push that out—or research supports us pushing that out. We've not implemented any product changes yet. In terms of retirement, the general age is between the 60 and 65 mark. I've not come across any information that would indicate our members are retiring excessively early, and it varies. It varies depending on the particular roles that they have.

Dr MULINO: You indicated earlier that you're a medium-sized fund, but obviously substantially smaller on some metrics than some of the very biggest funds. Presumably, that makes it advantageous for a fund like yours to be able to access opportunities for very large, complex unlisted assets through asset managers—IFM and ISPT would be examples. Presumably, you're the type of fund for which taking advantage of those economies of scale is particularly attractive.

Mr Mitchell: Yes, absolutely. Without access to those channels it would be very difficult for us not only to get potentially better returns but to get appropriate asset allocation across the various classes.

Dr MULINO: You've got this 20 per cent threshold, which is obviously something you can adjust under different circumstances. But, again, given your size—which is not small, but also not a hundred billion plus—if you had to invest in unlisted assets on your own, that 20 per cent could be quite tricky in that you'd fill up that 20 per cent without being able to diversify much; whereas, if you're able to put the money into IFM and ISPT or other asset managers, you're investing in many, many unlisted assets.

Mr Mitchell: That's correct, yes. Absolutely.

Dr MULINO: Great. The 20 per cent threshold is really a balance which gives you access to long-term returns. So it's a decent chunk of your asset allocation. But that 20 per cent has also allowed you, even over the course of the difficulties in the market this year and early release, to manage all of that very comfortably.

Mr Mitchell: Indeed, yes—that's correct.

Dr MULINO: That's all from me. Thanks.

CHAIR: That's good, because I was about to say you're nearly out of time. Mr Falinski.

Mr FALINSKI: I can't believe Dr Mulino has run out of questions. I'm very surprised. Thank you, gentlemen. How much do you pay to IFM, ISA, IFS—to any of the ecosystem that is ISH?

Mr Mitchell: We don't pay anything in relation to membership fees or expenses of that nature. Our costs will be investment related costs relative to the funds that we have placed with IFM as a fund manager. Seamus, do you want to clarify or expand on that?

Mr Collins: Yes, we do pay investment fees. IFM are our passive managers. We have a substantial footprint of passive. That is a very, very low cost, so for the amount that we have with IFM it's not significant. I'm very happy to come back on notice with the specifics of our investment fee payments, but they are not, I believe, our highest paid manager relationship, although they are our largest by dollars under investment.

Mr FALINSKI: And ISPT as well?

Mr Mitchell: We're only paying investment fees; we're not paying any subscription fees.

Mr FALINSKI: Sorry, I mean in terms of you coming back with that information, could you include ISPT as well?

Mr Collins: Absolutely.

Mr FALINSKI: When you grant mandates to IFM and ISPT, do you go through a competitive process?

Mr Collins: We do. In the case of the passive mandate, which was the large increase in investment with IFM, we went through a competitive process. The nature of passive is you do tend to provide large amounts to a single provider because the fee benefits tend to be given for scale, so it's not usually a good idea to distribute it amongst multiple providers. We went through a multiprovider process. We reviewed each provider and, in that instance, IFM was comfortably the lowest-cost provider and it had very strong capabilities in that area.

Mr FALINSKI: As part of your competitive tendering process, if that's the best way of determining it—please feel free to take this on notice—what steps do you take to ensure that the sole purpose test will continue to be maintained?

Mr Mitchell: Well, that's—

Mr FALINSKI: Do you want to take that on notice?

Mr Mitchell: I can answer it now. The selection of [inaudible] and placing of investments is highly governed and regulated through the prudential standards. Normally the investment committee would be aware of that. Those tests would be applied in any selection process. There's a risk lens that goes over the selection and the choice of fund managers and where we place funds. We'd have to meet all of the standards and expectations before we placed any money.

Mr FALINSKI: Sure. How do you do that?

Mr Mitchell: We do that through the due diligence process and contracts management process. We test it against the regulations and the prudential standards. That gets examined by the trustee board.

Mr FALINSKI: How? Please feel free to take this on notice. I understand it's quite a complex area.

Mr Mitchell: It's not really. What do you mean 'how'? Basically, we have a contract management process and we have a due diligence process. There's the prudential—

Mr FALINSKI: Let me have another go. There have been investments in loss-making media companies. How did you deal with that in your due diligence process?

Mr Mitchell: A loss-making investment would come under review.

Mr FALINSKI: Yes.

Mr Mitchell: Do you mean investing in a loss-making vehicle before we invest or after?

Mr FALINSKI: I have no idea when you invested.

CHAIR: I think the point of Mr Falinski's question is you've said there's a review when making investments into entities that have lost money, so how often have you reviewed the investment in the *New Daily*?

Mr Collins: I'm happy to take that, because my team is responsible for the ISH investment. The overarching investment in ISH has returned extremely strong returns—in excess of 13 per cent per annum for that investment. Whilst we do continue to review it for appropriateness and fitness for purpose, historically since inception the ISH investment has delivered very strong returns for members under that test.

Mr FALINSKI: I might actually put that question on notice. Thank you. Do you guys use proxy advisers?

Mr Collins: We don't directly. We do not ourselves vote our proxies; we work with our managers. As mentioned prior, we are an outsourced entity. We do seek to understand with every manager what their proxy policy is and who their proxy adviser is, if at all. To be honest, there is a mixture between funds that do this in-house, with their own research team, and funds that use substantial entities like Glass Lewis or ISS, and that is part of the due diligence process—understanding what research and what informs their proxy decisions.

Mr FALINSKI: Who do IFM use as their proxy adviser?

Mr Collins: I believe IFM is predominantly in-house in their development of proxy views and proxy outcomes.

Mr FALINSKI: But they do have an outside—

Mr Collins: Yes, they absolutely do. In the case of, for example, our developed markets mandate, I believe they use Glass Lewis.

CHAIR: I'm afraid this is going to be your last question, Mr Falinski.

Mr FALINSKI: Do any of these proxy advisers, consistent with ESG policy, have a vote contrary to the interests of your members?

Mr Mitchell: Sorry; can you repeat the question?

Mr FALINSKI: My question is: do any of the proxy advisers—specifically I'm thinking of one used by IFM—consistent with their ESG policies vote their proxies not consistent with the interests of your members? If you'd like to take that on notice, I'd be very happy with that.

Mr Mitchell: I suspect we'd be better placed to take that on notice given the layered and complex nature of the question.

CHAIR: Thank you, Mr Falinski. Dr Aly.

Dr ALY: I'd like to start off with the early release super. I think you mentioned that there was about $108 million that was accessed through the early release superannuation scheme. Is that correct?

Mr Mitchell: That's correct. It was around $53 million or $54 million up until the financial year end 2020, and a very similar amount, year to date, this financial year.

Dr ALY: You may need to take this one on notice, but do you have any data or figures on how many of those who access that provision qualified through the ATO and how many accessed their super through other financial hardship provisions?

Mr Mitchell: That figure is the entirety coming through the ATO-enabled special early release category. What I can tell you, though, in addition to that fact is that our financial hardship claims have reduced by around 90 per cent during the special early release window. I give you that as additional context, which assures me that our members who have requested the early release have required it.

Dr ALY: So what you're saying, if I could just clarify, is that the financial hardship requests have decreased because people are undertaking the early superannuation release provision?

Mr Mitchell: Yes. That would be my assessment of the situation as I look at the data.

Dr ALY: Just to satisfy the chair's comments about asking questions about the royal commission, can I just clarify: you weren't asked to appear in front of the royal commission, but were you asked to provide any information or answers to the royal commission?

Mr Mitchell: No, we were not.

Dr ALY: So you weren't approached at all? You weren't part of it at all?

Mr Mitchell: No.

Dr ALY: And there were no adverse findings against you at all?

Mr Mitchell: None whatsoever.

CHAIR: Thank you very much, Dr Aly. I think the Labor members of this committee need to go back and look at the actual terms of reference for this committee. It's not just about the Hayne royal commission. The point I was really making was about the abject hypocrisy of making the point that we're wasting people's time by bringing them to ask them questions when they weren't related to the Hayne royal commission and then asking all these questions that weren't related to the Hayne royal commission. I can assure you conflicts of interest and those sorts of themes were very much the focus of the Hayne royal commission.

Thank you for appearing before the committee today. The committee secretary will be in touch with you in relation to any matters arising out of today's hearing. You may also get questions on notice from the committee secretariat, both the ones you've taken on notice already and the ones presented thereafter. You will be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact.

BROUWER, Mrs Norlena, Group Executive, Risk and Compliance, Hostplus

CLERK, Dr Greg, Deputy Chief Investment Officer, Hostplus

ELIA, Mr David, Chief Executive Officer, Hostplus

WATSON, Mr Paul, Group Executive, Member Experience, Hostplus

Evidence was taken via teleconference—

[14:06]

CHAIR: Although the committee does not require you to give evidence under oath, these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I now invite you to make an opening statement.

Mr Elia: Thank you very much, Chair. I certainly welcome the opportunity to appear again before the committee. Today, Dr Greg Clerk, Deputy Chief Investment Officer, Norlena Brouwer, Group Executive, Risk and Compliance, and Paul Watson, group executive member with Member Experience, are here with me today to assist in answering your questions. A lot has certainly changed since the last time I appeared in front of the committee. With this in mind and the nature of the questions received from the committee, I thought it would be prudent to provide an update on how Hostplus is navigating the global pandemic.

Despite the significant challenges brought on by COVID-19 for large sectors of the economy, particularly our traditional sectors of hospitality, tourism, sports and recreation being shut down for extended periods, Hostplus has grown assets under management by $4 billion over the financial year ended 30 June 2020 to now reach in excess of $50 billion. Over the year, our average monthly inflows remained strong at approximately $630 million per month. Impressively, this has actually increased to $640 million per month over the last three months. Even taking into account tranche 1 of the early release payments, we still had surplus net cashflows of $41 billion to invest back into the economy. Hostplus's total membership has grown, from 1.19 million to 1.3 million over the year, and the number of our contributing employers has also grown, from 186,000 to 213,000. This certainly speaks strongly of the diversity of our membership. More than half of our members now sit outside the traditional sectors of hospitality, tourism, recreation and sport. Furthermore, members choosing to join Hostplus outside of our default arrangements make up 22 per cent of total members—further proof that more Australians are actively choosing Hostplus as their preferred provider.

Importantly, through the period of COVID-19 we have supported the federal government's implementation of the early release scheme, with our team working closely and tirelessly with the ATO and our administrator LINK over the 18 days prior to the commencement of the scheme to support the ATO to make these payments in a safe and timely manner. To give you an idea of the change in transaction volumes, Hostplus would normally make on average 2,500 to 3,000 hardship payments a year. In the first tranche alone we processed 243,000 transactions. For tranche 1, which ended on 30 June 2020, I'm pleased to say that we managed to assist 243,000 members, paying out a total of $1.8 billion. As of 4 September 2020, there were more than 387,000 applications and $2.8 billion has been paid out. Around 100,000 members have had to make a repeat application and take out a second release during tranche 2, and 97 per cent of these member applications have been paid out within five business days. The 25 to 44 age group dominate the withdrawals. Our female members have withdrawn approximately $1.3 billion, or 46 per cent, of claims as at 4 September. Sadly, around 38,000 members have actually emptied their accounts. We're certainly very, very proud to have supported our members through this period and have continued to actively promote—

CHAIR: We've lost him. This is why parliament by Zoom is a very bad idea.

Dr LEIGH: Wasn't it your side that was encouraging government by Zoom?

CHAIR: Not me. I went.

Mr Elia: Apologies, I'm back again. I was just making the point that we were able to set up three geographically separated call centres and have since transitioned 110 call centre consultants to working from home. During this time, our service centre received over 108,000 calls per month, an approximate increase of 80 per cent on monthly inbound calls. We continue to be in a very strong position to accommodate ongoing requests under the ERS scheme.

Just in relation to our investment performance, it's obviously been a difficult year, a challenging year for a lot of funds. In our case, our default option has delivered a negative return, its first for 11 years and only its fourth in the fund's 32-year history. Our strategic investment focus has not changed. We are long-term investors. The global pandemic and the introduction of the early release scheme hasn't stopped us from also investing in life-changing technologies and essential assets that our society needs now more than ever. Our capital is already supporting the federal government's two choices of companies to supply Australia's COVID vaccine, being CSL via the University of Queensland, where we have $543 million invested; and AstraZeneca via the University of Oxford, where we have $6 million invested. In fact, this is not the only instance where Hostplus and the federal government have been investment partners. We're also invested alongside the federal government in a medical research commercialisation fund. Our recent investments over the period have included $315 million, which has been invested by our managers into capital raising by 54 ASX listed companies. We've recently committed $240 million to new venture capital investments via Square Peg, and the venture capital funding is in addition to funding previously provided and which has been drawn down and invested in companies such as Cardiac Dimensions, who produces cardiac implants to treat heart failures; and Brisbane based Vaxxas, who is developing a needle-free vaccine device.

This has all been done through a period of extreme pressure. We're incredibly delighted to be here with you today and look forward to answering all your questions.

CHAIR: Just for clarity: you enjoy appearing before this committee, Mr Elia.

Mr Elia: A lot of people believe I do, and I think I do!

CHAIR: That's good; it will save us wasting our time with comments from some of the other committee members later!

Mr Elia, I have submitted a series of questions in writing to Hostplus, as I have both to retail and industry funds, for clarity—particularly around different aspects of corporate culture and deliberations and issues of governance. One in particular was related to assessing the investment performance of those who are responsible for making investment decisions within the company. I asked:

Prior to appointment, have employees fulfilling fiduciary roles had their investment performance track record assessed before fees?

a. And if not, why not?

b. And if not prior to appointment, have they following appointment?

c. And if so, on what timeframe?

Hostplus' response is that it undertakes due diligence prior to the appointment—so that doesn't give me any answer beyond saying, 'Generally, we may consider these things'—and that investment performance track record is taken into consideration when it's related to a key performance index. Just for clarity: prior to appointment, have employees fulfilling fiduciary roles had their investment performance track record assessed before fees—yes or no?

Mr Elia: Sorry, are you talking about investment staff—just so I am clear on who specifically you are talking about?

CHAIR: Yes.

Mr Elia: Our investment team do not physically manage money internally. I'm trying to understand your specific question. They're obviously qualified professionals and investment experts in their field.

CHAIR: But, in terms of their allocation of members' capital, even if they are not directly managing the funds, is it assessed based on their past performance absent fees?

Mr Elia: I don't think the question actually applies—we're not money managers. We don't physically manage money.

CHAIR: You make allocations based on others who do manage money.

Mr Elia: Yes, we do.

CHAIR: So has there been judgement or assessment of decision-making based on performance at all in the past?

Mr Elia: To a large degree, it is. When I think through—

CHAIR: What are the formal processes of doing so?

Mr Elia: The process is like any other organisation. These individuals are appointed on the basis of their expertise and experience. Take the head of our infrastructure, for example; he worked for Macquarie in that particular field. The head of our property is ex-Lendlease, Lendlease being one of the largest property players in the marketplace. And I can keep going. So a lot of the staff have substantive skill sets in that particular area.

CHAIR: Do you look at performance? Titles are one thing; outcomes are another.

Mr Elia: I don't really understand what you're trying to get at. Clearly these individuals have worked for large, reputable investment houses. We look at all aspects of their underlying performance attributes, and if they are fit for purpose they are employed at Hostplus. We employ experts in the particular field, I can reassure you of that.

CHAIR: One of the things that has been raised, including by the head of AustralianSuper, Ian Silk, is that remuneration should be reduced on the basis of the COVID-19 pandemic and against performance that is weaker than in usual circumstances. When I asked you questions about remuneration and whether there had been a reduction for board members, the chief executive or executive management, I was told:

Remuneration across all levels is reviewed regularly. Board members' and executives' remuneration is disclosed in Hostplus' end of year financial reports and made available on the Hostplus website.

Has it been reduced?

Mr Elia: We are going through that process as we speak. The Hostplus remuneration committee is due to meet next week. There are two components to senior executive and investment staff salaries: a fixed based salary and a variable component. There is no doubt that those variable elements will certainly be impacted as a consequence of the performance of the fund, particularly in the area of investment returns.

CHAIR: But you don't think there should be some sort of clearer standard, recognising there have been other reductions in the incomes of many of the people who are members of Hostplus, and some sort of a broader assessment just based on reducing your bonuses?

Mr Elia: Chair, I think we have adopted the Prime Minister's comments in respect to that. We are getting on with the job. We haven't put our hand out for JobKeeper. Like you, we are incredibly busy. In fact, we have probably never been busier.

CHAIR: Respectfully, I am quite busy.

Mr Elia: Yes. We are all incredibly busy, as I have highlighted to you. Our major job is to continue to deliver great outcomes for our 1.3 million members and we are certainly focused on that task.

CHAIR: So you disagree with Mr Silk?

Mr Elia: I make the same point as the Prime Minister has made and that is that ultimately we are focused on continuing to work for the benefit of our members. Certainly our industry has not been impacted. Our job is to invest money. Our job has also been to assist the government in relation to its early release scheme payments, and I have just shared with you some of the volumes in order to facilitate that process. We have been working overtime in order to assist the government's program in that regard.

CHAIR: I want to go to some of the issues we've raised around intrafund advice and non-intrafund advice. We submitted a substantial number of questions for which there were only very loose answers. But one of the things that stands out is you provided this table. I don't know if you can see it, but I'm sure you have the answers in front of you. It is of the number of financial advisers employed by Hostplus versus the fees that have been collected. To put it in perspective, in 2015 Hostplus said they had 10 financial advisers, with comprehensive advice fees collected totalling $148,992. In 2019 the number of financial advisers had gone down to 7.74 and the comprehensive advice fees collected had increased by a factor of probably nine to $1.266 million. Can you explain that for us.

Mr Elia: Certainly. I will ask Paul Watson to make some comments about this in a minute, but ostensibly we have pivoted the role of our financial planners from historically providing intrafund based advice to providing personalised retirement advice. I'll ask Paul to make some comments in relation to the specific activities of our underlying financial planners.

Mr Watson: To add to David's point earlier, in 2015 we were providing a lot of simple, episodic advice and not as much comprehensive advice as we certainly are today. We also had one team that was providing both limited personnel advice or episodic advice and more comprehensive advice. Off the back of reforms back in that period and other reforms, we looked at our operating model and flipped those teams. The comprehensive advice team was focused almost exclusively on comprehensive advice and advice that was only provided on a fee-for-service basis. It was only ever operated on a fee-for-service basis—never commissions and the like. The increase in the fees over that period of time is also a result of an increase in engagement and having members engage with financial advisers, particularly in the pre-retirement and retirement space, to develop retirement strategies and plan investment recommendations for their retirement. That is reflected in the cost recovery, which is those figures that you have before you. So that's the nub of the increase in both the numbers of SOAs produced and the fee for service attached to those.

CHAIR: Hang on; can you explain this to me. You said it was on the basis of cost recovery that you saw a ninefold increase in the amount of revenue collected through fees even though the number of financial advisers has gone down. What has happened? What has changed?

Mr Watson: So there are two things there. Firstly, back in 2015, the majority of our advice provided was what we would call intrafund advice. Therefore, there was not a charge attached to that as there is today for comprehensive personal advice. As I said, for this team, the volume of advice that they were writing on a fee-for-service basis, comprehensive advice, certainly increased quite extensively, particularly off the back of a lot of engagement work we did with members to have them avail themselves of that service. To the drop in number of advisors, which is effectively two people, the reason it says 7.74 FTEs is because we have a couple of people working not full five-day weeks. We had a planner in Far North Queensland at that time back in 2015. We also had a planner attached to the Gold Coast office as well. We took the opportunity to consolidate both of those into of the Brisbane office, and our planners then travelled to those locations to assist members as part of our efficiency review at the time.

CHAIR: So just for clarity, what different types of financial advisors do you have working for Hostplus?

Mr Watson: We have two types of advisors. We have financial planners, as we call them, who provide comprehensive personal financial advice. So this is—

CHAIR: And they charge for the services they provide?

Mr Watson: They certainly do.

CHAIR: They do it out of the funds that members have with Hostplus?

Mr Watson: While members have the opportunity to pay for some of that advice, where it is entirely in regard to their interest in Hostplus, the vast, vast majority—

CHAIR: Does it have to be 100 per cent?

Mr Watson: Sorry?

CHAIR: It has to be 100 per cent related to activities within—

Mr Watson: No. To deduct from account, that part of the advice that relates solely to that interest in Hostplus, so comprehensive advice can take into account a range of people's other interests outside of their superannuation account. But the key point though is not all our members choose to tap their superannuation account to cover any part of the cost of their advice. The vast majority actually seek to pay for that advice from sources or means other than their Hostplus account. That is not a requirement; that is an open choice that they make.

CHAIR: So it is an open choice, but do you enable people to use their super funds to pay for financial advice they get outside o Hostplus?

Mr Watson: No, we don't.

CHAIR: So if you use our financial planner, you can use your own money in your super fund; if you don't use our financial planner, you can't?

Mr Watson: Just to clarify, I thought you meant can they use Hostplus money to get advice on things other than superannuation. If they have an external advisor who is advising them and part of that advice relates to their interest in Hostplus then that advisor can approach Hostplus to have some of that cost met. But again, our experience to date has been that very, very few members do wish to avail themselves of that service.

CHAIR: I will take on notice then: how many times has that been applied both in number of applications, number approved and also dollar value?

Dr LEIGH: Thank you, gentlemen, for appearing before us again. This is your second appearance before our committee, isn't it?

Mr Elia: That's correct.

Dr LEIGH: Were there any adverse findings against you from the Hayne royal commission?

Mr Elia: No. As you know, I actually appeared before the royal commission. There were no adverse findings against Hostplus as a consequence of our appearance.

Dr LEIGH: So you are the fourth industry fund body to be appearing before this committee today. Our committee is failing today to call a range of retail funds against whom adverse findings were already made. Like other committee members, I have received emails this morning from individuals who have been harmed by AMP's behaviour, frustrated by the fact that we are only going to hear from AMP for 45 minutes, yet you are being called here despite the fact there were no adverse findings against you. You didn't lose your CEO, you didn't lose your chair and you haven't been across the financial press in the last few months as AMP has, yet we have this 45 minutes scheduled to speak to you today. It seems like a bizarre use of the committee's time by the government.

I want to start off with an issue that Mr Falinski raised earlier this morning. He said that the superannuation system isn't doing what it's intended to do. Superannuation isn't fully mature, but what would you say to that allegation: because people are still receiving the pension, superannuation is broken?

Mr Elia: I think that's actually not entirely right. I've got some statistics here, if I might share with you. These numbers effectively come out of Treasury. As at June 2019, superannuation funds have paid lump sums and pension benefits of $40.3 billion, which compares to around $45 billion in aged pension outlays in the same year. Treasury's projections also highlight that the SG is driving a significant decline of the full-rate age pension. We have a chart which we're happy to submit from Treasury that shows the halving of the ratio of full-rate age pensioners from 60 per cent to 30 per cent and the doubling of the proportion of part-rate pensioners from 25 per cent to 50 per cent. According to the latest administrative data, almost 30 per cent of retirees are now receiving a pension all up, which is basically up from 20 per cent two decades ago. Similarly, some additional data emanating out of Treasury shows that only 50 per cent of new retirees are, in fact, receiving an age pension.

Dr LEIGH: So superannuation can take pressure off the pension by moving people from a full pension through to a part pension, thereby saving the government money?

Mr Elia: That's absolutely correct. We've got to put this into perspective. We have not had a full cycle whereby Australians have had the full impact of the SG during their working life. The SG was introduced in 1992 at a rate of three per cent and, as we all know, that's been slowly increasing over time. So there is absolutely no doubt that the Australian pension system is certainly doing heavy lifting. I don't have the data in front of me but I certainly do also understand that pension outlays as a percentage of government expenditures are, in fact, declining and hopefully will continue to do so.

Dr LEIGH: A couple of years ago the government were talking about a legislated purpose for superannuation. I understand they've now backflipped on that, but the legislated purpose they had talked about was to reduce pressure on the age pension. So if that were to be the legislated purpose of superannuation, it sounds as though you're evidence to this committee is that superannuation is meeting that purpose?

Mr Elia: Well again, the numbers don't lie. These numbers are emanating out of Treasury. The superannuation industry is doing the heavy lifting and will certainly continue to do so. Clearly, the relevance of that is that it's investment back into the real economy, which is desperately needed today more so than ever before and is something I'm happy to talk more broadly about.

Dr LEIGH: Yes, it is certainly a challenge for me as an economist as to where the next surge of productivity will come from. I worried a lot about this decline in capital per worker last year. It's an issue I raised with a witness earlier today. What role do you see superannuation playing and what role does Hostplus play in increasing capital per worker and therefore productivity, wages, all the good stuff that goes along with that?

Mr Watson: Fundamentally, organisations like Hostplus and other industry funds are the pioneer investors in the real economy, whether it be infrastructure or property—you heard from ISPT this morning—private equity, venture capital, where Hostplus has really been a lead player within the Australian economy. Our fundamental aim is ultimately to maximise the retirement incomes of our members, but the flow-on impact of that is investments in the real economy which create much-needed jobs, create opportunities for workers—for Australians—to find a job that delivers a reasonable income. Clearly that can only bode well for the Australian economy. I outlined in my opening remarks some of the investments that we've already made. If we are given greater certainty around superannuation policy, then I can assure you that industry funds stand ready and willing. IFM has already made a commitment of $19.5 billion to spend in infrastructure related investments to create 200,000 jobs over the course of the next three years, and we certainly stand ready and willing to do our part.

Dr LEIGH: If superannuation wasn't increased on the legislated path, would that 200,000 jobs figure be smaller?

Mr Elia: Those particular figures are factored in—the legislated SG increase. The reality is that we will still be able to invest, but we certainly won't be able to invest as much as we would probably like to and as much as the Australian economy would want us to. It's important for the SG increase to go through, but more importantly to get some certainty around the preservation requirements around superannuation. Funds like Hostplus have been incredibly supportive of the government's early release scheme, including its extension from September to 31 December this year, but I think going forward we want to see some policy stability and certainty around the preservation rules.

Dr LEIGH: Yes. It's striking to me that those who talk about the importance of certainty in government and warn about sovereign risk are somehow willing to undermine a bipartisan legislated path for the smooth increase in superannuation. Chair, I will leave it there and hand to the next member of the committee.

CHAIR: Thank you very much.

Mr FALINSKI: You just mentioned in response to some completely unprompted questions from the deputy chair, which I'm sure required no coordination, that 50 per cent of people now retiring are not seeking the pension. You did mention where you got that figure from. I'm sorry [inaudible]—

Mr Elia: The source for that is the Treasury peer review of the MARIA model February 2018. Mr Falinski, we're very happy to provide you with that information.

Mr FALINSKI: That would be fantastic. Thank you.

Dr LEIGH: Jason, they're your own figures.

Mr FALINSKI: Sorry?

Dr LEIGH: You're in government. They're your own figures.

Mr FALINSKI: Yes, but it's not Treasury; it's a peer review. Anyway we'll get it, Dr Leigh. I'm sure you were as surprised as I was to hear that David had those on hand for your questions. Do you guys use a proxy adviser?

Mr Elia: I'm happy for Dr Greg Clerk to talk about that. We're a member of ACSI first and foremost and we've just recently appointed—

Mr FALINSKI: [Inaudible] ACSI? How do you spell ACSI?

Dr Clerk: Australian Council of Superannuation Investors.

Mr FALINSKI: Thank you.

Dr Clerk: We have ACSI as our proxy adviser for Australian equities, but predominantly we take them only as an adviser effectively and also typically we poll all of our managers, because we outsource most of our management, regarding their particular votes on issues. So on contentious issues we're seeking a broader perspective before we make a determination. We've recently appointed Hermes EOS as our global proxy adviser. I wish I knew what the EOS stood for. I'll find that out.

Mr FALINSKI: As part of your due diligence! Previously when David appeared before us he mentioned that you guys outsource the decision to ACSI, they report back to you and then you report to the board. Has that changed? Is that still the system?

Dr Clerk: No. Effectively that's still the way it works. As I mentioned, if it's a particularly contentious issue we also poll our managers in the Australian equity markets to seek a broader perspective on how we might respond to a particular issue.

Mr FALINSKI: And 'our managers' are your investment managers or the managers of the company?

Dr Clerk: No, the investment managers.

Mr FALINSKI: In Hostplus?

Dr Clerk: Who have chosen to hold that stock and, therefore, have a view regarding how that company should evolve and manage itself.

Mr FALINSKI: How does that trip-wire work? The resolution goes to the AGM paper. Does the company alert you to the fact that they disagree with it and that creates the trip-wire? Do you wait for ACSI to tell you, or the investment manager alerts you?

Dr Clerk: ACSI informs tells us that there's a particular voting resolution that's required. If it's pretty much an issue that may not be contentious at all typically we'll look at that advice and vote in accordance with that advice. Occasionally if we think it's a contentious issue we will go out to each of our investment managers, those that actually hold the stock, and seek their opinions. Then at the end of that we'll bring that information back in-house and make a determination internally—at the senior level the committee can be escalated all the way through to the board. But we will make determinations within the organisation regarding how we will vote for all of our shares.

Mr FALINSKI: Are you shareholders of ISH? That might be a David question.

Mr Elia: The answer to that is: yes.

Mr FALINSKI: And IFM?

Mr Elia: We are a shareholder of IFM, as you know, through the holding company ISH.

Mr FALINSKI: And that's the same with ISH, with The New Daily and with IFS?

Mr Elia: That's correct. They are entities that effectively fall under that particular umbrella company.

Mr FALINSKI: Where does ACSI sit in this ecosystem? Is it outside ISH or associated with ISH?

Mr Elia: ACSI is a completely separate, independent company.

Mr FALINSKI: How many other APRA regulated superannuation funds use ACSI? Do you know?

Dr Clerk: I do not know—unless David does? We can certainly respond with that answer.

Mr Elia: I've got a figure in mind, but—

CHAIR: That's a more appropriate question for ACSI, who we can bring before us. Don't worry, Mr Falinski.

Mr FALINSKI: David, do you accept in the Henry tax review that Ken Henry advised against increasing the super guarantee, because the review felt that on a cost-benefit analysis that increasing the super guarantee actually hurt the Australian economy?

Mr Elia: I'll need to go back and read the Henry tax review.

Mr FALINSKI: You've been reading Treasury peer reviews from 2018. You seem very—

Mr Elia: I'm certainly cognisant of the fact that there are many people who seem to change their mind about a lot of things. I can certainly tell you that Senator Andrew Bragg once had a view that superannuation should not be used to fund any form of housing deposits, should not be used as a honey pot by government, should not be used for any other purpose other than the preservation of retirement benefits. But I do note that—

CHAIR: We all evolve, Mr Elia.

Mr FALINSKI: That's why we don't have senators on this committee!

Mr Elia: People are entitled to change their views.

Mr FALINSKI: They are I'm told. One of the things the Henry tax review—which was about six years earlier than the Treasury peer review to which you talk about—pointed out is that over two and a bit decades the number of people still relying on the age pension had not materially changed. It was still 80 per cent in retirement. I notice that in some of the figures that you mentioned before, you were saying though that more people are part pensioners rather than—

Teleconference interrupted—

Mr FALINSKI: I should point out that Greg Combet is a good person and a constituent of mine. One of the problems with one of the arguments that he's running at the moment, which is that if the super guarantee doesn't increase they won't make investments, is that begins to look a bit like blackmail.

Mr Elia: I think you have put that to Greg. I think, as I alluded to earlier on, the reality is that the funds will continue to make investments, but obviously our ability to invest more is driven to a large degree by ongoing increases in the superannuation guarantee.

Mr FALINSKI: I understand, but one of the other things that the Henry tax review pointed out was that our reliance on foreign capital has not declined in the two-and-a-bit decades that we've had compulsory superannuation. Why do you think that is?

Mr Elia: As we know, countries all over the world are printing a lot of money. I don't think there's a shortage of capital anywhere in the world. But, Mr Falinski, wouldn't you prefer most of our major infrastructure to be owned by Australians rather than by people overseas? The Canadian pension funds have spent a lot of time, money and effort buying up our infrastructure assets. In fact, we're very happy to talk to the government about buying the port of Darwin, if you're interested in having a conversation.

Mr FALINSKI: I knew you were going to try to sell me something before the end of this!

CHAIR: Alright, Mr Falinski. I'm sorry, but we're going to have to end it there.

Mr FALINSKI: My final question is: yes, I am interested in that—

Mr Elia: Then let's have a discussion.

Mr FALINSKI: But the point is: the Henry review made the point that, despite two decades of compulsory superannuation, our reliance on foreign capital hasn't changed.

Mr Elia: The market has also grown. But I think the sad story is that more and more Australian pension assets are finding their way across the globe. We are effectively a net exporter of capital, these days, and the reason why that's the case is that the opportunities, certainly in the infrastructure field, are not there. So, again, we've put it to government, certainly to state governments, that we'd love the opportunity to work with them to drive greater infrastructure investment in this country, and we stand ready and willing to play our role.

Mr FALINSKI: And so my final—

CHAIR: You've had your final question, Mr Falinski. I have to be fair. Dr Aly or Dr Mulino.

Dr ALY: Thank you, gentlemen, for appearing today. I want to clarify something you said earlier with regard to Mr Falinski's point about two decades of super. I think you said that two decades is not long enough to actually assess it as a complete life cycle of super, particularly considering the low rate as a starting point. Can you confirm that's the point that you made earlier.

Mr Elia: Yes, that's correct, Dr Aly. I think the other point that really needs to be made is that Australians are living longer and are presumably going to have to work a lot longer, well beyond retirement age—we don't have a retirement age per se, but beyond the preservation age as it relates to superannuation. Australians won't have enough for a comfortable retirement. And that's the ultimate question: what type of lifestyle do we want retirees to have? There's an enormous amount of evidence to suggest that the current rate is certainly not enough. Please don't take this the wrong way, but clearly federal parliamentarians have worked out that 15.4 per cent is probably what's required. We've got a legislated arrangement at the moment that will see the SG increase to 12 per cent over the course of the next five years. We're talking about an increase of half a per cent, which works out at about $5 per person, on an average salary of $50,000. There's a quote in *The Australian* today, in an article by Adam Creighton, from a member who talks about the $5. He says he won't feel it; it will probably be a little bit meaningless in terms of his daily pay packet, but it will certainly mean a hell of a lot in terms of his ultimate retirement benefit. That comes back to the benefits of compounding over the long term.

Dr ALY: I want to talk a little bit more about retirement incomes. You mentioned the number of members who accessed the early relief scheme, and you said that you would normally pay out around 3,000 hardship payments. Have those 3,000 been absorbed into people accessing the early release scheme?

Mr Elia: That's a good question. I don't know the answer. Perhaps one of my colleagues can respond to that. The numbers that I've provided to you have been entirely related to the government's early release scheme, and that obviously incorporates a whole set of new rules. It is a lessening of the previous hardship requirements, which I alluded to. Paul or Norlena may want to add to that.

Mrs Brouwer: I can add to that if you like. We have done the modelling on the hardship claims over the last financial year. We've had 3,000 hardship claims, and that number is separate to the early release numbers. So we're still averaging the same number of hardship claims, and they are the ones that are required to receive 26 consecutive weeks of government payment. The eligibility criteria are higher than for the early release scheme payments, and we have received just over 3,000 of them in the last financial year.

Dr ALY: Just to be clear: are those 3,000 people who didn't qualify for the early release scheme?

Mrs Brouwer: I wouldn't be able to say that they didn't qualify. It's over the last financial year, so it was obviously before the early release scheme was in place as well. It may be not that they didn't qualify but that they applied for hardship through that other avenue. I don't have the numbers. There could potentially be people that have claimed through the hardship avenue and have also claimed early release.

Dr ALY: That's a really interesting point there—that you had 3,000 people who possibly applied for hardship payments before the early release scheme began. Is that an unusually high number?

Mrs Brouwer: We normally average between 2,500 and 3,000, so it is slightly higher than normal. Sometimes we hover closer to 2½ thousand, but this financial year we have received just over 3,000 of them.

Dr ALY: Do your financial advisers or financial planners give advice to people who are using the scheme about the potential impact on their retirement income? Were those who accessed the $10,000 in a year, and the 100,000 members that you said also took out a second application, given full advice about the implications that would have?

Mr Watson: I'm happy to provide a response to that one, if you like. By way of background, earlier this year ASIC provided a safe harbour, or carve-out, for super funds to provide advice specifically on the topic of early release, if members wished to avail themselves of that advice. We took the opportunity to be part of that process, if we had members who wished to get personal advice on that. Our experience has been, though, that very few members have actually asked for personal advice about that. What they have instead sought a lot of is general advice on how the early release scheme works, how the qualifications work and how the interaction between, for instance, the ATO process of the application and the funds release works. So we've provided a lot of general advice to members about how the scheme works.

Where we assess, under the best-interests duty, in terms of personal advice, that someone's query about the ERS extends to other matters that they may require advice on, our triage process will then identify whether there are other limited personal advice requirements that are attached to that. For some members, in our fact-finding discussions with them, that has extended to them taking up more comprehensive advice—where the ERS was just a symptom of a wider challenge that they had, we discerned that broad personal advice may have been in their best interests, and those members have gone forward to take that up. But, in general, the vast majority of advice we've provided to members over the course of the ERS has been general advice on how it actually works as opposed to 'Should I avail myself of it?'

Dr ALY: You were called in front of the royal commission. Is that correct?

Mr Elia: Yes, Dr Aly. I personally appeared.

Dr ALY: But there were no adverse findings against you?

Mr Elia: There were no adverse findings against Hostplus, no.

Dr ALY: Thank you very much. Over to you, Chair.

CHAIR: That is very true, Dr Aly, but they also enjoy appearing before our committee, as they said at the start. That will ensure they get further invitations; don't worry. Ms Hammond or Mr Simmonds?

Ms HAMMOND: Thank you for appearing today. Who are the shareholders of Hostplus?

Mr Elia: The Australian Hotels Association and what's now the United Workers Union.

Ms HAMMOND: I think Mr Falinski asked whether you were shareholders in ISH and ISPT, and I think the answer to that was yes?

Mr Elia: That's correct.

Ms HAMMOND: I've pulled up your annual report from 2019. I can't find it just now, but I think there's a statement in there that more than five per cent of funds given to investment managers includes—there are three of them. Is it IFM that's one of the offshoots of ISH and ISPT?

Mr Elia: ISPT is a separate entity. IFM Investors, IFS, IFS insurance broking and ISA all fall under the ISH umbrella.

Ms HAMMOND: But I think it's more than five per cent of your investment management portfolio that goes to IFM and ISPT?

Mr Elia: I actually thought it was a little bit more than that, but I'm happy to take the numbers you have in front of you.

Ms HAMMOND: I think one of your colleagues wanted to speak then.

Mr Watson: Yes, it's more than that. It's substantially more than five per cent.

Mr Elia: I think it depends on which asset class. Maybe you've looked at a particular asset class, as distinct from the total value of investments that we have with IFM. IFM is not only an infrastructure manager; it is an equity manager for listed equities and it also does private equity and debt. So there's a whole spectrum of asset classes which IFM effectively invests in on behalf of industry funds and other funds globally.

Ms HAMMOND: You pay an investment fee—is that what it's called?

Mr Elia: Yes, we pay them an investment fee.

Ms HAMMOND: Perhaps this might need to be taken on notice: how much of an investment fee would be paid to both IFM and ISPT?

Mr Elia: I can share that with you now. We disclose this in our financial statements, in our audited accounts, and I'm happy to read out from our draft accounts—the 2020 financial statement. Hostplus paid IFM investment management fees of $16.9 million this financial year. We paid them $14.6 million in 2019. I've just managed to get the number here: IFM Investors manage a selection of asset classes on our behalf. It includes infrastructure, listed equity, private equity, fixed interest and cash portfolio totalling just over $11 billion.

Ms HAMMOND: Yes, so it's a lot of money. What about ISPT?

Mr Elia: Yes, I'm happy to provide that. They managed just over $2 billion in property on behalf of Hostplus. The investment management fee that we paid last financial year was $6.9 million, and in 2019 it was $6.2 million.

Ms HAMMOND: That's effectively paying them for doing the investment on your behalf—correct?

Mr Elia: That is correct. These are some of the lowest fees in Australia—

Ms HAMMOND: Yes, in your annual report you've got other fees listed which are much higher in terms of percentages; I can see that. But I'm also just curious: as shareholders in ISH, which owns IFM, you're effectively paying a fee to a company which is ultimately part-owned by you anyway?

Mr Elia: That's correct.

Ms HAMMOND: Chair, I'm going to leave it there for now.

CHAIR: That's okay. We'll have questions on notice, if you wish. Dr Mulino.

Dr MULINO: Thanks for coming in to provide evidence today. There's a certain welcoming reliability to this committee, where every time I come back from a break I see yet another set of friendly faces from an industry fund or associated group. So welcome to the cavalcade! How many MySuper products do you have?

Mr Elia: We have one MySuper option.

Dr MULINO: How did that perform on the ASIC traffic-light profile?

Mr Elia: This is the heat maps?

Dr MULINO: Yes.

CHAIR: They're APRA heat maps, not ASIC heat maps.

Dr MULINO: Sorry.

CHAIR: You have to read your talking points more closely, Dr Mulino!

Dr MULINO: It's called memory; that's why it's faulty!

Mr Elia: APRA released its APRA heatmaps earlier on this year and they were still, effectively, working off—Paul, correct me if I'm wrong here. I think the only changes they made were in relation to investment fees as at 31 December. To answer your question, Hostplus has performed impeccably well. I think we might be second, in the top quartile, in relation to our ranking.

Dr MULINO: I was googling this and didn't notice what website I was on. From what I saw—I think I've got the right one—its five-year net investment return is 9.65 per cent and admin fees are very low, at 0.16 per cent, on balances of more than $50,000. Anyway, we can take that on notice. I seem to remember that last time you came you talked about the overall performance of the fund as having been very strong, because you are investing for the long term—in part, because of the demographics of your membership, which makes sense; it's a young demographic and you want to invest for their long term. Is it fair to say that's reflected in the performance of the MySuper product?

Mr Elia: In our long-term investment performance, certainly over five—I think over three years we're second quartile—seven, 10, 15, 20 and 50 years Hostplus is top quartile. I'm happy for Greg to provide you with more detailed information, if you wish.

Dr MULINO: For your demographic it's the long run that counts.

Mr Elia: It's been an extraordinarily well-performed investment option. I should just quickly add that our second largest option is the Indexed Balanced Option. Mr Falinski wouldn't mind me saying this, but it is one of the lowest-cost balanced options in the marketplace, at about six or seven basis points. It actually delivered a positive rate of return—

Mr FALINSKI: If I wanted to get into it, where would I go to buy one of these funds?

CHAIR: It's the most useful question you haven't asked all day, Mr Falinski.

Dr MULINO: Just to clarify, and I think it was partially in jest from Mr Falinski, the blackmail point, I think it's fair to say that this is the point that Greg Combet is making: going from 9.5 to 12 gives you a greater capacity to invest. As you say, it's not like you're not going to invest on 9.5; you're already investing a lot. It's just that, from 9.5 to 12, funds under management will be larger across the board and all of the good things that come from current investments, like employment growth and many other benefits like macroeconomic stability, will be enhanced.

Mr Elia: That's absolutely right. But I also want to emphasise the point that the preservation rules around superannuation are just as critical as the increase in the increase in the SG, and without that certainty it really does make it more difficult for any superannuation fund, and industry funds like Hostplus and others, to invest for the longer term in the unlisted sector, particularly around infrastructure, private equity and property, and we'll change our behaviours accordingly, but I think the country would be a lot poorer for it if that was the case.

Dr MULINO: This is something you might want to take on notice. You've already given us a couple of examples of investments in the medical research area. This is something that came up last time and I explored it a bit with you. I think it was an invest of around a billion dollars in start-ups, innovation and VC equivalent. I would be interested in some case studies or examples, to the extent that that's not commercial-in-confidence, of companies that you have had a material investment in where there has been significant growth in turnover or employment—success stories, if you will. I think that's something of interest to the potential for super funds to invest in innovation.

Mr Elia: We'd be delighted to provide that. We will come back to you on that.

Dr MULINO: You've obviously got a lot of people on your books who have gone down the early release path—as you say, over 387,000, I think, and 110,000 repeats. I think you indicated that it's predominantly a younger demographic that's doing that and a significant number, I think 38,000, had fully emptied their accounts. Are you able to provide an SES breakdown?

Mr Elia: What type of breakdown was that?

Dr MULINO: Socio-economic status—earnings or any measures you have. We're looking at younger people. Do you have a sense of any other kind of characteristics that might be material?

Mr Elia: Yes, I do. In fact, I'm pulling this up as we speak. One of the things that we basically sought to track is where the majority of these claims were coming from—from which suburbs. When I looked at the total number of claims in terms of the where highest number of claims were emanating, we had Melbourne and Sydney as No. 1 and No. 2. We had Auburn, Hurstville, Strathfield, Rockdale, Glenroy—which is where I grew up and where my parents still live—Reservoir, Craigieburn, St Albans, Tarneit and Campsie. I think—

Dr MULINO: This was not practised at all, Mr Falinski. Let's just say: my electorate came up there, and I can guarantee you that was not at all rehearsed. But, anyway, thank you for that. Again, it would be very useful to get a bit of detailed data on that if you would be able to.

CHAIR: He's taken it on notice, Dr Mulino. Mr Simmonds? Mr Simmonds, we don't have you. Can I just ask—

Mr FALINSKI: I can ask some questions.

CHAIR: I know you can, Mr Falinski, but I am going to use the chair's indulgence for one moment. Mr Elia, when an employer transfers money for superannuation into Hostplus for an employee, how long does it take from when the employer presses the buttons, as it were, in its various different software before it arrives into their specific account with Hostplus?

Mr Elia: The day that we receive the money is the day the member receives the value of the fund as of that particular time. So it's on that day. I've got Paul here. He might want to elaborate a little bit more on that.

Mr Watson: Yes.

Mr Elia: Some employers go through various payroll organisations, so it depends on how long it will take for the payroll bureau to forward the money onto Hostplus. We'll get Paul to talk about. I should throw in that we have launched the Hostplus app recently, which basically provides notification to all our members who've downloaded the app—the No. 1 trending financial app on Android—as to when money is received in their account. I think that will deal with a whole series of issues and problems that have previously been ignored around underpayment within the industry. Paul?

Mr Watson: I'll only add to that in terms of the money. As you said, Chair, when the money leaves the employer and arrives at Hostplus, as David said, it pretty much hits the account on the same day or in one business day. In terms of when the employer sends it, that really depends on the cadence of—

CHAIR: I'm not interested in the employer, because that isn't something you can manage. I'm asking about what you can manage. The employer or the payroll system sends it to you. It is allocated to an account straightaway. Because it's a unitised based system can you buy a fraction—

Dr LEIGH: We have people here from AMP. Are you planning on extending—

CHAIR: We're getting there. This is an important one. It's okay Deputy Chair; be calm.

Dr LEIGH: AMP [inaudible] of the royal commission.

CHAIR: We wasted all this time on whether people appeared or didn't appear rather than on questions and making sure young Australians are getting their superannuation respected. I would have thought you'd like that. The money goes into the account, and you purchase a unit. Can you only buy whole units, or can you buy fractional shares of units?

Mr Watson: I'd have to check that with our investment operations team in terms of the fractionalisation. But, effectively, whatever the unit price is relating to the time the money hits the account obviously dictates how many units are purchased for the amount of money.

CHAIR: Let's use a very simple example, because I think this is important. If $1.30 comes in to Hostplus and the cost of a unit is $1, I obviously buy one unit. Do I buy 1.3 units, or do I buy 1 unit and 30 cents is held over until I can add it up to the total of a new unit?

Mr Elia: You get the immediate exposure. So it's 1.3 units if you want to put in it the way that you've described in that example. We strike rates on a daily basis—daily unitised pricing—and you will effectively get the full value of the dollar amounts that you put in.

CHAIR: Okay. Apparently Mr Simmonds is on the call. Are you there, Mr Simmonds? No? Technology has failed us.

Ladies and gentlemen, I'm really glad you've enjoyed appearing before our committee. I know that means you'll welcome future opportunities to appear. By the way, Deputy Chair, just so you know: I had already previously asked for a number of people you were complaining were not appearing before the committee, and this morning I got an agenda for a future hearing, on 23 October, where they have already been scheduled. So, lucky you! And there are a number of other groups that we've requested as well.

Thank you for appearing before the committee today. The committee secretariat will be in touch with you in relation to any matters arising out of today's hearings. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. You have a number of questions on notice that I believe have already been put to you. There may be further questions to come from either me or other committee members. We are running slightly over time, so I will move straight into evidence from AMP and thank everybody from Hostplus for their appearance today. Enjoy the Gold Coast. And for those of you behind the COVID curtain in Melbourne, congratulations on your perseverance.

BOURGUIGNON, Ms Lara, Managing Director, Superannuation, Retirement and Platforms, AMP

DE FERRARI, Mr Francesco, Chief Executive Officer, AMP

[15:11]

CHAIR: Welcome. I remind you that, although the committee does not require you to give evidence under oath, these hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. I invite you to make an opening statement.

Mr De Ferrari: We welcome the opportunity to answer your questions. I recognise that today's hearings are focused on super, but given the recent events there are three topics I'd like to cover: first, the actions we've taken to address recent issues; second, the progress we've made in our superannuation business since we appeared last November; and, finally, the changes in our advice business, including our buyer-of-last-resort scheme.

Let me start by saying that the past few months have been some of the most challenging for me, both personally and professionally, and I know this is the case for many people across our business. The issues debated in public do not reflect AMP's founding purpose or the company I joined and am proud to work for. They do not reflect the company that our employees work hard for every day. As CEO of this company, ultimately I'm responsible for setting the culture—a responsibility I take very seriously. Where harassment occurs, including sexual harassment, I am determined to take action to address the problem. Misconduct of any kind is not acceptable at AMP.

Based on the data I've seen, I do not believe that misconduct is a systemic issue within our business. However, I'm committed to driving a program of initiatives to build a more diverse, inclusive and respectful culture. We are partnering with an external expert, Symmetra, to lead a comprehensive workplace conduct review and improve our leadership capability by using inclusion to drive performance. We've established an inclusion task force that I chair. We've set up an integrity office, and the board has created a culture working group led by our chair, Debra Hazelton. While the feedback I've received from employees about AMP's culture is positive, there are clearly areas that we need to improve, and fixing those areas was my absolute priority.

Superannuation, which is the focus of these hearings, continues to be a critical part of AMP's transformation strategy as we focus on building the best-in-class superannuation business and delivering for our clients. Since the last super hearing we've made significant progress in simplifying our business. Following the completion earlier this year of the AMP Life sale, we now have a single trustee, down from two; two funds, down from seven; two product admin systems, down from nine; and 39 products, down from almost 100. Simplifying the business makes it more competitive and member focused and has allowed us to reduce fees for over 550,000 existing and new members. In addition, we've switched off grandfather commissions early, with the benefit flowing on to members. Simplification is a multiyear undertaking that is designed to deliver better member outcomes.

At a broader level, we've prioritised supporting our clients through the recent economic challenges. We're pleased to participate in the government's response to COVID-19 through the early-release-of-super scheme. To date we have processed over 192,000 requests, and our liquidity remains strong. More widely, we've delivered home loan deferrals and pro bono financial advice to help people weather financial uncertainty, a problem I believe will persist for the foreseeable future and which will continue to have our close attention.

On the subject of advice, in response to a rapidly changing environment and complex industry disruption, we're reshaping our business to make it more sustainable, more professional and more productive. This has required a number of difficult decisions, including resetting AMP's FP BOLR commercial turns. Throughout this process, we've worked hard to support our aligned advisers as we build a more sustainable network of high-quality practices which will ultimately benefit clients. With that, I thank you all and we look forward to taking your questions.

CHAIR: Thank you. I'm going to start with the question that I think is on most people's minds: what the hell is going on over at AMP? We've had a series of issues, clearly all linked to the culture of the organisation, that have not just emerged recently. They have appeared since the royal commission and no doubt before then, but there seem to be ongoing issues. You've given an opening statement which clearly outlines that you're aware of the issues, but I want a much higher degree of confidence about what's happening at board level and management level in terms of cultural change. Can you please step us through what the hell is going on and what you are practically doing and how you are measuring that change.

Mr De Ferrari: Thank you for the question. Ever since I started, a little over 18 months ago, we've embarked on a pretty profound transformation journey in this company. I've always said that half the transformation is fixing our business model and the other half is becoming a more agile business and effectively improving our culture. I must say that, on joining AMP, having worked at many other large incorporates, this culture always felt different. It's true to its purpose of being a friend in uncertain times and it really felt more like a family. There are many parts of our culture that I and the rest of our employees are really proud of, but clearly the events of the past few weeks—which again let me apologise for—have pointed out that there are many things that we need to fix.

This starts with a strong commitment from the board and our new chair, Debra Hazelton. She set up immediately a board working group and brought in Oliver Wyman to help set board beliefs and set the tone from the top. We have set up an integrity office, elevating our whistleblowing program, and have created a consequence management committee to ensure fair endeavours for presentation when taking consequence decisions. We immediately set up an inclusion task force, which I chair, which has diverse representation across the business and is really getting grassroots, bottom-up suggestions as to how we move the company forward. As we announced this morning, we have an external expert, Symmetra, that is going to conduct a review of conduct in the workplace and see if our process, governance and procedures are fit for purpose. Ultimately we announced also today that we are going to go through an intensive investment in inclusive leadership, which begins with the executive committee and then is going to flow through the rest of the organisation. So we've taken a number of significant actions. We can't really change the past. What we can change is to determine how we move forward from here. Debra and the board and I and the rest of the executive team are very determined to make sure that we build a culture that everybody can be proud of.

CHAIR: Just to pick up on that: you're saying to me that, within the culture of the organisation, it's a family and everybody is happy, and then I pick up just about any day the *Financial Review* or another newspaper and read something entirely different. There are pushes from people, from authorised financial representatives from AMP Financial Planning, who want to bring class actions against you. I just don't understand where this discordance between what you say and what is clearly happening is occurring. And culture isn't just about setting up processes; it's how you are practically measuring it, because it is obviously a journey. Most people would say, in terms of managing culture, it isn't over in a day or that it changes because you implement a new process or put new personnel in positions of responsibility. It's an ongoing process. I don't feel like I've got answers to that.

Mr De Ferrari: Clearly the issues that you see in the press are very distressing, and are clearly not acceptable, but I really don't believe they are reflective of our wider culture at AMP. From the data I've seen, and we've submitted some to the committee, I don't believe that AMP's issues are significantly different from a lot of the issues that are present in a lot of large corporates. If we go to your question about the financial advisors, we are clearly, as part of our transformation program, heading into a series of pretty challenging decisions, and we are always trying to balance the interest of all stakeholders as we navigate through these decisions.

In terms of the measurement of our culture, since COVID we have been measuring the pulse of our employees with monthly surveys. We had identified, early in the year, five key actions, which I believe I covered in the last committee, for things that we want to materially improve, including people feeling safe to escalate issues. It's the upgrading of the whistleblowing program. It's the integrity officer that we've set up. But we do measure it on a monthly basis, in terms of employee satisfaction and on specific questions related to the key areas we want to address. This is something that, for every manager, gets measured at an executive committee level and also flows up to the board in their tracking as to how we proceed on these key cultural topics.

CHAIR: I've had a number of authorised representatives of AMP Financial Planning write to me with specific concerns, and I know that committee members have as well, around how they're being treated by AMP. There have been allegations of breaking of contracts with no compensation and the disruptions to their businesses and their professional lives. How do you respond to these allegations?

Mr De Ferrari: I appreciate that the advice industry is going through very, very challenging disruptions. This started with FoFA in 2012 and 2013, with the royal commission and the issues that emerged there, and ultimately with a very lively topic, which is the cessation of grandfathered commissions on which a number of practices relied. We are working together with our aligned practices to accompany them in this disruption. We offer, for example, a buyer of last resort mechanism. As one of the few players in the industry that in effect offer this facility, we have had to adapt the commercial terms of our buyer of last resort for one of our licensees, because the terms were simply outside of what was commercially sustainable and not reflective of market conditions. As I mentioned in my opening speech, in the AMP FP licensee, we had a multiple of four times revenues. That is significantly higher than the current market practice, and significantly higher than the multiples we have in our two other core licensees of Charter and Hillross.

Ultimately, we run an aligned advice practice and we partner with people who are entrepreneurs. We are very focused on making sure that, as they take decisions related to our business, the clients continue to get served.

Now the standard process that normally a practice would go through would be a succession from within the practice to ensure continuity of service. The second normal practice, if a practice cannot guarantee that, is that the practice owner would be selling to another practice. The buyer of last resort is precisely that. It is a last-resort offer to help or advise practices when they cannot pursue any of these other avenues.

CHAIR: Just for clarity, the allegation is that you've broken contracts. Have you broken contracts?

Mr De Ferrari: We are confident that we fulfilled our consultation obligations and that it was our legal right to be able to adapt the commercial—

CHAIR: All right, let's get past it then. What is legal and what may be ethically right can be different things. Do you believe what you've done is ethically right?

Mr De Ferrari: I fundamentally believe so.

CHAIR: You fundamentally believe so, but do you think there's a difference between ethics and law—what's legally right?

Mr De Ferrari: We continually ask ourselves: 'Do we have the right to do so and should we do so?' I believe that paying four times revenue for a practice where we then, on average, sell these practices—we don't hold these practices for ourselves. We sell the books on to other practices. Typically, we sell them, over the last year at a little less than two times revenue. Buying them at four and selling them on at two was really not commercially sustainable. I appreciate that this is a tough choice, and that's why we are working together with our line practices to try to accompany them in this process, but again, we're one of the few players in the industry who offer this facility and this support.

CHAIR: Only because of the need for a number of members to ask questions, I'll hand over to the deputy chair.

Dr LEIGH: Thanks, very much, Chair. I hope that during this particular segment we can go a little longer. I think there's a high priority to hear from AMP for at least—

CHAIR: Stop wasting time, Deputy Chair, and ask you questions if you want.

Dr LEIGH: CBUS for the full scheduled hour. Mr De Ferrari, does AMP regret declaring in relation to the Boe Pahari scandal that many of the claims were not substantiated by the external investigation in Julia Szlakowski's complaint, given that the documents produced by the investigation show that the alleged behaviour was not disputed?

Mr De Ferrari: First of all, let me start by apologising to Ms Szlakowski, to our wider employees and to our clients for the distress caused by these events over the last period. We have always taken this matter very seriously. It was thoroughly investigated at the time, in 2017. It was investigated by a QC who specialised in labour and employment law. The QC investigated the full allegations that Ms Szlakowski's put forward and reached a conclusion that, effectively, there was one moderate and two minor incidents of harassment overall, leading to a modest breach. There were consequences applied at the time, in 2017, and we believe that fair and due process was followed at the time.

Dr LEIGH: You haven't answered my question. Do you regret saying that many of the claims were not substantiated, when the investigation showed the behaviour wasn't disputed by Mr Pahari or by the independent investigator?

Mr De Ferrari: There were a number of allegations put forward. Three were found to be substantiated; the others weren't. That's what the independent report produced. I was not present here and nor was the board. There was a fair and due process followed at the time, and we have to trust that that process was properly conducted.

Dr LEIGH: Is it appropriate to investigate allegations of harassment as discrete events rather than as a broader pattern of unwarranted behaviour?

Mr De Ferrari: The report looked at all the discrete events as a whole and came to an overall conclusion. That is what then determined the consequences to be applied in this case. Again, we've taken the matter seriously. It was absolutely not acceptable, but it was dealt with through a fair and due process at the time.

Dr LEIGH: What do you believe to be minor, moderate or severe harassments? How do you define those terms?

Mr De Ferrari: Listen, it was not up to me to define them. Again, I was not present at the time. There was a queen's counsel who specialised in labour and employment law who reached those conclusions.

Dr LEIGH: Do you think AMP's statements describing Mr Pahari is conduct as 'lower-level' have damaged Ms Szlakowski's standing with institutions in the broader financial sector?

Mr De Ferrari: Again, let me apologise to Ms Szlakowski. These are very complicated matters to deal with, because we need to deal with them respecting the privacy and confidentiality of all the people involved. We really deeply regretted the incident. The board and Mr Pahari apologised. We offered to publish the full report but were not provided consent. The matter was dealt with at the time. We recognised in listening to feedback from our employees and from clients and shareholders that the decision did not meet the overall expectations. We have taken actions and pretty significant action as a company, and I'm very determined to be focused on moving the business forward from here.

Dr LEIGH: What was the financial penalty lodged against Mr Pahari over the breach of AMP's code?

Mr De Ferrari: Again, there was speculation in the media, but as you can imagine, this information is private and confidential.

Dr LEIGH: You don't think there is a broader public dimension to the financial penalty, given the impact that this case has had on the financial sector more broadly?

Mr De Ferrari: This is a very important topic. First, I would say the consequences applied were not just financial in nature. There was training, there was commitment to diversity and inclusion and there were a number of other coaching aspects that were included in the package of consequences. How much transparency to give these events is an important debate. If I look at the national inquiry into sexual harassment that was published in February, there is a clear need to promote awareness to hold accountability and to have more transparency, but as Commissioner Kate Jenkins mentioned, we need to do that while trying to avoid the risks and the harms that this reporting might cause the victims, but also whether or not it undermines fair procedural fairness with respect to the harasser. It is a complex topic as to how to deal with these matters, in terms of how much transparency to ultimately provide. One thing that is very important to me is that I need to ensure in running this company that I can provide a safe environment for all our employees to escalate any type of issues they have. They need to have the confidence that these issues will be dealt with by people who have appropriate training, who are able to conduct investigations, reach determinations, define consequences and all with respect to the privacy and confidentiality that many of these matters deserve.

Dr LEIGH: Let's go to that issue of transparency. Your chief risk officer, Phil Pakes, has warned staff not to leak to the media. Do you believe that it is appropriate to threaten staff with dismissal, given that the Corporations Act allows for whistleblowers to make disclosures to the press or to politicians?

Mr De Ferrari: I believe that was not the content of Mr Pakes's email. I believe it was around our tightening of our electronic communications policy and the fact that we as a company need to preserve the integrity of our clients and our data and cannot have confidential documents being sent outside the company domain, because that would be a breach of the law.

Dr LEIGH: What about the whistleblower exception?

Mr De Ferrari: The whistleblowers are absolutely protected under legislation. We take those protections very seriously. We have significantly upgraded our whistleblowing office. We have elevated this into a group integrity office, and we have very capable and trained people running our integrity office.

Dr LEIGH: Last time you were before this committee we spoke about the accounts that AMP has set up for people who were wronged by the fees-for-no-service scandal. Those accounts are now being charged fees. In other words, people are being charged fees on their remediation for fees-for-no-service. How many of those 25,000 or so remediated accounts are in the highest fee bracket for the product?

Mr De Ferrari: I believe you're referring to the eligible rollover fund?

Dr LEIGH: Yes.

Mr De Ferrari: We are remediating in an eligible rollover fund where we cannot find the client and therefore cannot give money directly back to the client, and where the fee-for-no-service incident happened in the context of superannuation, because that is where legislation—you need to put it into the same tax environment. In June we had about a billion dollars in our ERF, with 91,000 clients for an average balance of $11,000 per client. Our ERF is a little different, as we mentioned last time, than all the other ERFs across the industry. It is a product that is capital guaranteed and that works with a crediting rate, so it is actually more of an insurance-type product. The crediting rate for an average balance of $11,000 is currently 1.65 per cent, and that is net of all fees and charges; there are no entry or exit fees, so the client receives a net crediting rate of 1.65. We have this type of product that's capital guaranteed, so the client cannot lose the money, because we believe we're just safekeeping this money and should not be investing it according to a profile, when we do not have client instructions. The process is just warehousing and protecting this money as much as possible, to be able to then to reunite it. Obviously, we've been then transferring these balances to the ATO in the six months, which happens on a regular basis.

Dr LEIGH: Let's take those numbers then. We've got 25,000 accounts. You said that the average balance in those remediation accounts is smaller. Let's assume it's not 11,000; let's be quite conservative and assume those balances are only $2,500. You say you're charging 1.65 per cent. I calculate that as being about a million dollars a year that you're earning from fees on accounts that were meant to be remediating people who copped fees-for-no-service. Does that seem fair to you?

Mr De Ferrari: Sorry, maybe I haven't explained myself properly. The crediting rate of 1.65 per cent is what the client receives as investment income on their balance, net of all the fees.

Dr LEIGH: So what are the fees? What's the fee percentage then?

Mr De Ferrari: I don't have it from memory. Do you know, Lara?

Ms Bourguignon: No. We could take that on notice.

CHAIR: You can take that on notice. Deputy Chair, just so you know: you've now matched the time that I've had—in fact, more—but Mr Falinski is prepared to offer you some of his time so that you can continue.

Mr FALINSKI: [inaudible]

Dr LEIGH: I won't stretch the friendship too far!

Mr FALINSKI: No, stretch as much as you like!

Dr LEIGH: In terms of the sale of books by independent financial planners, you said you are selling them at four times annual revenues. Isn't industry standard valuation for such client books 2.5 times annual revenues?

Mr De Ferrari: What I mentioned is our previous commercial terms on one of our three licensees was four times annual revenues. In the announcement that we made on 8 August of last year, we brought this multiple to 2½ times, which, from the data that we have—and we've done hundreds of transactions—is still above the market going rate. And this is 2½ times revenue. Today, if you buy an accounting practice, I'm told you actually can buy for one times revenue, just to give you a comparison.

Dr LEIGH: Could a financial planner obtain finance from another financial institution at the rate of four times annual revenue?

Mr De Ferrari: We have our own practice finance with our bank. I would need to check with the team if a financial planner can actually obtain loans from other financial institutions. Again, the buyer of last resort is really a last resort; it is not the preferred option for us. Natural succession within the practice and continuity of client service is by far the ultimate objective here so we can guarantee that clients continue to get the service with the trusted advisers that they know.

Dr LEIGH: Did AMP provide any advice to AMP financial planners that they were considering reducing the book value when they were obtaining finance for AMP at the four times rate?

Mr De Ferrari: We were confident that we fulfilled our consultation obligations as part of the change of the conditions.

Dr LEIGH: And to my specific question?

Mr De Ferrari: I thought your question was, 'Did we consult?' Yes, we have fulfilled our consulting obligations.

Dr LEIGH: My question, though, is about the advice that was provided to AMP financial planners. Did you provide advice that you were considering reducing the book value?

Mr De Ferrari: As we looked to change the commercial terms, our contract allows us the possibility to realign commercial terms to market practice and has consultation obligations which, as I said, we believe we absolutely fulfilled.

Dr LEIGH: Chair, let me pause there. I've got a lot more, but Mr Falinski was very generous in giving me that extra time.

CHAIR: Troublemaker Falinski.

Mr FALINSKI: I'm happy to yield my time to Dr Leigh.

CHAIR: Okay, you have a couple more minutes, Dr Leigh.

Dr LEIGH: Let's go back to those eligible rollover fund accounts, then. Did you consider waiving the fees, given that these were fees-for-no-service remediation? Wouldn't it have been appropriate just to waive the fees on them and not have this issue of charging fees on remediation?

Mr De Ferrari: We are managing the accounts of the clients. Again, the client gets a net crediting rate, net of all the fees. Capital guaranteed can never go beyond the capital that has been put in there as part of remediation. The client gets a crediting rate of 1.65 net of all the fees. That's capital guaranteed, so it actually compares very favourably, both versus what you could get on a bank account and what you can get in terms of CPI with ATO, which are the two alternatives.

Dr LEIGH: I'm not sure CPI in the current environment is something we ought to be patting ourselves on the back for. Why do you think there are still 25,000 people with these accounts? Could it be that you haven't put in enough endeavours to connect people with that money?

Mr De Ferrari: Our clear first priority as we seek to remediate clients is to get the money directly back to them. Absolutely. Being a very large superannuation player with millions of members, sometimes it is really hard to get in touch with them. We have remediated hundreds of thousands of clients.

Ms Bourguignon: I think, Dr Leigh, it's a small point of clarification, but the eligible rollover fund is actually part of the Life company that AMP Group sold at 30 June. So now the eligible rollover fund is actually run by Resolution Life, not AMP Australia.

Dr LEIGH: Could you take on notice to provide me with the annual fees that AMP is making from those accounts?

Ms Bourguignon: Yes.

Mr De Ferrari: We definitely can.

Dr LEIGH: Do you think my ballpark of a million dollars a year is about right?

Mr De Ferrari: We'd have to look at the numbers. I don't want to provide something that's not correct, so we will come back to you on that.

Dr LEIGH: With 25,000 accounts, it's hard for me to see how you'd be making much less than a million a year.

Ms Bourguignon: We can confirm for you.

Dr LEIGH: Alright.

Ms Bourguignon: We're very supportive of the government's intent to allow the trustee to transfer these amounts directly to the ATO to reunite that money with members and their current active accounts. So we welcome those changes.

CHAIR: Deputy Chair, I'm sorry—I've now given you two members' time. Ms Hammond, do you have any questions?

Ms HAMMOND: Yes. I just have one, and it's picking up on something that you, Chair, and the deputy chair have raised, and it's in relation to the financial advisers and the businesses. You said earlier on that you ask yourself the question: 'Is it legal?' and then you ask the separate question: 'Should we do it?' Like all other members, I've been contacted by a number of AMP planners who've been hit by your decision, and I just want to read this and ask you that question again: 'Should we do it?'

This is what was sent to me: 'I've been running a financial planning business for over two decades. I employ five people. There are many small businesses, including mine, which bought into AMP—a closed market where AMP set the price and finance the purchase through AMP Bank. They control who can buy, sell and value the business. After 21 years of service to AMP, three months after they knew they were buying my business and three months before settlement, they unilaterally changed our contract. AMP's egregious action devalued my business by over 50 per cent. The outcome of this: instead of leaving AMP with a business valuation, AMP have put me into a position where I have to pay AMP to leave, so that AMP then take the asset that I built at no cost to them. Obviously this action by AMP will obliterate my personal financial position, causing long-term harm to my family's health and future. This particular adviser also told me that, three months before the 8 August announcement, AMP tried to sell additional books to him at four times the cost, and, three months later, it was reduced to the 2.5.' With this evidence, can I put to you—whether it's legal or not—that question: 'Should we do it?'

Mr De Ferrari: I hear very clearly, and this is obviously a very challenging case—

Ms HAMMOND: I don't think it's the only one.

Mr De Ferrari: No, no, and I understand. There are two topics here, I think. One is: do we need to ensure that we have market conditions in our commercial terms, given everything I described about how BOLR runs? Absolutely. Is there an issue with people and financial advice practices that had already put in their notice to sell their business back? I also fully recognise that. That's why we are working with all the practices that had put in the notices before we had changed the commercial terms and are working with them—because, you can expect, every case is different—on finding individual solutions to each one of those cases.

Ms HAMMOND: Well, I'd put it to you that, given the feedback that all of us have received, perhaps you need to be a little bit more proactive and a little bit quicker in contacting these advisers, because there are many out there who—yes, you might get to them at some point in time, but the harm that's being done to them, mentally and emotionally, if they have to wait for that is unconscionable.

Mr De Ferrari: No, we recognise that, and the advice industry is going through a really significant and challenging disruption, given everything I've said. Grandfathering commissions is also a further disruption. So we are really working with them to try to tailor individualised solutions because, as you can appreciate, each one of these cases is going to be different.

Ms HAMMOND: Yes. I'll just come back to the overall starting point—the culture of AMP. I do implore you to actually make personal contact with all of these people. It is a sign of culture within an organisation—whether you're reaching out to people. The fact is that people do think that they've been put out on a limb, and yet you're saying that you are trying to work with all of them. The fact that they're still out there thinking that they've been left out is a sign that perhaps goes back to the root of the cultural problems we were talking about earlier. But I'll leave it there, thank you, Chair.

CHAIR: Dr Aly or Dr Mulino—who wants to go first? Dr Aly.

Dr ALY: You stated in your opening remarks that, based on feedback that you've had from employees, you don't believe you have a cultural problem. Given the history of your organisation, are you really that confident that employees are going to disclose their grievances through an internal process?

Mr De Ferrari: I believe what I said is that, based on the data that I have seen, I do not believe that misconduct is a systemic issue within our business. Clearly, as I said in reply to some of the questions, it is of paramount importance to me that we can ensure we have a safe environment where people are free to escalate issues and speak out. We've significantly strengthened our whistleblowing program; honestly, I believe it works very well. In the last survey approximately three-quarters of our employees said, 'I really feel confident that I'm working in an environment where it is safe for me to speak out.' That compares with a best global benchmark of 82 per cent. We clearly have more work to do to ensure that we can effectively create a safer organisation. The concept of speaking up, linked to conduct issues, strengthening the processes and procedures and making sure that employees feel safe to speak up, is very important—just as important is the issue of prevention.

So how do we build a culture where you don't need to go to HR or the whistleblowing office but can effectively count on your colleagues and your manager to call out unacceptable behaviour on the spot? That's ultimately where we need to get to, and that's why we committed, in the announcement this morning, to investing significantly in training first all our leaders and then all our employees on how to have an inclusive culture. That's important for the issues that have emerged. But it is very critical in this COVID environment, where we have a large part of the workforce working from home and a few working in the office—the possibility of feeling excluded in an environment like that is front and centre of my mind. I think this will be really important for us as a company, to ensure that we can run a company where everybody brings their best to work and can contribute to their maximum potential.

Dr ALY: I agree with you about the objective of changing culture. However, I would caution you on relying on feedback from surveys—particularly surveys that are done in-house and particularly where an organisation has a history of people not feeling comfortable airing their grievances. On that, I want to stress with you the importance of ensuring that there are processes—that it's about not just changing culture but also ensuring that people have processes. Do you have contact officers within your organisation that are fully trained in how to take a complaint, how to keep that complaint fully confidential and how to escalate a complaint, and do you advise all your staff that there are external avenues for complaints—that they do not have to go through the internal process?

Mr De Ferrari: Thank you for the question. We are very mindful, just generally in the COVID environment, that this has a significant impact, potentially, on the wellbeing of our employees. We tell people that they can escalate to their manager, to HR or anonymously to the whistleblowing office, but we also highlight the external channels that they can use.

Dr ALY: What are the external channels that you offer them?

Mr De Ferrari: There is sort of an anonymous whistleblowing service that is being offered. We currently have, from memory, 21 employees who are trained to professionally take these types of complaints and handle them according to the proper processes and procedures.

Ms Bourguignon: That's right.

Dr ALY: Who do you have training them?

Mr De Ferrari: I would need to come back to you on who exactly has been training them and their accreditation.

Dr ALY: Are they also trained on bullying and harassment and discrimination?

Mr De Ferrari: They're trained on taking complaints around wider conduct issues in the workplace. I can come back to you as to who has provided the training for them.

Dr ALY: Yes, and could you also come back with the kind of advice that you provide your employees about external options for making a complaint if they do not want to use your internal processes and procedures, please.

Mr De Ferrari: Yes.

Dr ALY: Are you currently advertising for financial advisers?

Mr De Ferrari: I do not know the answer to that question.

Dr ALY: Among the emails that I have received and that other members have received is a claim that you are currently advertising for financial advisers on your website. You don't know the answer to that one.

Mr De Ferrari: I would need to come back to you. Our key focus currently with our advice business is to make sure that we work through a remediation, that we define how to set-up an advice business that is fit for the future where we can provide accessible, professional and compliant advice to more clients. We're working significantly on improving technology and migrating our clients to annual agreements. As part of our network reshape, you have seen the number of our advisers effectively come down, and that's part of a company—

Dr ALY: By how many? How many practices have you terminated?

Mr De Ferrari: Over what period? I think last year, from memory, in 2019, we had roughly 440 advisers that left our network. I don't know off the top of my head. I think there were probably a couple hundred more in the first six months of this year. We report on this in our investor report in detail.

CHAIR: To aid Dr Aly and Mr De Ferrari, I've gone to the AMP website and you are hiring four financial advisers.

Dr ALY: Thank you, Chair. Would you like to make a comment about that, please, Mr De Ferrari?

Mr De Ferrari: I'm sorry, the question is: are we advertising?

Dr ALY: Yes. You're currently advertising to hire financial advisers but you've terminated practices or there have been practices that have left. Would you like to make a comment on that fact?

Mr De Ferrari: In any type of commercial sales force you would always look for renewal. We need to bring in new talent. There are new professional standards that are being applied with FASEA, and so I do not see anything incongruent with the fact that as you try to transform an industry you bring in fresh new talent as some of the older practices effectively leave the industry—or maybe I missed the point of your question. It seems to you strange that—

Dr ALY: My question is based on communications that I and other members of the committee have had from people who've had their practices terminated by AMP. How many have you terminated? And, if you've terminated however many that is, why are you now advertising for new ones?

Mr De Ferrari: I guess it's because, in terms of a commercial network, you are always looking to bring on new resources. It would be the same with employees: the fact that we actually have employees leaving the company doesn't mean that we shouldn't be out there in the market hiring new ones.

Dr ALY: But I wouldn't terminate an employee if they were doing a good job and then advertise for a new one. Would you?

Mr De Ferrari: No. But, when we were looking at the reshaped program for our advice business, we looked at, scanned and analysed all the different practices—how they meet professional standards, how they meet compliance and how they are running a sustainable practice. Some of these practices are not sustainable. For us, it's an issue of giving people a choice. We have given people lots of different avenues. They can sell the business back to us. They can go and join a competitor or a different practice. They can merge with another practice within our own network. We have proposed a whole series of options and solutions for them to choose from.

Dr ALY: For those who are unable to undertake those options, like those in the case that Ms Hammond read out—those who have invested their lives into their business—what are you offering them?

Mr De Ferrari: The options are, firstly, you can merge with another practice. Typically, the way we're looking at this, in terms of sustainability, is that practices that are made up of one or two advisers will, in my humble opinion, not be able to survive this industry disruption. This has been my experience. I have seen it in a number of other countries. The compliance standard, the need to invest in technology, the education standard and all the disruption that's coming don't make a one-person practice very sustainable. That's a generalisation, but it's on average. That's why we're saying to people: if you want to continue to do this job, because it's your passion, you can try to merge with another practice, you can sell your book back to us, and we will then onsell it to somebody else, or you can find a new home if you want to continue this by yourself. We've given them all the options possible.

Dr ALY: Chair, you are fidgeting in your seat, so that means my time is up! Thank you very much, Chair. I'll leave it there.

CHAIR: I'm just mindful of other members having their chance, Dr Aly. Dr Mulino?

Dr MULINO: I want to start with some comments you made on, I think, 13 August that the appointment of Alex Wade was your responsibility. What role did you play in his appointment?

Mr De Ferrari: The appointment of anybody who reports to me within the executive team is ultimately my responsibility as CEO of the company.

Dr MULINO: Right. But you'd obviously had a close relationship with him from a previous working role. I'm wondering: did his appointment go through the standard processes—going through all the usual hoops and checking all of the references—or was it a slightly abbreviated process because you already knew him quite well? I'm curious as to what the process was there.

Mr De Ferrari: Everybody we hire goes through a standard process. I reflected in my comment that I am ultimately accountable for appointing people who are my direct reports. Obviously, anybody who I would appoint as a direct report also has oversight of the board in the checks and balances system.

Dr MULINO: I am also wondering: was that in part a reflection of you looking back on that appointment and thinking that perhaps it reflected on your judgement or on the way in which the organisation had managed to or not managed to change its culture successfully?

Mr De Ferrari: I'm not sure I understood the question, but, for me, when I looked at some of the challenges that we were facing in our wealth business in Australia, Alex really had a lot of relevant experience from having done this in a number of other countries. But he had also run Credit Suisse's business in Australia very, very successfully and had delivered what we are working on, which is this whole-of-wealth approach for Australian business. Now we have Blair Vernon, who stepped in as the interim CEO, who is extremely capable, and he was running our New Zealand business. We have, with Lara and the rest of the team, a really strong executive team. We have a clearer strategy, so we're very focused on continuing that implementation.

Dr MULINO: Okay. I'm conscious of the time. I've just got a couple of questions on MySuper accounts. When I look at the APRA heat map, you've got 15 products, as far as I can tell. We've had two super funds appear before us already; they had one each. I know you've already stated that you're simplifying the business, but is 15 too many, in your view, and what are you aiming for?

Ms Bourguignon: I might take that one, Dr Mulino. Recognising that the APRA heat maps, particularly for investment performance, are now almost 12 months old, we now have—through our simplification and separation program and the sale of the life company—one generic MySuper product and we have six tailored MySuper products for some of our large employer plans. I think, moving forward, to the extent that we can simplify further in the MySuper context, we will. But, being a retail financial services organisation, only about a third of our assets are in the default environment; two-thirds are in the choice environment.

Dr MULINO: That's useful context, thank you. The other comment I was going to make is that there is, to be blunt, a sea of amber and red there. There were four products which had 'red' performance and 'amber' fees, some of them 1.2 per cent. Four of them were over one per cent and 'red' on fees. It would be very interesting if you could provide us with an update on current performance of the more aggregated MySuper product.

My last question is really a supplementary comment to some of the questions Dr Leigh raised earlier about the fee-for-no-service ERF account. I just wanted to stress something for the feedback that you're going to provide to us. You've said that it outperforms CPI and that it's a low return but it's capital protected. My response would be that you're still earning fees on it and, basically, however long it takes to find the person, it's not costing you anything, but the opportunity cost for the person is racking up. I would respectfully suggest that you should be erring on the side of the more generous benchmark, which is that the person you're trying to find should be getting a reasonable rate of return, no matter how long it takes you to find them, even if that costs you a bit. The way things are currently set up, it is true to say they're getting a low rate of return because you're protecting their capital, but you're charging the appropriate fees for that, so it's costing you nothing to take longer to find them—and yet this is a set of accounts that has been set up entirely due to misbehaviour on AMP's part. So I guess I would like reflected in your response to us why a different benchmark isn't more appropriate, even if it costs you.

Mr De Ferrari: That is a very fair question. I don't think it's an issue of cost, Dr Mulino. If we don't know the client—and, effectively, cannot reach out to them—and their investment style and their investment preference, we would be making decisions on how to invest their money that might not be particularly suited to their circumstances. That's why we really welcome the government's intervention to be able to transfer this money directly to the ATO so that it can be reunited with the client more efficiently. We definitely make every effort to send the money directly back to the client, where we can find them.

Dr MULINO: Okay. Thank you, Chair.

CHAIR: There you go; the coalition government saves the day again! Dr Leigh, you had one final question?

Dr MULINO: I think the link's gone.

CHAIR: Okay. The record shows that I did go back to him. Thank you for appearing before the committee today. The committee secretary will be in touch with you in relation to any matters arising out of today's hearing. You will be sent a copy of the transcript of your evidence, to which you may make corrections of grammar and fact. I know Dr Aly has questions to put on notice. I may have some as well. Dr Leigh may have the one he wasn't able to submit because he froze or something like that. Thank you very much for your appearance.

ARTER, Mr Justin, Chief Executive Officer, Cbus Super

FOK, Mr Kristian, Chief Investment Officer, Cbus Super

Evidence was taken via teleconference—

[16:10]

CHAIR: I welcome representatives from Cbus appearing at today's hearing. Apologies for the delay. I remind you that, although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. I now invite you to make an opening statement.

Mr Arter: Thank you for the opportunity to address the committee. I would like to start by acknowledging the traditional owners of the land that Cbus offices sit on and pay my respects to their elders past, present and emerging.

Cbus is the leading industry super fund for those working in building, construction and other industries that build Australia. Established in 1984 Cbus was Australia's first industry fund at a time when super was only afforded to white-collar professionals. Cbus has been built on a member-centric culture and mission. Today Cbus manages $54 billion on behalf of its 774,000 members. While past performance is not an indicator of future performance, Cbus has been amongst the top-three performing super funds in the country over the past five years. We are one of only a handful of funds to have achieved a positive return in the last financial year. Our average annual return for Cbus's MySuper option over the last 36 years is 8.98 per cent—a relevant point given that super is a long-term investment.

Given the importance of scale to member outcomes, we have a strategy to continue to grow the fund. Our strong brand enables us to pursue organic growth. Our strategy also includes a focus on inorganic growth. We're currently in the process of undertaking due diligence with Media Super in pursuit of a joint venture.

Cbus Property, our property investment and development business, is a wholly owned subsidiary of Cbus. Cbus Property has been very successful. Since its inception in 2006, it has generated annual returns averaging 15.3 per cent a year and created over 100,000 jobs in the building and construction industry. Cbus Property continues to grow a diversified portfolio of high-quality commercial and residential buildings while delivering [inaudible] long-term returns for Cbus members.

Australia's retirement income system, which is underpinned by the principles of compulsion, universality and preservation, is ranked third in the Melbourne Mercer Global Pension Index and is the envy of the world. Super has been a game changer for Cbus members. Our members are now starting to feel the benefits of deferred invested income and compounding interest as they move towards retirement, which on current system settings will look vastly different to that which their parents' generation experienced. We're committed to retaining the policy foundation that underpins the system—compulsion; ensuring members are defaulted into great funds, like Cbus; and preserving savings until retirement.

Cbus members' experience of work and their path to retirement is unique. Our members typically start work and form families earlier. Our members commonly spend time working as independent contractors and many experience periods of unemployment between projects. Most Cbus members don't work full-time for 40 years.

Cbus members are also more likely to experience work-related illness or injury than the general population. Many members experience early, unplanned involuntary retirement and rely on reduced income from part-time work or government payments until they can access their retirement savings. About 40 per cent of Cbus members don't receive all of their superannuation guarantee contributions, due to SG noncompliance. This is around twice the rate of the general population. The cumulative impact of these experiences means that Cbus members retire with significantly lower retirement savings than people in the general population. Implementing the legislated increases in the superannuation guarantee is critical to improving retirement incomes for Cbus members.

Cbus has facilitated more than $2 billion in COVID early release payments to over 248,000 members since the scheme began. Cbus has supported a role for early access to super for members facing financial hardship during the COVID crisis. However, we remain concerned about the long-term reduction of retirement incomes for members, who have typically withdrawn the full $20,000. Future generations will also face a greater fiscal burden in provision of the age pension, which is why we advocate for a return to pre-COVID early release conditions from 1 January 2021.

Importantly, as part of Cbus's efforts to support Australian economic recovery, Cbus has committed over $950 million to Australian businesses through equity raising, debt finance and project financing since March. An extra allocation to the Cbus debt portfolio means Cbus now has a further $850 million in additional capital to invest in companies and project finance. We also continue to make strong, innovative investments in social and affordable housing, another positive contribution Cbus is proud to make. Thank you. Mr Fok and I are happy to take questions from the committee.

CHAIR: Thank you and thank you again for your patience in waiting. I'm just going to go to some of the questions on notice I submitted and answers you've provided, firstly related to the Cbus art collection, which at 30 June was worth $8.3 million, less than 0.02 per cent of the fund's assets, but that's immaterial. The Cbus collection of Australian art is curated by Latrobe Regional Gallery in Victoria. Does that mean all of it is there or is it located elsewhere, including in your offices?

Mr Arter: That's an investment matter relating to our business portfolio, so I'll ask Mr Fok to answer that question.

Mr Fok: The entire collection is curated under that arrangement. We have none of the art collection in any of our offices or [inaudible].

CHAIR: So it's all curated, which means it's all curated at the Latrobe Regional Gallery in Victoria?

Mr Fok: Correct.

CHAIR: I asked a question related to remuneration. There was a request by AustralianSuper, amongst others, that there be a reduction in the remuneration of board members and executive management of various financial institutions. Has Cbus reduced its remuneration in the context of the COVID-19 crisis?

Mr Arter: No, it has not.

CHAIR: Why is that?

Mr Arter: We examined the issue carefully, both at the executive and the board, and I'm sure you're aware, given the difficulties of working under COVID conditions, being a Victorian, that things have been made very difficult, and the workloads on people—we elected not to reduce people's pay.

CHAIR: So you've no reduction, despite the fact that other industry funds are running round telling other financial institutions to do the same?

Mr Arter: [inaudible]

CHAIR: Sorry?

Mr Arter: No.

CHAIR: According to your answer, Cbus hasn't provided any funding or support to the ACTU's Member Connect program. Has it provided any other financial support to the ACTU?

Mr Arter: No.

CHAIR: Marketing, purchasing arrangements et cetera?

Mr Arter: We have a range of partnerships with various employer groups and employee groups. They're looked at particularly on a cost-benefit analysis, Mr Chair—

CHAIR: I am happy with just 'Chair'; it doesn't need to be gendered. It's fine.

Mr Arter: The purpose of these arrangements is to acquire new members for the fund and retain members in the fund. As you've probably gleaned from some of the comments that have gone on throughout today's proceedings, with fund management—indeed industry funds—it's a game of scale and, the more members one has and the larger the assets under management, the more cheaply one is able to buy services. So we look at these partnership arrangements in that context, and there are strict criteria for assessment of all these. They were actually noted in the royal commission and looked upon favourably when they examined them.

CHAIR: What are the other partnership arrangements that Cbus has?

Mr Arter: There are various partnership arrangements with both employer and employee groups. There are many, many of them. I wouldn't have time to nominate them all here.

CHAIR: I will put it on notice and, if you could provide the details of each of them to the committee, that would be fantastic. It would save us time now. I appreciate that. Just out of curiosity, when an employer and/or their representative body—they might use a payroll system—pays money into Cbus on behalf of an employee, what is the time frame between when it is dispersed from the payroll system and it gets counted against the individual's superannuation in the Cbus system?

Mr Arter: It will go in virtually immediately, as fast as we can electronically process. Mr Fok will have some more things to say about that, because the system by which we do that is perhaps different from that of some of the other groups that may have appeared here today.

Mr Fok: Just to be clear, on our administration system we don't use a unitised approach; it's more akin to a bank account, so a bank account balance. When money is allocated, a crediting rate is determined. For the purposes of that individual, once we identify receiving the [inaudible] the crediting rate that applies is consistent with the date at which that amount is received. The crediting rate is determined on a daily basis, so it aggregates and compounds on a daily basis.

CHAIR: With an ordinary bank account, if I send money from my account to your account, it normally gets there within 24 hours. If money is transferred out of the payroll system, would the same also be true—there would be no delay of the receipt at Cbus appearing in an individual's account? There is no clearing house or other mechanism between the payment going from the payroll system and being received in the individual account at the CBUS end?

Mr Fok: There is a clearing house mechanism. It's at the time that we receive the money and that we can reconcile that we've received it. That is the time that, effectively, interest is applied and it's appropriate that that's the case, otherwise you would be using other members' money to pay interest for members coming into the fund where we haven't actually had the benefit of being able to invest that money.

CHAIR: How long does it take for the money to get out of the clearing house and into the account?

Mr Fok: I don't have visibly around the exact time frame. We do meet the requirements, the SIS requirements in terms of time to pay out.

CHAIR: I would have thought you could say that it takes a day, a week, a month, three months.

Mr Fok: It's not months. But the important thing is that—

CHAIR: It's not months, but how long is it then? It is less than 28 days. How many days is it? Could you give me an average or a data point to clarify that? I can't imagine it's that complicated. I'm sure each one comes in with some sort of identifier, so how long does it take to go to that? The holding of money in the tens or hundreds of millions of dollars in a clearing account or clearing house for even a number of days obviously means that money can be accrued by the fund, which is not necessarily going through to the contribution to the individual superannuant.

Mr Fok: We can get back to you on the actual time frames. Once we have the appropriate information around details and so forth, interest is determined right up until the day it's paid, but we can give you that specific information.

CHAIR: What happens if you receive money and you don't know who it's tagged to or identified to?

Mr Fok: That's not my area of expertise. We would need to provide information in relation to that.

CHAIR: You can take that on notice.

Mr Fok: Yes. But, again, where we can match money coming in and the person, then the time that they receive interest will be matched to that date. That is my understanding. But we could come back to you with more fulsome detail on that.

CHAIR: Could you do so, and the extent to which what volume of money is accrued presently that hasn't been met against individual accounts. Also, how long is the average time it then takes to have it back, and what steps does Cbus take to make sure that money is reunited with the proper account? Can you take that on notice?

Mr Fok: I can do that. It would be useful to understand the specifics in terms of time frames and so forth that you are relating to, but we can certainly come back to you on that.

CHAIR: Good. Thank you. I'm referring to an article on a website called Money Management. The title of the article is "New Cbus 'opt out' regime raises eyebrows". It is dated 16 June, 2020. The article states:

Major building industry fund Cbus—

you—

has e-mailed building industry workers informing them that unless they specifically opt-out from doing so, then they will have been taken to have consented to the superannuation fund providing their details to union officials and delegates to pursue unpaid superannuation guarantee contributions.

Is that correct?

Mr Arter: Let me talk to you a little bit about that. As I said in my opening remarks, unpaid super among many of our members is a massive thing. In building and construction, about 40 per cent of workers are consistently underpaid super. To that end, we've created an app and an ability which complies with all the relevant privacy laws, as you could imagine, to enable a member who thinks he or she has been underpaid to make an inquiry onsite using that app. That's what that article refers to. It's fully compliant with all privacy laws.

CHAIR: So what you're saying is: yes, it is true?

Mr Arter: But it's compliant with all privacy laws.

CHAIR: Sure. But you're saying: yes, it is true. There are so many things I have to ask. When people have contacted Cbus about the early withdrawal of superannuation, what advice has Cbus provided to those workers?

Mr Arter: I don't know. I haven't been on the telephone with those workers. But in the main, Chair, people have, as we know, made early release requests from any fund because they're under significant financial pressure. They've usually made that, as we know, through the ATO portal and those devices. In those cases, we've complied, in well over 95 per cent of cases, with the rule that we would release those moneys in five days.

CHAIR: Are there labour hire redundancy funds in the sector?

Mr Arter: There is a building redundancy fund called Incolink, yes.

CHAIR: Have people who have consulted Cbus about their early withdrawal been referred to that fund as an alternative from drawing down from their super?

Mr Arter: I don't know.

CHAIR: Could you do an investigation, for want of a better phrase, to establish whether that has occurred?

Mr Arter: Incolink is a fund in which people who have been made redundant but are not yet permitted to access their superannuation under the normal preservation rules can receive some form of compensation or income. Incolink is a fund which has on its board, as you would imagine, both builder and employee representatives. But I don't run Incolink.

CHAIR: I'm not asking whether you run Incolink or not. I'm asking whether Cbus is referring people there rather than drawing down on their super under the early release scheme.

Mr Arter: I'll make an inquiry on that for you.

CHAIR: I appreciate that. I'd like you to take that on notice.

Dr LEIGH: Thank you, gentlemen, for appearing before the committee today. Did counsel assisting the royal commission make any recommendations for adverse findings against Cbus?

Mr Arter: No, they did not, Dr Leigh.

Dr LEIGH: Did the royal commission's final report make any adverse findings against Cbus?

Mr Arter: No, it did not. In fact, as I said in my opening remarks, it made favourable comment when it perused our partnership arrangements.

Dr LEIGH: So I can't exactly follow up with questions about findings out of the royal commission and how you're going about implementing them, because there are no adverse findings from the royal commission against you. Another example today of a witness being called before our committee against whom adverse findings weren't found. It seems striking to me that this committee is yet to hear from a range of superannuation funds about whom adverse findings were made at the Hayne royal commission. You are the fifth industry fund body today. A day dedicated to focusing on industry funds to continue an ideological attack from the Liberals on superannuation, clearly designed to lead-in to breaking a promise over the legislated increase to the superannuation guarantee. Of the six witnesses today, five are from the industry fund sector, which was by and large given a clean bill of health from the royal commission, as Cbus was.

Given that I can't ask you questions emerging from your conduct in the royal commission, let me instead ask you about the planned increase to 12 per cent. At the moment that is bipartisan, although there's plenty of chatter around that the Liberals may break their promise. What would it mean to one of your members to have the superannuation guarantee increased steadily to 12 per cent by 2025 as is presently legislated?

Mr Arter: Your question there is if that were not implemented?

Dr LEIGH: Yes. If the Liberals break that promise, what does that do to one of your members?

Mr Arter: It's a very adverse outcome for one of our members. We've done a little bit of modelling around a typical member. We think that that number would be at least $7,000 worse off if that were not implemented.

Dr LEIGH: $7,000 in retirement?

Mr Arter: That's right. Their retirement balance.

Dr LEIGH: My colleague Dr Mulino mentioned in his first speech to parliament the beauty of compound interest. How much would that member put in to get that $7,000?

Mr Arter: They'd have to put a lot in. Let me come back to some of the remarks I made in my opening comments about our members and why Cbus feels particularly strong about this. If we can take a member cohort of ours between 25 and 49 years of age, typically when they retire they have 56 per cent of the retirement savings of the general population. If we extend that out to persons aged 65 years, Cbus members retire typically with one-third of the average superannuation retirement balance of the so-called average superannuation member per the APRA statistics. That member is more than twice as likely to still have a mortgage compared to the general population. Of course, that's taking into account the fact that a lot of our members have to retire early due to ill health.

Dr LEIGH: In terms of one of your members who has gone through, as you said, a potentially low-wage job, I'm curious as to the share of your members that would be affected by increasing the superannuation guarantee. Obviously none of the parliamentarians on this call are affected. We're all getting 15.4 per cent superannuation. However, your members are on that base rate and therefore would benefit from the rise in universal superannuation.

Mr Arter: They most certainly would. All of our members would be affected.

Dr LEIGH: Really? So it's essentially the case that none of your members have in place workplace arrangements which guarantee above 12 per cent superannuation at the moment?

Mr Arter: Regrettably, no.

Dr LEIGH: In terms of the impact of superannuation early release, which I guess is the other way in which the Liberals have been looking to undermine superannuation, there has been chatter about extending it and allowing members to continue to take out $10,000 a year. We already know that, as well as being beset by fraud, the scheme has allowed half a million people to take their accounts down to zero. What would be the implication on members' retirement balances if that were continued and members could continue to take out $10,000 a year?

Mr Arter: It would be very adverse. Let me talk about the experience of some who have already removed their entire balance, so there is no balance left now. Of course that's a very bad thing because those people have to rebuild their balance, but there's another worse thing about that now, and that is that that member doesn't have any TPD insurance associated with their account. You will recall in the context of insurance that the government made some changes such that there was no compulsory insurance for younger people or people with a low balance. If we were construction workers, not only would TPD insurance be expensive for us but it would be unobtainable at any price. The reason it is unobtainable at any price is that typically our workers are working at heights in dangerous occupations, and many of them are wondering whether they will go home alive at night. As you can imagine, being able to obtain that insurance at a reasonable price is an essential part of our offer. When our members drain their accounts to zero, that coverage goes away too. We're very anxious that they do maintain a balance with us. The concept of preservation—that is, keeping money in the super system, which has been discussed extensively in the media over the past two or three weeks—is essential to creating a higher balance at retirement. I think I put on record how low some of the balances of our average members are over the full course of their journey with us.

Dr LEIGH: Chair, Mr Falinski was very generous to me in time before, so I want to make sure I stop in time so he's got plenty of time for questions of this witness if he needs it.

CHAIR: I am loving the ecumenical experience that we are currently enjoying. Mr Falinski.

Mr FALINSKI: Thank you, gentlemen, for your evidence today and your appearance before the committee. As a matter of interest, is this your first appearance before a parliamentary committee?

Mr Arter: It is.

Mr FALINSKI: Who manages your equity portfolio of Australian equities?

Mr Arter: We would have many managers of Australian equities but I will defer to Mr Fok to answer that.

Mr Fok: It's a range of managers. We also manage a portion of the Australian equities portfolio internally, in terms of both large caps and small caps. Other names would include Hyperion, and IFN does have a role, if that's what you're alluding to. They manage a portion which is our index component, and it's indexed against the top 50 stocks.

Mr FALINSKI: How do you select your fund hedges? Do you do that through competitive tender or internal processes? Have you always had internal fund managers, or is that a more recent innovation?

Mr Fok: It's a more recent thing that we have been doing. We announced a change in our approach to bring increasing internal asset management capabilities in. We announced that in 2016. It's taken a few years to build in all the operational processes, to hire the people and to have those people come together and get the corporate models around stocks and so forth put in place. [inaudible] portfolios that they run [inaudible] had to be done prior to putting them in place. The reason why we do that is, first and foremost, they have to compete against the external managers—we do have both internal and external—because there's no point in hiring people to save costs and then losing money or not being able to get the same net return. So that's a critical function.

Mr FALINSKI: What prompted you to go down this route in 2016?

Mr Fok: We actually did a holistic strategic review, and that review looked at practices that were occurring in Australia, and we also met with international pension funds as well. The context of the review was thinking about how do we best manage the investments of our members as we [inaudible]. The review was holistic. It's not just about internal management, that's probably the aspect that is most highly talked about, but about increasing the breadth of capability across many areas. One of the things that you would understand around asset management businesses, and it's an unfortunate fact, is that irrespective of the size of money they tend to charge based on a percentage of the assets that they manage. They have a sliding scale, but every marginal dollar they still charge us more. Asset management businesses are some of the most profitable businesses in terms of industries. Typical profit margins are around 30 per cent. For us, and there is a threshold issue, because [inaudible] compliance system. Hopefully I don't get cut off!

CHAIR: Just keep going.

Mr Fok: All that infrastructure has to be put in place. We can put a team in place and they can manage a billion dollars for a fixed cost and then we can increase it to $2 billion, and that extra $1 billion doesn't cost us any more to manage. It's a really important aspect in terms of deriving much better benefits to our members. Amongst other things, including renegotiating external manager fees because we've got more leverage and more options, over the last three years we've reduced our MER, so the investment component of fees, from 0.86 per cent. This year it's now 0.56 per cent. So that 0.3 per cent is equivalent of 150 million [inaudible] so it's really substantial. The other thing is that we have people on the ground talking to companies, trading in cash and fixed income, so during this period where there have been really challenging markets it's given us much greater insight around what's going on in the portfolio and how we might want to allocate across the board. It's not just about the direct investment teams, it's also the increased capability that it brings to the way that we make decisions holistically that has created significant value for our members.

Mr FALINSKI: Thank you very much for that. Do you use proxy advisers?

Mr Fok: We use a range of advisers. In relation to your question, in Australian equities we decide on how we vote. We use ACSI. We also refer to ownership matters and so forth, as well as inputs. And particularly on contentious issues we discuss it with our asset managers. The fact that we also are potentially investing in this space means that we can bring some additional insights around some of these issues which can adversely impact long-term value. For international equities we use Hermes. They vote on our behalf. Again, we will identify issues. Where we have insights, because we do manage international equities directly as well, we talk to them about key issues as well. One of the benefits of that is [inaudible] so many stocks are to cover all of them. At least in the Australian equity space, we wanted to make a commitment to having a more direct say in terms of how we vote on Australian stocks.

Mr FALINSKI: How do you remunerate ownership matters at ACSI?

Mr Fok: I believe it's just a direct fee that we pay annually.

Mr FALINSKI: Is that publicly disclosed?

Mr Fok: I'm not aware if that's the case. We've been very careful about disclosing individual commercial arrangements with service providers, because, as you would expect, we are focused on negotiating the best terms as possible, and sometimes with these things if we get [inaudible] commercial outcome they would not like that to [inaudible] development to others.

Mr FALINSKI: I understand.

CHAIR: Mr Falinski, last question. I'm sorry.

Mr FALINSKI: I might put my other questions on notice. Thank you for your time.

Dr MULINO: Mr Arter and Mr Fok, thank you both for giving evidence today. Mr Arter, I understand that you used to work in BlackRock.

Mr Arter: That's right.

Dr MULINO: A number of questions on notice have been given to funds asking for all sorts of details. We've talked about the art collection today but there have also been a number of questions around remuneration. I don't want to delve into the specifics of your past and current employment, but I'm just wondering whether you have any observations to make around remuneration in the world that you used to be in versus the world that you are in now.

Mr Arter: I have lots of observations on those. The first is that, in the main, as Kristian talked about, many commercial fund managers are very well paid. That's why the business operates at very high margins and that's really why Kristian and his team have insourced that. In fact, that has been a value transfer away from commercial fund managers and their highly paid staff across to members in terms of member returns—a simple value transfer, if you want to see it going from left to right. Clearly that's beneficial to our members, and that's why we did it. Kristian talked about that for a few minutes, so I won't go on about that now.

The second point I would make is that, in the main, the commercial fund management industry is a highly paid industry. I can say that definitively, having worked for the better part of three decades in and around that industry.

Dr MULINO: I think this will be an ongoing discussion point. Some organisations are providing more information than others, and we have some particular data points, but I think it's always important that we look at it in the broader context. I imagine your broader point is spot on: industry funds, on balance, are achieving high returns, risk adjusted. But I wouldn't imagine that they are, on average, paying higher remuneration than some full-profit funds. I just want to—

Mr Arter: I can say that definitively, Dr Mulino.

Dr MULINO: Thank you. How many MySuper products do you have?

Mr Arter: We have one MySuper product. How is that performing on the APRA heat map or any other metrics you might want to refer to?

Mr Arter: It's performing very well. In terms of its individual performance vis-a-vis the market, it is top quartile—and Mr Fok might want to make a comment on that. I'm looking at the figures here to 30 June 2020. The total fee on a $50,000 account is 1.05 per cent. That is rated white, which means there are no issues; that's the best rating you can obtain. It's in the top quartile of performance. Mr Fok might want to talk further about the performance of that product over one, five or 10-plus years.

Mr Fok: In relation to the APRA heat map process, they made it very clear that they don't give green. Certainly, they did look at the MySuper product in terms of the competitive field and also against a risk-adjusted measure. We are very pleased that no matter which way you look at it, whether you adjust for risk or just look at it outright, it continues to be white. That includes the fees that are paid as well. It includes returns, fees and risk.

Dr MULINO: I think they look at five-year returns. It would be great if you could provide some broader context for that product—if that's meaningful given how long it's been in existence. For a lot of members, it's really the longer term returns that are the more meaningful. I asked this of Hostplus and I would have asked it of AMP but I ran out of time—I will ask it of AMP on notice. Do you have a demographic breakdown of early release by age or gender, and do you have any indicators that might indicate socio-economic status?

Mr Arter: I don't have those to hand but would be happy to provide them to you.

Dr MULINO: Thank you. A lot has been made about industry funds and the super sector, in general, investing in infrastructure and the jobs that creates. With Hostplus there was a particular emphasis on innovation, I think, that's possibly greater than most other funds. I'm just interested in your role in affordable and social housing.

Mr Arter: As I said in my opening remarks, that's something we feel very proud to be part of. We did make an announcement about that quite recently. That release went out under Mr Fok's signature so, Kristian, perhaps you'd like to remark on that?

Mr Fok: I think for the private sector to invest in affordable housing it does create challenges, because if you're trying to get an equity return—generally, for affordable housing, you do rely on some kind of support or subsidy arrangement. We found, though, in our work and in partnership with NHFIC that there was an area where we could make a contribution that is differentiated but also has appropriate returns for us, not necessarily a poor value for government and state. One of the areas we identified, particularly with new housing, is that there is an issue around the typical funding model that a bank might have. Typically, what you have is a development loan, and there's a higher return requirement for that, and then you refinance and go into a stable state.

We saw an opportunity there, and this is part of what we've been able to look at from more of a longer-term lender perspective. We were willing to lend not just through the development period but also right through to a period, I think, of 12 years. So we kept it as a continuous loan. By doing that, along with the appropriate mechanisms to make the numbers stack up to secure, from our point of view, repayment of that loan, this scheme that we've worked with NHFIC on is able to increase the amount of funding available to CHPs by [inaudible]. It's a really important and innovative initiative. It's not necessarily something that we have to solely be involved in. We've designed it in a way where you can scale. It can be applied across multiple states. Certainly, though, this is one of the benefits of having an internal team. We don't go out to an adviser that takes a margin. We're the lender, directly, and we work directly with NHFIC and others, so we can do this in an efficient way.

We have money allocated not just for this pilot program but we have an appetite to extend the program further. The program that was announced was—I think it was six sites in New South Wales, and there are discussions around further [inaudible]. I do have to be careful about how much I talk about these things, because with a lot of these things we sign nondisclosure agreements. I'm giving you the basic finance principles around it, but if you want more details I will need to refer back and make sure that I'm not breaching any nondisclosure requirements.

Dr MULINO: This is my last question, and I think it'll be a very quick answer here. Just to clarify, this model you worked up with NHFIC sounds like it's in pilot phase but you think it's scalable. This is a really interesting area for me. I think there's a potential triple bottom line in that it's, potentially, returns for investors, it's fixing a long-term underinvestment across many decades in affordable and social housing, and it's construction jobs. Do you think the model needs more tweaking or are you broadly happy with the model you've just talked about and you think it's now time to scale it up and see if it works at a larger scale?

Mr Fok: It's been designed so we can scale it. The other thing that we tried to do is work with agencies that are already there. These things take [inaudible] off the ground, and I would commend New South Wales because as a state they've been far more open and willing to innovate and test. If we're in the fortunate position that the demand exceeds what we can provide, and we've still got quite a bit of capacity under the program, then other institutional investors—we designed it with a mind that any other institutional investor, even retail funds and so forth, should find an acceptable risk-return trade-off.

Mr Arter: Chair, may I make a correction to something I said earlier in response to a question from Dr Leigh?

CHAIR: You may.

Mr Arter: Dr Leigh asked me how much better off a person would be if the SG rose to 12 per cent from its current level and I said $7,000. I meant to say $7,000 a year.

Dr LEIGH: Wow! That's a big difference. Thank you for sharing that.

CHAIR: So that presumably also means that there would be other benefits if it wasn't, in terms of capacity to be able to do things in the short term, including buying a home.

Dr LEIGH: [Inaudible] because the benefits don't compound.

CHAIR: You don't think the benefits of home ownership compound over your entire adult life?

Dr LEIGH: Historically the rate of return [inaudible]—

CHAIR: What an empty [inaudible] you've become, Dr Leigh. Ms Hammond.

Ms HAMMOND: I just want to clarify something. The two of you mentioned commercial funds managers. I noted a little bit of a scathing tone there. What do you mean by commercial funds managers?

Mr Arter: I might take that question, Kristian, because I've worked in and around that space for the better part of three decades. A commercial fund manager is a manager who takes on assets to manage on our behalf for commercial return. Obviously, they're rewarded for doing that. Some of those firms are very, very large. Some of those individuals are very highly paid. To come back to Kristian's question, typically many of those people would be paid bonuses or rewards for returns they'd made as a percentage, in some cases, of the underlying size of the fund, which can mean that some of these people are paid very large sums of money. Kristian made reference to that with the fact that we can manage $2 billion for the same price as we can manage one.

Ms HAMMOND: Okay, so picking up on that, are ISPT and IFM commercial fund managers?

Mr Arter: Kristian, would you care to take that question as our [inaudible]?

Mr Fok: Yes. IFM have been set up to make a profit, but their model is to align with long-term investors, so it has been an greatly attractive business for us. We negotiate very attractive fee arrangements. I won't go into the detail of that—again for commercial reasons.

Ms HAMMOND: You're one of the shareholders of IFS, that owns IFM, aren't you?

Mr Fok: We hold shares in ISH.

Ms HAMMOND: Yes, sorry; I'm getting all my Is muddled up! Are you also a member or shareholder of ISPT?

Mr Fok: The way that was originally set up was it was based on, and it still is, a cost-recovery model, so it was slightly different. When it was set up, each of the original investors had a shareholding, but it was a nominal amount that was paid for. It's purpose is not to make profits, which is why it is, again, significantly better in terms of cost competitiveness than most [inaudible] property managers.

Ms HAMMOND: I was just looking at your 2019 annual report. If I'm reading it correctly, as at 30 June 2019 IFM had 20.6 per cent of your funds. They're managing them on your behalf. Vanguard investments had 13 per cent. And it looks like you were doing internally managed of eight per cent and Cbus Property, which I imagine is also linked to you and not a commercial fund manager, of six per cent. So you've still got the vast majority of your investments being handled by commercial fund managers—is that correct?

Mr Fok: Let me separate those questions. Our current internal investments are around 31.6 per cent for the rest with other managers. In terms of IFM, they have to compete against not only the other managers but also our internal management. They manage money in a number of asset classes, although we have actually been taking money from them and funding some of our internal management. Roughly speaking, they manage around six per cent in infrastructure, probably another six per cent-ish in what we call indexed management in Aussie equities—very low fee. They also manage a portion of our debt portfolio. But, again, this is the instance where we're growing our internal debt portfolio. A significant amount of the money that they manage for us is in cash, and that's actually grown in the shorter term because we've built up a bigger cash balance to be able to deploy. But also, when our members switch—and this is one of the unfortunate effects of the COVID period—the biggest switches—I think we have had one day where we had about a quarter of a million dollars. That happened to almost line up with the bottom of the market. Unfortunately, the vast majority of them are still in cash. But, during that time, most of our cash was managed between two managers: CFS and IFM. Again, we are in the process of taking a significant amount of that back to our internal cash manager.

Ms HAMMOND: I see. Just by way, then, of tying up, you own shares in ISH, which owns IFM. Are there any other commercial fund managers that Cbus has got [inaudible] in?

Mr Fok: There are quite a few. Unfortunately, we own AMP, and we've also still got property in AMP that we [inaudible]. We have lost 20 per cent of value since this time when all the things that have occurred came out—the controversy that has occurred—at a time when the ASX has gone up, so it has been a bit unfortunate. I would say that we also would have exposure to many other listed managers. I think one of the complexities around the Hayne royal commission is that they actually asked us for all these things, and there are a lot of service providers that we use that are commercial. We also have stock holdings [inaudible]. So, yes.

Ms HAMMOND: Yes. That does make it a bit murky to look at from the outside, as an outsider looking in. At the same time that you're a bit scathing about commercial fund managers, you actually also own commercial fund managers and use them for your business and, by virtue of that fact, it's just difficult to unravel.

Mr Fok: We are a global investor, and some of our strategies—we invest in an index, and if they happen to be of significant size then we will own that. Likewise, we employ fund managers that may at points in time think that their business models, which are adverse in terms of our fees, are great for making profits, and so they will potentially own it. I think one of the points I would like to make is that, irrespective of ownership, whether it's through listed companies or directly, our team has full discretion around how we assess the capabilities of any investment manager that we appoint. We assess it across multiple metrics. Ultimately, it's net returns. But, in this competitive environment, the absolute cost is also a factor. We are totally aligned, in terms of the returns that we provide to our members, so our team have full discretion as to whether they continue with any fund manager or whether they take money away. There's a governance framework around that that we operate in.

Ms HAMMOND: Thank you very much. I've just got one further question. Super funds are subject to the sole purpose test, aren't they?

Mr Fok: That's correct.

Ms HAMMOND: Are commercial fund managers subject to that?

Mr Arter: Commercial fund managers aren't usually superannuation funds. There's a separate thing. AMP will have a super division, and they spoke about that before. A commercial fund manager, as such, is a service provider, like any other service provider that we would have here.

Ms HAMMOND: So they could technically do things with the funds that are not for the sole purpose?

Mr Arter: Our job is to look after the sole purpose—that is, members' best interests—and we will do that by a manager's selection. Their job is to manage the assets on our behalf, under the scrutiny and the supervision of Kristian and his team.

Ms HAMMOND: If there were any questions raised, it would be you guys in the firing line, not them.

Mr Arter: In respect of what?

Ms HAMMOND: If there were any questions raised about activities that they were doing, you're the ones who would be responsible, because you've chosen them. Is that correct?

Mr Arter: ASIC will oversee their conduct, in terms of whatever conduct they're undertaking in the market; ASIC would be the supervisor of them if they thought there was anything awry.

Ms HAMMOND: Yes, but not in the context of the sole purpose test, because the sole purpose test—

Mr Arter: The sole purpose test is that of us, and us alone, as superannuation, as an RSE.

Ms HAMMOND: Alright. I don't know where the chair is—I can't see him—but I'm assuming he's there.

CHAIR: I never go away!

Ms HAMMOND: It's the stuff of nightmares!

CHAIR: I just turn my camera off occasionally. I'm an omnipresent force. It has been a very long day. We're going to have more of these hearings in super, which includes retail and industry. I actually wanted ethical super investment funds to be part of today's hearing, but they've been moved to the next one. We'll have industry associations. Even without topics related to the royal commission, we still managed to find things to ask questions about, including from Labor members, because this inquiry's about more than that; it's actually about the conduct of the whole of the sector. Thank you for appearing before the committee today. The committee secretary will be in touch with you in relation to any matters arising out of today's hearing. There'll also be questions on notice. You'll be sent a copy of the transcript of your evidence, to which you can make corrections of grammar and fact. I declare the public hearing closed. Thank you, secretariat.

Resolved that these proceedings be published.

Committee adjourned at 17:07