



23 December 2013

Public Infrastructure Inquiry
Productivity Commission
LB2 Collins Street East
Melbourne, VIC 8003

By email: peter.harris@pc.gov.au

Dear Commissioner

Productivity Commission Issues Paper – Public Infrastructure

IFM Investors welcomes this opportunity to respond to the Productivity Commission Issues Paper on Public Infrastructure, released on 28 November 2013.

IFM Investors is one of Australia's largest investment management firms and manages in excess of \$48 billion on behalf of institutional investors globally. IFM Investors was also recently ranked as the number one manager of alternative investment products¹ in Australia. IFM Investors has extensive infrastructure investments in Australia and around the world and has approximately 19 years of experience investing in infrastructure. We believe that given this experience, we are in a strong position to contribute to the Productivity Commission's review of public infrastructure through this submission.

IFM Investors is owned by, and invests on behalf of, 30 Australian industry superannuation funds, including AustralianSuper, the largest Australian industry superannuation fund, whose members represent a cross-section of Australian workers, Construction & Building Industry Super (Cbus), the health and community services industry super fund (HESTA), and the hospitality, tourism, recreation and sport industries super fund (HOSTPLUS). It is estimated that the success of IFM Investor's investments ultimately impacts the savings of approximately five million working Australians and their families.

IFM Investors, through its Australian infrastructure fund ("IFMAI"), International Infrastructure Fund ("IFMII") and infrastructure debt funds, invests equity and debt globally in infrastructure sub-sectors such as airports; seaports; toll roads; telecommunications; electricity generation, transmission and distribution; gas distribution and social infrastructure. Our investments include assets of national significance such as the capital city airports (Melbourne, Brisbane, Adelaide, Perth and Darwin) and ports (Ports Botany and Kembla and Port of Brisbane), as well as public private partnerships ("PPPs") such as Southern Cross Station in Melbourne, New Royal Adelaide Hospital and Victorian Comprehensive Cancer Centre.

These investments offer Australian superannuants the potential for relatively consistent investment returns while providing essential services to local communities. IFM Investors' philosophy is that investing into assets that provide essential services also carry critical responsibilities including maintaining safe, modern and reliable facilities, and catering for growth over time to support Australia's economy and attractiveness.

Our submission will therefore focus on the funding and financing of infrastructure investment in Australia. We draw on our experience to demonstrate the importance of governments partnering with long-term and well-aligned partners in developing and financing both brownfield and greenfield infrastructure. We

¹ Rainmaker Roundup September quarter 2013



encourage continued 'social privatisations', with the recent 99-year lease over Port Botany and Port Kembla to a consortium comprising mostly Australian superannuation funds led by IFM Investors. This is a prime example of the 'virtuous circle' created when infrastructure is acquired by an investor whose values are well aligned with community interests and allows the proceeds to be invested into valuable new infrastructure. Our submission also highlights the weaknesses in the traditional PPP model and offers an alternative financing option that promotes a partnership delivery model which provides a value for money outcome for governments and greater certainty for long-term equity investors.

We also emphasise the important role that infrastructure debt has to play in providing long-term debt financing to infrastructure. However, Australian superannuation funds have been slower than their offshore counterparts in embracing this role due to lack of deal flow in Australia and liquidity constraints.

Finally, we wish to point out that notwithstanding the appetite for Australian superannuation funds to invest further in infrastructure (both equity and debt), the ability to do so will ultimately be constrained by the liquidity requirements imposed on superannuation funds. Their purpose is to manage the risks created by a combination of factors that include defined contribution plans and member rights to portability and switching, which will limit superannuation funds' allocation to lower liquidity 'alternatives' including infrastructure debt and equity. Our submission proposes that potential solutions need to be considered at an over-arching superannuation system and political level.

I trust this submission is useful as you advance the Productivity Commission's inquiry into public infrastructure. Australia has growing infrastructure needs, and IFM Investors would be pleased to work in partnership with governments to implement sustainable funding and financing solutions that benefit superannuation investors, the community and the economy.

Yours sincerely

Michael Hanna
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