

19 June 2026

Ms Ruth Moore
Member Outcomes and Governance Branch
Retirement Income and Superannuation Division
The Treasury
Langton Crescent, Parkes ACT

Dear Ms Moore,

Investor Group on Climate Change submission on options to strengthen the superannuation performance test

The Investor Group on Climate Change (IGCC) appreciates the opportunity to provide comment on the Government's proposed options to strengthen the annual superannuation performance test.

While not the case for all superannuation funds, there are some for whom the current performance test structure is a constraint. IGCC therefore supports the government's objectives of removing unintended or distortionary barriers to investment, particularly in key areas like climate solutions, without watering down any of the requirements that enshrine the fiduciary duty of Trustees and continuing to uphold strong member outcomes. A credible and objective superannuation performance test that remains fit for purpose in a changing investment environment is essential for both funds and their members.

The transition to a low-carbon, climate-resilient economy requires capital flows at a scale that public balance sheets cannot match. Institutional investors such as superannuation funds, asset managers, asset owners, and insurers all manage the savings of millions of working people. They are obligated to invest those savings to generate long-term returns, and climate change is a material, systemic risk to those returns. Acting on climate is therefore not a values-based choice; it is fiduciary discipline.

In Australia and New Zealand, this matters more than in most countries. Australian superannuation alone is worth around A\$4.4 trillion as at March 2026, making it currently the world's fifth-largest pension pool and putting it on track to be the world's second-largest by 2031. The combined IGCC/AIGCC entity represents 180+ investors managing about USD\$46 trillion across the Asia-Pacific, including the retirement savings of more than 15.8 million Australians. Our members include industry and retail superannuation funds, local and global asset managers and international pension and sovereign wealth funds. The decisions these investors make about where capital flows shape the real economy at every level.

IGCC was established to provide a voice for investors on matters of climate policy. The reforms to the performance test under consideration have sector-wide implications well beyond climate, therefore we have deliberately limited our commentary on the reform proposals themselves. Our submission does not go into the practicalities of implementation of any of the options, and for that we refer Treasury to the detail in the submissions made by the Association of Superannuation Funds of Australia (ASFA) and the Super Members Council (SMC) as the most relevant industry peak bodies.

Should government choose to continue a benchmark-based approach to the performance test – i.e. implement option 1.1 or 1.2 – IGCC shares the view of many in the sector that the benchmarks must remain fit for purpose and that a regular, formal and independent review is an appropriate mechanism for enabling this. We also support the recommendations made by others to remove the benchmarks from the regulations and establish them as an instrument of the regulator – in this case APRA – to facilitate these reviews and ensure any updates or changes can be implemented in a timely manner.

While we do not seek to respond directly to the questions in the paper, there are several key issues that IGCC would draw government’s attention to as part of this consultation.

Firstly, while reforming the performance test may be necessary, it is wrong to assume that this is the only barrier to greater superannuation fund investment in renewable energy and other climate-aligned investments. In IGCC’s [State of Net Zero Investment 2026](#) report released this week (SONZ report), Your Future Your Super is the third on the list of reported barriers, with just under half of respondents nominating it – up 14% from 2025¹. This puts it behind ‘Policy or regulatory uncertainty’ which just over half of respondents reported.

By contrast, the biggest issue industry consistently reports is that the pipeline of projects for investment and the relative scale of those investment opportunities is not of sufficient scale for many superannuation funds to invest. Nearly 75% of respondents to the SONZ cited insufficient climate-aligned investment opportunities offering an appropriate risk-return profile² as their number one barrier to greater investment. Government’s recent moves to chill international investment in renewable energy projects by applying a retrospective capital gains tax of up to 30% mean even fewer projects are likely to reach operational stage – which is the point at which most superannuation funds will look to invest. Even with a reformed performance test combined with a potentially more competitive position thanks to the foreign investor CGT changes, there is no guarantee that super funds will choose to invest in projects at the earlier and riskier development stage – particularly given the challenges that face those projects in terms of escalating labour and material costs, and ongoing delays in approval processes.

While IGCC is supportive of reforms that would remove barriers to capital allocation and could support the net zero and Future Made in Australia agendas, changing the superannuation performance test is not the single ‘silver bullet’ solution – construction, labour and materials costs continue to rise, approvals processes remain too lengthy and inflation and interest rates continue to go in the wrong direction. Additionally, other structural barriers remain, including the ongoing inclusion of stamp duty under ASIC’s RG97 which renders certain asset classes less attractive relative to others. We understand that ASIC intends to consult on this issue later this year and look forward to engaging with that review, but raise it in this context as representative of the many interconnected policy and regulatory issues that mean reform of the performance test alone is not sufficient to incentivise investment by superannuation funds in particular asset classes. All these issues impact investment across the board and will continue to be a problem even if the performance test is reformed.

Secondly, and relatedly, government has many policy and regulatory levers at its disposal to encourage or discourage investment in key areas of the economy. In and of itself, reform of the performance test may remove a barrier to investment in some asset classes for some investors, but it will not act as an incentive for more investment.

¹ *State of Net Zero Investment 2026*, Investor Group on Climate Change, 2026, accessed 18 June 2026, <https://igcc.org.au/wp-content/uploads/2026/06/IGCC-State-of-Net-Zero-2026.pdf>

² *ibid*

IGCC urges the government to consider any proposed changes to the performance test in the context of all other policy changes available to it that could, or seek to, influence investment in net zero. This includes measures such as the aforementioned changes to the foreign investor CGT regime, the ongoing security and quantum of funding for the Capacity Investment Scheme, the reprioritisation of funding from key elements of the Future Made in Australia agenda, and any potential changes to economy-wide measures such as the Safeguard Mechanism or the NEM implementation and ESEM.

Finally, Australia will need capital investment of up to \$630 billion to meet its 2035 climate targets³. Australia's superannuation sector is currently valued at \$4.4 trillion and is projected to become the second-largest pension pool in the world in the 2030s. While there is no doubt it could be a significant potential source of capital, it would be wrong to expect that funds will make significant changes in their investment allocations immediately, regardless of which reform to the performance test structure is implemented. Acting in the best financial interests of members means that funds will require time to evaluate the best approach based on their particular circumstances and the requirements of their members. Government's policy objectives are not, and should not be, the responsibility of the superannuation sector to deliver, and decisions over capital allocation should remain with funds' Trustees, in line with their respective risk appetites and portfolio strategies.

A strong superannuation system is essential to ensure the millions of working Australians contributing each year can save for, and ultimately enjoy, retirement, while helping reduce the burden on government balance sheets. To that end, we note that the consultation undertaken by government in 2024 reflected broad support for measuring performance and protecting Australians from consistently poorly performing products. While IGCC did not make a formal submission to that consultation, we note that there was a broad range of views expressed as to the most appropriate solutions. What has been clear in the consultation undertaken in 2024 and again in this current process, is that there does need to be change to the performance test.

We welcome government's willingness to engage deeply across the sector, and its recognition that key assets including climate-aligned investments, have to date been negatively impacted by the restrictions the test places, or is perceived to place, on capital allocation. Should the government proceed with implementation of options 1.1 or 1.2 outlined in the paper, we would strongly urge that it be done on an optional and prospective basis only, to ensure Trustees are able to continue to prioritise member outcomes.

Superannuation funds are tasked with making decisions in the best financial interests of their members. Today, those decisions are necessarily influenced by climate change considerations, whether from a whole-of-economy move away from reliance on fossil fuels, or whether more traditional investment assets like infrastructure or real estate will be resilient to the impacts of climate change in the future.

IGCC therefore welcomes the acknowledgement by government that 'climate change related' investments such as those in renewable energy may have been inadvertently disadvantaged by the current performance test, designed for a different time.

³ *State of Net Zero Investment 2026*, Investor Group on Climate Change, 2026, accessed 18 June 2026, <https://igcc.org.au/wp-content/uploads/2026/06/IGCC-State-of-Net-Zero-2026.pdf>

If you have any questions about the matters raised in this submission, please contact Francesca Muskovic, Executive Director of Policy, at Francesca.Muskovic@igcc.org.au or on 0413 587 898.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rebecca Mikula-Wright', written in a cursive style.

Rebecca Mikula-Wright

Chief Executive Officer
Investor Group on Climate Change