

31 August 2021

Director
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Treasury
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Sent by email

Re: Superannuation Portfolio Holdings Disclosure

Palisade Investment Partners Limited (**Palisade**) is pleased to provide this submission as part of the public consultation process relating to the Exposure Draft released on 17 August 2021 regarding Superannuation Portfolio Holdings Disclosure. This submission relates to the requirement for superannuation funds to disclose the value of unlisted assets, specifically, investments directly into infrastructure assets.

Palisade is a leading independent Australian infrastructure manager providing dedicated professional investment management services to the Australian superannuation market and other institutional and wholesale investors. Palisade currently has \$3.2 billion in funds under management and commitments, with \$1.6 billion managed through direct investment mandates (predominantly Australian superannuation funds) and a further \$1.6 billion managed through pooled funds.

Palisade prides itself on transparency of information, such that our own clients and potential new investors can make informed investment decisions as to whether to partner with Palisade. Ultimately, we expect the same of our superannuation fund clients in order for their members to best allocate their life savings to an investment option that not only meets their investment objectives, but also their personal beliefs. One of the hallmarks of Australia's superannuation system is freedom of choice between different quality investment options. Accordingly, Palisade remains supportive of ongoing reform which seeks to introduce increased transparency, aiding superannuation members in selecting the best investment option for them.

Notwithstanding this, Palisade remains concerned that the disclosure of commercially sensitive information such as underlying unlisted asset valuations may have a detrimental impact on superannuation fund members.

Disclosure of unlisted asset values

Palisade believes that disclosing the valuations of direct holdings in unlisted assets such as infrastructure may ultimately provide other investors with an indication of what asset value a superannuation fund would consider adequate in a scenario where that superannuation fund chose to sell the investment. Our concern is that the disclosure of a superannuation fund's carrying value may effectively set a "reserve price" for a potential acquirer, impacting the extent of premium over the carrying value that may be achieved by disposing of an asset.

Other perhaps unintended consequences that Palisade has discussed with market participants include non-superannuation fund investors (including foreign investors) being cautious around partnering with Australian superannuation funds, potentially impacting ongoing investment by Australian superannuation funds in high quality infrastructure opportunities both in Australia and offshore.

We consider any potential impact to sale premiums or availability of investment opportunities as not in the best interests of superannuation fund members.

We believe there are a number of alternative measures which could be implemented that would ensure an effective balance between improving transparency for the overall betterment of member choice, and protecting the commercial interests of superannuation funds and their members. These include:

- **Sector groupings** – individual assets could be grouped by a standardised list of sectors (e.g. airports, regulated utilities, renewable energy). This would also allow more efficient and consistent comparison between superannuation funds in the context of their respective infrastructure portfolios. Concerns have also been raised by market participants with respect to the number of line items that would be disclosable, creating increased complexity for members, which sector groupings would also address.
- **Exemptions** – reinstating the previously removed 5% exemption, allowing superannuation funds to selectively not disclose certain investment line items (up to 5%) that it believes would be to the detriment of its members if disclosed. We would however note that this is a less than ideal solution to address the issue at hand, as it may result in a material portion of a superannuation fund’s unlisted assets exposure being excluded, which is at odds with the objective of greater transparency for members.

Over half of Palisade’s client base comprise Australian superannuation funds. As a business we remain committed and aligned to the long-term investment outcomes of both our superannuation fund clients and their members. We continue to remain supportive of ongoing reform within the superannuation industry, particularly as it relates to transparency regarding investment performance, fees and portfolio holdings. We note however that reforms must continue to be in the best interests of members and members only, and we would encourage consideration of the options above, particularly given the risk that the current proposals could result in a detrimental impact to member returns.

Palisade would welcome the opportunity to discuss further.

Yours faithfully,



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