CLIMATE CAPITAL FORUM | Investment for Australia's Post Carbon Economy

Superannuation reform: align performance test with climate risk

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Australia's superannuation system holds over **$4.4 trillion in retirement savings**[1], making it one of the largest pools of capital in the world.

The 10-year backward-looking Your Future, Your Super (YFYS) performance test penalises the long-term, differentiated investment strategies required for clean infrastructure. By forcing funds to anchor their portfolios to legacy, high-emitting market indices, the test creates an artificial capital starvation for critical domestic projects.

The problem: a regulatory barrier to capital mobilisation

The superannuation sector currently holds approximately $350 billion in infrastructure assets[2], yet only an estimated $44 billion of capital flows to clean energy.[3] The vast majority remains locked in legacy domestic infrastructure such as toll roads, airports, and ports. Whilst estimates have investment in decarbonisation requiring between $200-$500 billion by 2035.[4]

This misallocation is driven directly by current regulatory design:

- Benchmark Hugging: The YFYS test benchmarks funds against historical market indices heavily weighted toward high-emitting sectors. This creates existential pressure for funds to "hug benchmarks" rather than invest in emerging low-carbon industries.
- Real-World Distortion: Climate-aligned fund managers have already been forced to restructure their operations purely to avoid the test's penalties[5], proving that the current framework distorts productive capital allocation.
- Knowledge Gaps: A distinct structural mismatch exists within the public service, where a knowledge gap between retirement/superannuation policy divisions and sustainable finance divisions delays effective regulatory deployment.

1. Quarterly superannuation performance statistics highlights - March 2026 | APRA
2. 8% of total savings based on average from APRA - Quarterly superannuation statistics | APRA
3. 1% of total savings based on Super funds urged to seize transition opportunities | Climate Change Authority
4. Australia 2035 – Maximising Our Potential, Business Council of Australia
5. Future Super, Verve to overhaul investment, FS sustainability

What we're asking policymakers to do:

1. Establish an "Emerging Asset Class" for Transition Infrastructure
Government should introduce a CPI + margin benchmarking mechanism specifically for long-term, illiquid transition assets that lack standard public market indices.

- Action: Establish a dedicated asset class with an initial 5% allocation capacity ceiling, paired with a legally defined regulatory pathway to scale this ceiling to 10% as the domestic transition matures. This would unlock between $220-$400 billion which is in the range of investment required to reach 2035 net zero targets.
- Eligibility: Explicitly tie asset eligibility to renewable energy infrastructure, clean industrial assets, and grid decarbonisation, utilising existing Climate Change Authority (CCA) sector pathways to verify compliance.

2. Overhaul and Modernise Performance Benchmarks
Government must break the commercial index monopoly within the YFYS framework by introducing flexible, forward-looking alternatives.

- Action: Integrate optional, climate-aligned benchmark indices into the performance test to accurately reflect climate risk and transition opportunities.
- Scope: Mandate that listed equities, which represent $2 trillion, or roughly 50% of total superannuation books, be included in immediate benchmark reviews.

3. Integrate Climate Risk into Performance Monitoring
Performance monitoring must be modernised to align with Australia's broader sustainable finance commitments.

- Action: Formally integrate climate-risk indicators and transition planning frameworks into APRA's performance monitoring capabilities.
- Infrastructure: Utilise the government's newly introduced mandatory climate-related financial disclosures to provide the underlying data architecture for these compliance mechanisms.

Why this matters: a quadruple win for Australia

Executing these reforms aligns regulatory frameworks with Treasury's core economic security mandate, delivering a clear dividend across the economy:

- **A Win for Members:** Effectively pricing and managing climate risk actively protects long-term retirement savings from systemic stranded-asset risk.
- **A Win for Capital Funds:** Provides super funds with credible, predictable frameworks to measure transition progress without risking arbitrary compliance failure.
- **A Win for Australian Companies:** Directly rewards domestic firms investing heavily in deep decarbonisation by lowering their cost of capital.
- **A Win for the National Economy:** Unlocks hundreds of billions of dollars in domestic investment over the coming decades, anchoring the future industries that will drive Australia's long-term sovereign productivity.