AustralianSuper

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Member Outcomes & Governance Branch
Retirement Income & Superannuation Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email to **performancetest@treasury.gov.au**

AustralianSuper submission to Treasury's consultation on strengthening the superannuation performance test

Dear Treasury,

AustralianSuper welcomes the opportunity to respond to Treasury's consultation on the superannuation performance test.

Since its introduction in 2021, the performance test has delivered real benefits to Australians who are saving for retirement. Given this central role, it is important the test remains fit for purpose. As part of our ongoing engagement with Government on potential reforms to the test, our submission examines the options proposed and raises additional issues that should be addressed to improve how the test operates.

AustralianSuper is Australia's largest superannuation fund and is run to benefit members. Our vision is to be Australia's leading superannuation fund, in the world's best system for members. AustralianSuper has over 3.6 million members and manages over $410 billion of members' assets.

We would be pleased to provide additional information or to discuss this submission in further detail. If that would be of assistance, please do not hesitate to contact Emma Carr, Head of Government Relations and Public Policy (ecarr@australiansuper.com).

Regards

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On the whole, Australian's universal superannuation system is a success. But it is compulsory, complicated, and has a long-term payoff. Many members are not actively engaged with their super and may not be well placed to identify underperformance without helpful information and tools.

For most members of APRA-regulated funds, the performance test plays an important role in this regard. It has been effective at removing underperforming funds and placing downward pressure on fees. These are good outcomes that should not be undone by reform. But aspects of the test's design warrant attention as the system matures.

This submission is structured in three parts. First, we respond to the options proposed to reduce unintended barriers to investment. Second, we make the case for expanding the test to a broader set of products. Third, we raise several issues outside the scope of the consultation that we consider material to the test's long-term integrity.

Reducing unintended barriers to investment

The consultation paper presents two potential approaches to reduce unintended barriers to investment (Options 1 and 2), alongside a complementary reform to introduce routine benchmark reviews (Option 3).

We do not support Option 2. A simple reference portfolio approach introduces a systemic risk that could discourage the very investments the reform is intended to support.

We are open to further work being done on Option 1.1, which would create a new 'emerging assets' category benchmarked to CPI + X. While we do not consider the current test to be a key consideration constraining our own investment in the types of assets canvassed in the consultation, we accept this is not the position of all funds across the system. A well-designed version of this model could improve system-level outcomes. However, there is significant design work still required — particularly on how the asset class is defined — before we could offer unqualified support.

We support Option 3 as a sensible improvement that could improve the regime's flexibility.

Recommendations:

Option 1.1 (new emerging assets category): Support further work.

Option 1.2 (improve alternatives): Do not support. Option 1.1 is superior.

Option 2 (simple reference portfolio): Do not support.

Option 3 (routine benchmark review): Support.

A simple reference portfolio (SRP) frontier model might be counterproductive

Option 2 proposes a simple reference portfolio (SRP) frontier that products are matched to based on volatility and then assessed against. We do not support this approach. It risks encouraging funds to converge toward the SRP and could discourage unlisted investments, given outcomes would become highly sensitive to short term listed market performance.

An SRP test may lead funds away from portfolios that are genuinely in members' long term best interests. It may create a structural incentive to narrow portfolios toward the sectors represented in the SRP, even though trustees have deliberately chosen more diversified portfolios because they believe these deliver better long-term outcomes. The result is a test that may discourage the very types of investments that the proposed reforms to the test are intended to support.

An SRP approach also creates a systemic risk. A period of listed outperformance could see many products fail the test at the same time. That outcome would not reflect systematically poor investment decision making or excessive fees. It would simply reflect an abnormal but not unprecedented market regime entering the lookback period.

A new 'emerging assets' category could move the needle for some funds, but needs further thought

A new 'emerging assets' class is superior to changing the treatment of the 'alternatives' asset class

Option 1.1 – 'Introducing a new emerging covered asset class' – is superior to option 1.2 – 'Improve the existing alternatives covered asset class'.

The alternatives asset class largely captures assets that do not fit elsewhere, rather than assets with shared economic characteristics. As a result, it includes holdings that do not resemble the emerging assets described in the consultation paper.

Whatever definition is ultimately adopted, emerging assets are likely to cut across existing asset classes. For example, venture capital sits within equities, and greenfield renewable energy projects sit within infrastructure. They are not defined by where they sit, but more by their expected returns profile. Trying to recast the alternatives bucket to include emerging assets would mix two different concepts. A separate category provides a cleaner starting point.

Defining 'emerging assets' is the core implementation challenge

The most identifiable common attribute of the investments discussed in the paper is a J-curve return profile. That is, investments that are a drag on returns in their early years — due to negative or negligible cashflow, high upfront costs, or both — but are expected to deliver strong returns over the long term as they mature.

The end state is the core reason they can be attractive. But the early state is the reason some funds report that the current test weighs on their appetite to invest in them. These investments are benchmarked against mature versions of the same asset class during a period when they cannot reasonably be expected to keep pace.

This framing captures the examples deployed in the paper: venture capital, greenfield renewable energy projects, and housing developments (whether market-rate or mixed-tenure). Each sit within an existing asset class — equities, infrastructure, property — but have different returns profiles from the generally mature assets that make up their asset-class benchmarks.

If the policy objective is to reduce the disincentive to make these investments, the definition of emerging assets would need to anchor to the J-curve return profile. Other attributes may also warrant consideration, but anchoring to the J-curve provides a potentially workable starting point. Given benchmarks are set at the asset-class level rather than for individual investments, this would likely require a modest X benchmark to accommodate both early-stage, low-return assets and those that are starting to mature.

A cap on allocations to emerging assets is only necessary if the definition is flawed

The consultation paper contemplates a cap on the share of a portfolio that can be allocated to the emerging assets category. The rationale is to protect against gaming — specifically, that funds could classify new investments that would have been made regardless, or reclassify existing holdings, to improve their test result without changing their actual investment decisions. This is a legitimate concern.

One straightforward safeguard is to limit the category to new investments only. If an asset is already held, the test did not prevent the investment. There is no clear rationale for allowing existing holdings to be assessed against what would, in most market conditions, be a less demanding benchmark.

Beyond this, the need for a cap is ultimately a function of how well the asset class is defined.

A tight definition will not guarantee that every investment in the category is additional. Some funds do not consider the current test to be constraining their investment decisions, and for those funds, assets allocated to the category may well be investments they would have made regardless. That is an inevitable feature of the model. What a tight definition can do is ensure that everything in the category genuinely shares the characteristics the reform is targeting, even if not all of it was unlocked by the reform.

Conversely, if the definition is loose, a cap may constrain the extent of gaming, but it would not prevent it. And while some genuine emerging assets may still find their way into the category, the broader the definition, the less confidence there can be that the reform is achieving its intent. A loose definition is likely to see funds eventually meet the cap with assets that do not share the characteristics the reform is targeting and that would have been made anyway. If that occurs, it would be reasonable to question whether the policy is meeting its stated intent.

This is why the question of what cap is appropriate cannot be separated from the question of how well the asset class is specified. The definition is the issue of first-order importance. If it is right, the cap becomes less necessary. If it is not, the cap will not save the model.

A new emerging assets category must not create any implicit expectation that funds make particular investments

A key condition of support for further work on this model is that the creation of an emerging assets category must not give rise to any implicit expectation that funds should allocate capital to particular assets. Any perception that funds are investing in anything other than members' best financial interests can erode public confidence in the system.

A regular review of benchmarks is good policy

We support the introduction of a routine review of the benchmarks. A structured review cycle would help ensure the benchmarks remain fit for purpose without requiring broader changes to the test framework.

The core question any review should assess is whether each benchmark remains the best available representation of the investible universe for that asset class for superannuation funds. The scope should also include whether benchmarks are broadly applicable across all products being tested, whether fee and tax assumptions remain appropriate, and whether the cost of accessing benchmark indices from commercial providers are reasonable. Where changes are made because of a review, they should apply prospectively with adequate notice periods so that funds can adjust any portfolio management tied to existing benchmarks.

The more important question is how benchmarks are specified. Currently, they are hard coded in regulations. This limits the ability to act on the findings of any review in a timely way. As the consultation paper notes, a more flexible mechanism may be more appropriate. Moving benchmark-setting to an APRA determination-making power would allow benchmarks to be updated more responsively. It would also position APRA as the natural lead for any review process, supported by industry and external technical expertise.

A more flexible framework would also create a stronger basis for tailoring benchmarks by product type over time. This is particularly relevant for values-based options, where current benchmarks do not reflect the investment approach members have deliberately chosen. A regular review process operating within a flexible framework is a more credible path to addressing this than ad hoc legislative amendments.

Expanding the performance test

The consultation paper proposes extending the test to externally directed products on platforms (Option 4) and canvasses the longer-term case for testing single-sector and retirement products. We support extending the test to externally directed products. For retirement products, we support inclusion within an accountability framework over time, but this should be tailored to the retirement phase rather than a simple extension of the accumulation test.

Recommendations:

Option 4 (externally directed products): Support. Trustees are accountable for everything they offer.

Retirement products: Support inclusion within a tailored accountability framework built from the Retirement Reporting Framework, with consequences calibrated to the retirement phase.

Externally directed products on platforms should be tested

The case for expansion is clear. APRA data cited in the consultation paper shows that around 35 per cent of non-platform externally directed products were underperforming and not subject to performance testing. The collapse of Shield and First Guardian further highlighted the risks of products sitting outside the test's scope. As platforms grow in market share, the untested portion of the system grows with them. This is a gap in consumer protection that should be closed.

The consultation paper raises several implementation considerations. We do not think any are insurmountable.

Administration fees on platforms are generally set at the platform level, not per product. Expanding the tested population to include externally directed products should not, on its own, require changes to peer group settings. If, however, there are material differences in fee structures between externally directed and trustee-directed products that warrant separate treatment, a distinct peer group could be established.

The paper notes that an identical product could pass on one platform but fail on another due to differences in administration fees. We do not see this as necessarily problematic. It creates an incentive for external managers to consider the fee settings of the platforms they partner with, and more importantly, for trustees to ensure their administration fees are competitive.

The paper also flags the issue of trustee dependence on external parties for timely data. If a trustee cannot access timely and verifiable performance data for an externally directed product, it should not offer that product. The solution is better governance, not exemption from the test.

We acknowledge that separately managed accounts with material member customisation may sit closer to member-directed products and could be difficult to test at the product level. However, this should not delay expansion to the broader externally directed product population, which represents the bulk of the consumer protection gap.

Retirement outcomes should be assessed holistically using the Retirement Reporting Framework

The consultation paper does not put forward a concrete proposal for testing retirement products in the way it does for externally directed products. We support this measured approach, but we also support retirement products being brought within a tailored accountability framework over time.

Retirement products account for around $500 billion in assets. Members aged 55 and over hold more than half of total APRA-regulated assets, and an estimated 2.5 million Australians are expected to transition into retirement over the next decade. These members deserve meaningful protections over the quality of outcomes they receive.

However, simply extending the accumulation test to retirement products would be a wrong turn. The retirement phase involves a broader set of objectives: sustaining income and managing longevity risk; maintaining flexible access to funds; and providing quality guidance, advice and services to members to reduce stress and boost confidence. Investment performance matters, but it is one factor among several. An accountability framework for retirement should reflect this.

The Retirement Reporting Framework (RRF), which will begin publishing data from 2028, provides the right foundation. Performance test results for account-based pensions could be a useful addition into any assessments made using the RRF. They certainly provide a meaningful signal with respect to the quality of a retirement offering. But they should not, on their own, trigger the same consequences as in accumulation. The framework should assess outcomes holistically, drawing on RRF data, with accountability measures calibrated to the retirement phase.

Ensuring the performance test is enduring

The following issues sit outside the scope of the consultation but are, in our view, material to the long-term integrity and sustainability of the performance test. We raise them here for longer-term consideration.

Values-based options need tailored treatment to continue

It is important to distinguish between fund ESG and stewardship activities and individual product choices such as values-based investment options.

ESG integration and stewardship activities — factoring environmental, social and governance risks into investment decisions and engagement across the portfolio — is good risk management. It does not warrant special treatment in the test.

Values-based options are different. They are products with explicit screens or exclusions, offered to members who have made a deliberate choice to invest in line with particular values. These screens structurally change the composition of the portfolio relative to the benchmark.

Over time, this structural mismatch could render values-based options unviable. That would be a net negative for consumer choice. Members who have actively chosen these products deserve to continue having the option to do so.

For this to be sustainable, the test must accommodate values-based options through benchmarks that better reflect what these products are actually doing. Moving benchmark-setting out of regulation and into a more flexible framework, as discussed under Option 3, is a good first step toward making this possible.

A 10-year administration fee assessment is truer to member outcomes

The performance test currently measures investment returns over ten years but administration fees over just one. Aligning the fee lookback to ten years would give a truer picture of the value delivered to members and put the two components of the test on the same basis.

The rationale for the one-year window is that it incentivises trustees to reduce fees quickly. This has some merit — and fee reductions, however motivated, do benefit members. But the current design also creates an opportunity for trustees to use short-term fee cuts or rebates to pass the test without delivering sustained improvement in either fees or investment performance. APRA has noted that "a small number of platform trustee-directed products passed the performance test partly because rebates were applied" and has signalled it will engage with relevant trustees to reinforce the expectation of enduring improvement.[1]

Our analysis of APRA performance test data suggests this dynamic is significant. In 2024, nearly 20 per cent of platform trustee-directed products scored between minus 50 and minus 40 basis points — more than double the next most populated bracket. By 2025, the share of products scoring in that bracket had risen to 36 per cent — more than triple.[2] This concentration just above the failure threshold is consistent with fee settings being calibrated to the test rather than reflecting long-term competitive pricing. A trustee that must rebate fees each year to stay alive is, in effect, delivering an ongoing fee reduction. But this is not the same as genuine, structural improvement in the value a product delivers. A ten-year lookback would better distinguish between the two.

The severity of the consequences will eventually have to be addressed

The performance test was designed to address a specific problem: persistently underperforming funds that continued to operate despite poor outcomes for members. The severity and bright-line nature of the consequences — mandatory member notification after one failure, closure to new members after two — served an important purpose in driving those funds out of the system.

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[1] APRA (2025) APRA releases 2025 superannuation performance test results and product insights, Media Release.
[2] AustralianSuper analysis of APRA (2024 and 2025) Comprehensive Product Performance Package.

But a test where failure carries existential implications will, over time, influence investment behaviour across the system, regardless of how well the benchmarks are calibrated. The incentive to manage to the test rather than invest on a best-ideas basis grows as the consequences of failure remain severe and binary.

The question is whether the consequences framework, as currently designed, is sustainable. Over time, it may do more to discourage sound long-term investment decisions than to protect members from genuine underperformance.

One option worth exploring is an intermediate step — such as an APRA-led review — before consequences are triggered. This would allow failures to be interrogated rather than automatically penalised. A product that fails due to a cyclical or measurement-driven result would be distinguished from one exhibiting persistent, structural underperformance. The test would still surface problems. The difference is that it would separate signal from noise.