

22 December 2020

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### **Re: Consultation for Your Future, Your Super package**

Palisade Investment Partners Limited (**Palisade**) is grateful to have the opportunity to provide this submission as part of the public consultation process for the Your Future, Your Super (**YFYS**) package, announced as part of the 2020-21 Federal Budget. Specifically, this submission relates to the requirement for APRA to conduct an annual performance test for MySuper products, and other products specified in regulations.

We fully support the benchmarking of superannuation products and the monitoring of ongoing investment performance. Having said this we strongly believe that benchmarking unlisted infrastructure investments to a global, listed benchmark will discourage superannuation funds from investing in both the Australian market and in unlisted infrastructure opportunities more generally. We have already seen evidence of this with superannuation funds electing not to invest in Australian unlisted funds because of their lack of correlation with global listed indices.

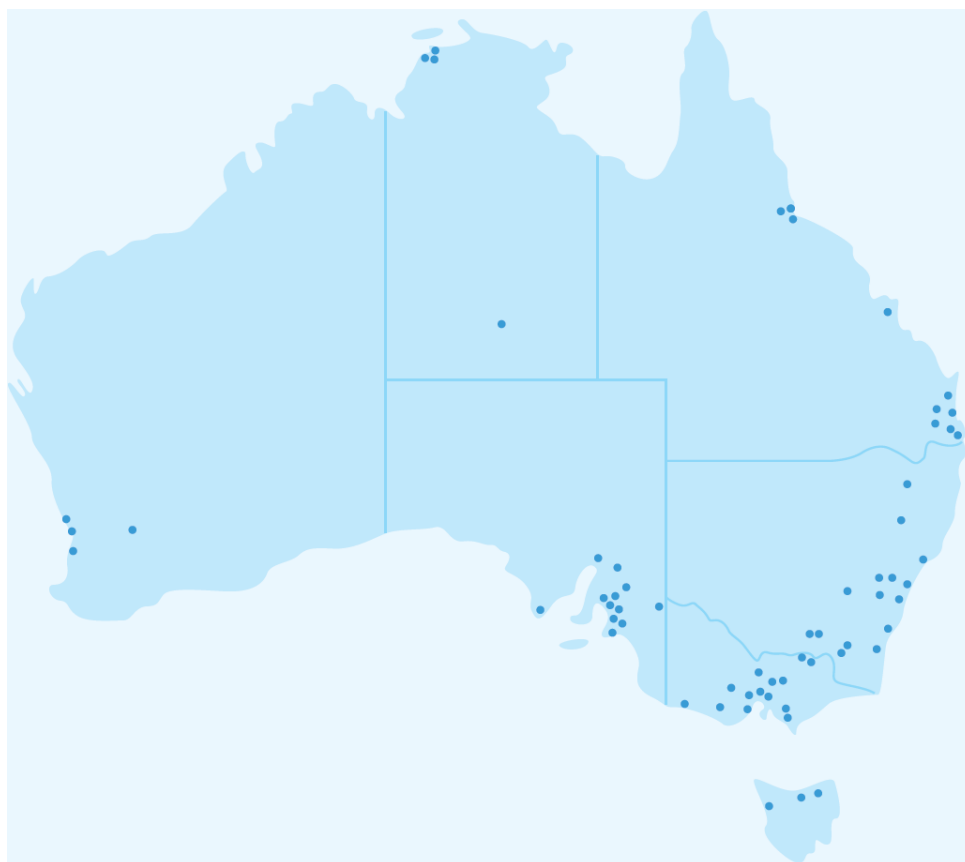
### **Palisade overview**

Palisade is a leading independent Australian infrastructure manager providing dedicated professional investment management services to the wholesale superannuation market and other institutional and wholesale investors. Palisade currently has over \$3.0 billion in funds under management and commitments, with \$1.6 billion managed through direct investment mandates (predominantly Australian superannuation funds) and a further \$1.4 billion managed through pooled funds.

Palisade's investment philosophy is to invest in quality Australian infrastructure assets, hold them for the long-term and maximise their performance, both for the benefit of the communities in which they serve, and also our investors. One of Palisade's key differentiating factors is our focus on mid-sized or "*mid-market*" assets.

Palisade's investment philosophy of investing in mid-sized assets means that our focus tends to be on developing and supporting critical infrastructure in smaller regional centres, rather than major capital city infrastructure. Palisade's portfolio of investments currently includes 25 assets invested across all states and territories of Australia, with over 60 individual asset sites. The location of Palisade's assets is shown in the diagram below.

**Figure 1: Palisade’s infrastructure portfolio – 25 assets across 61 sites**



Furthermore, consistent with Palisade’s focus on ESG and sustainability, Palisade has a strong track record in working with the regional communities in which its assets are located. In 2019, Palisade launched its undergraduate scholarship program, which involves certain assets in the Palisade portfolio awarding scholarships to university undergraduates, with a focus on those who are financially disadvantaged and are required to relocate from a regional area to undertake studies. The program also focuses on fostering diversity, with an aim to promote pathways for women to study and be employed in careers such as engineering and agriculture.

In addition to Palisade’s focus on regional infrastructure, Palisade has also been active in the development of new infrastructure, either through new asset developments, or capital expenditure programs within our existing portfolio companies. This has directly benefited, through the generation of jobs and economic growth, the communities in which those assets serve. Examples of this include:

- **Sunshine Coast Airport:** In 2017, Palisade, on behalf of our investors, was awarded a 99-year lease of Sunshine Coast Airport, located in Marcoola, Queensland. The transaction included funding to be provided by Palisade-managed investors for the construction of a new 2.8km runway. The construction of the new runway was overseen in partnership with Sunshine Coast Council, and is expected to significantly bolster tourism by opening up the region to more destinations, as well as providing greater export opportunities for local producers. The construction of the new runway is expected to generate over 1,500 direct and 700 indirect full-time jobs by 2040, and contribute over \$4 billion to Gross Regional Product between 2020 and 2040.
- **Renewable energy:** Palisade is one of the largest independent renewable power producers in Australia, with energy generated from our 750MW portfolio capable of powering over 350,000 homes and abating over 1 million tonnes of CO<sub>2</sub> per annum. Palisade has a specific focus on the development and construction of new utility scale renewable energy assets, and has recently successfully achieved construction completion on both the 148MW Ross River Solar Farm (located 20km outside of Townsville), and the 112MW Granville Harbour Wind Farm (located on the North-West coast of Tasmania). With respect to the latter, \$3.8 million and \$16 million was invested into the West Coast and Tasmanian economies respectively, whilst approximately 200 workers participated in the construction of the wind farm. Over the

life of the project it is expected that approximately 40% of the jobs onsite will be filled by Tasmanian residents.

- **Port of Portland:** Palisade manages a 100% interest in the Port of Portland, a bulk commodity port situated in the township of Portland in South-West Victoria. Over the past five years, Port of Portland has invested more than \$15 million in capital expenditure which has been carried out by local construction companies and contractors, supporting local economic activity and employment in the Portland region. Furthermore, over the last five years the Port of Portland's community grant program has distributed over \$380,000 in donations to worthy causes in the local community. This includes being a major supporter of community sports in the region, funding community organisations and providing a property for the Portland Re-engagement School, a program that supports students from disadvantaged backgrounds.
- **Regional Livestock Exchanges:** Palisade is one of the leading providers of livestock saleyard facilities in Australia, with a portfolio of eight facilities located in regional Queensland, New South Wales and Victoria. Currently, Palisade manages sites at Gracemere (QLD), Inverell (NSW), Singleton (NSW), Tamworth (NSW), Carcoar (NSW), Barnawartha (VIC), Ballarat (VIC) and Camperdown (VIC). To date, Palisade has invested \$95 million across its livestock exchange assets, with the portfolio supporting close to 300 jobs.

### Potential implications of Your Future, Your Super package

Australian superannuation funds have been significant investors in Australian infrastructure since the asset class first came to prominence in the late 1990's. From a global standpoint, Australian funds were early adopters of investing into unlisted infrastructure, with many participating – either directly or indirectly through managed funds – in the multitude of government privatisations of infrastructure that the Australian market has experienced over the past three decades. More recently, this included the high profile privatisations of Port Botany, Port of Melbourne, the NSW electricity transmission and distribution networks and the WestConnex road project in Sydney. Governments have also found that Australian superannuation funds participating in privatisations has assisted in appeasing opposition to widespread privatisations of state-owned infrastructure through the concept of “social privatisation” – essentially the taxpayer continuing to own the asset, albeit through a different medium in the form of their superannuation fund.

Like most infrastructure fund managers, a significant proportion (over 50%) of Palisade's clients are Australian superannuation funds. Palisade's model is to invest in both new-build and existing infrastructure projects on behalf of our clients. This is achieved through either our managed pooled funds, or our direct investment mandate program whereby Palisade builds a portfolio of unlisted infrastructure investments in partnership with our larger clients. Unlisted infrastructure continues to play an important part in investors' portfolios in terms of providing stable and inflation-linked returns over the long-term, and we have seen the benefit that unlisted infrastructure brings to a portfolio particularly during periods of heightened volatility. One of the key attractions of investing in unlisted infrastructure is its lack of correlation with listed markets. Over the last 10 years, Palisade's flagship pooled fund, Palisade's Diversified Infrastructure Fund (**PDIF**), has generated a gross return of 12.4% per annum for its investors, including a cash yield of 7.5% per annum. In one of the most tumultuous periods financial markets have ever experienced, PDIF still delivered a gross total return to investors of 6.1% in the 12 months to 30 November 2020.

Palisade notes that as part of the annual performance testing approach included in the YFYS package, Australian superannuation funds will be benchmarked against a listed index – in the case of infrastructure, the FTSE Developed Core Infrastructure Index. Since the announcement of the YFYS package, Palisade has had a number of discussions with market participants, with both existing and prospective investors expressing their concern over the use of a listed infrastructure index to benchmark unlisted infrastructure. Many investors have indicated it may materially alter their view with respect to ongoing funding and support for unlisted infrastructure projects, noting potential misalignment in performance outcomes of an unlisted portfolio and listed index as the key reason. Palisade further notes that given the broad spectrum of risk and return characteristics within different infrastructure sub-sectors, the benchmark selected should represent a balanced portfolio, rather than having a material exposure to one particular region or sub-sector.

Whilst Palisade unquestionably accepts the need for a benchmark to measure the performance of different asset classes within a portfolio to ensure the best outcome for the superannuation sector, we share our clients' concerns in that the use of the current proposed benchmark may lead to behaviours that ultimately discourage investment in unlisted infrastructure projects. This is of great concern for a business such as Palisade, particularly given our approach to the mid-market, but more specifically, the focus we have on supporting critical infrastructure development in regional Australia and the benefits this brings to the underlying communities.



Palisade would welcome the opportunity to discuss further.

Yours sincerely

A handwritten signature in blue ink that reads "Roger Lloyd".

**Roger Lloyd**  
Managing Director & CEO  
Palisade Investment Partners

