

SUBMISSION TO PRODUCTIVITY COMMISSION INFRASTRUCTURE INQUIRY

Maritime Super is an industry superannuation fund covering current and former maritime workers and their families. It manages over \$4bn in assets.

Maritime Super and its predecessor funds have been investing in the Australian economy for over 45 years. These investments are integral to delivering retirement incomes for members of Maritime Super but also benefit the wider economy and therefore all Australians.

This submission focuses primarily on the following question in the Issues Paper:

“What are the impediments to greater private sector involvement and financing of public infrastructure by institutional investors, such as superannuation or pension funds (for example, taxation arrangements)? What is the scope for superannuation funds to benefit from financing more public infrastructure, and the reasons why they are not already doing so?”

Access to suitable debt investments

Superannuation funds are willing and capable of being long term investors in infrastructure and many are already substantial investors. Greater availability of suitable debt investments – long term; inflation protected income; with security of capital would broaden the potential investment in infrastructure by Australian superannuation funds.

Funds need a sufficient level of return from infrastructure to compensate for the illiquid nature of the investment. Compared to equity, debt investments offer a lower risk of capital loss and more stable income streams, which is well suited to the needs of the fast-growing retirement phase of investing. However there is an insufficient supply of infrastructure debt investment opportunities.

Maritime Super’s Board and Investment Committee have spent considerable time discussing the scope for further infrastructure investments. These discussions led to the engagement of JANA Investment Advisers to develop a funding model which could assist superannuation funds to invest in infrastructure to a greater degree.

We submit to the inquiry a paper authored by JANA Investment Advisers which proposes the establishment of an Infrastructure Debt Authority (Attachment 1). The executive summary of the paper highlights the merits of the proposal and the body of the paper outlines the structure and operations of the proposed Debt Authority. The paper notes that the concept is already being applied overseas and has previously been raised here, in the Australian Government Infrastructure Financial Reform Issues paper (July 2011).

We believe the proposal is relevant to item 2 of the Inquiry’s terms of reference and to the question in the Issues paper noted above. In particular the proposal would:

- offer an alternative means of debt financing;
- remove some of the disincentive to superannuation fund investment in infrastructure.

Government has a major interest in developing and maintaining Australia's infrastructure. The Government would therefore benefit from sponsoring and establishing this funding mechanism but would not need to be responsible for its ongoing viability. The establishment of this funding mechanism may not be feasible if left to the private sector alone.

Liquidity constraints

While this debt proposal relates to the asset side of superannuation funds, a second impediment to greater investment in infrastructure, and indeed in other illiquid investments such as unlisted property, relates to the liability side of a superannuation fund's investment operations.

Specifically the legislation requiring portability of accumulation benefits within 30 days, places limitations on the level of assets that superannuation funds can prudently allocate to illiquid investments. Freedom of choice by members is the sound principle behind portability, and the related facility for members to be able to switch their investment options, but the consequence is the need for a significant but uncertain amount of liquidity. This need for short term liquidity places a constraint on the amount which funds can allocate to such illiquid long term investments, even if the risk/return expectations are very attractive.

For this reason, our Fund's target allocation to illiquid assets has had to reduce from 27% to 20%, with that excess amount going largely into very liquid assets. Admittedly much of the Australian superannuation system is not yet in a mature state and has small average member account balances and strong net cashflows. However the issue will become more pronounced over time as other funds gradually mature into a more 'steady-state' position and exhibit characteristics similar to Maritime Super; large member account balances and small net cashflows. In such mature funds, portability and member investment choice can create significant liquidity issues, particularly in times of market volatility.

Therefore we raise this issue for the Commission to perhaps seek other views in their public hearings and to potentially consider strategies to mitigate the issue. Possible ideas for further development and consideration could include

- the provision of a liquidity facility by Government or an industry collective;
- amendments to the superannuation legislation to allow limitations on the portability of illiquid investments.

The benefit of a feasible solution would be a greater scope for Australian superannuation funds to invest in infrastructure projects.

Representatives of Maritime Super and JANA would be pleased to meet with the Commission to further discuss this submission.

Peter Robertson
Chief Executive Officer
Maritime Super
17 December 2013