

A photograph of two women in an office setting, overlaid with a semi-transparent orange filter. One woman is seated at a desk, looking towards the other woman who is standing and facing her. They appear to be in a professional discussion. A window with a view of a building is visible in the background.

# Superannuation performance test: addressing disincentives to invest for impact

Response to consultation paper of the Treasury

JUNE 2026

## Introduction

Impact Investing Australia (IIA) is an independent for-purpose organisation dedicated to growing the market for impact investments. IIA is Australia's national partner of GSG Impact - a partnership of more than 50 countries, with the vision for impact to become a core factor in every investment, business and government spending decision. IIA brings together investors, intermediaries and other market actors working to mobilise capital for positive social, cultural, environmental, and economic outcomes alongside financial returns. Australia's superannuation funds (super funds) form part of this ecosystem.

Australia's superannuation system is a globally significant pool of long-term capital and a central pillar of retirement outcomes for members of super funds. The superannuation performance test (the test) was established to ensure super funds deliver strong, long-term investment outcomes for members by identifying underperformance. In practice, the test acts as a powerful gatekeeper of capital allocation in Australia.

To remain fit-for-purpose, the performance test must adapt to recognise emerging investment opportunities and provide trustees with the confidence to allocate capital to the assets that will shape Australia's future. Current settings however may have created unintended barriers for super funds to invest in real economy assets that support Australia's long-term prosperity.

Australia has used design disciplines to build a world-class blended finance ecosystem for clean energy. There are growing opportunities to apply the same design disciplines to a range of social challenges. These include: mental health, aged care, domestic violence, early childhood, First Nations outcomes, climate adaptation, and biodiversity. Currently in these sectors, government investment remains predominantly grant-based, blended finance mechanisms are absent or undersized, and the \$3.5 trillion superannuation sector is largely on the sidelines. Some super funds do invest in these assets, but only in small allocations. The performance test may prevent them from scaling those investments because the benchmark penalises long-duration, inflation-linked, unlisted assets, and by creating institutional and career risk.

IIA is working across the market to address the multi-faceted barriers for investment in social and environmental domains. This consultation provides an opportunity to address aspects of one of these potential barriers. We welcome the opportunity to participation in this consultation and outline our responses in this submission.

## The current test creates unintended distortions

The consultation paper acknowledges that the performance test may “influence investment behaviour in ways that may not fully align with members’ long-term interests” (Treasury, 2026). IIA agrees.

The current performance test settings can penalise well-structured social and environmental investments when they do not align neatly with listed market benchmarks. Many productive, real economy opportunities are unlisted, long-duration and priced differently to traditional indices. These include social and affordable housing, community and social infrastructure such as early learning centres, aged care facilities and clean energy infrastructure.

Treating benchmark divergence as underperformance can discourage trustees from considering these opportunities, reinforcing benchmark-hugging behaviour and narrowing diversification. A more calibrated approach would allow these emerging and evolving assets to be assessed on their actual performance characteristics, supporting prudent investment in sectors that contribute to long-term member outcomes and Australia’s future economic resilience.

In summary, current settings can create distortions which are inconsistent with the long-term horizon of super funds and Australia’s national interest. These include:

- **Penalising investments without perfect benchmark alignment**, including social and environmental impact assets.
- **Encouraging benchmark hugging** which reduces diversification and exposure to productive, real economy investments.
- **Limiting investment in emerging sectors**, such as social housing, community infrastructure, renewable energy projects, and nature-based solutions.

## Our response to the reform options proposed

This section outlines our response to the reform options proposed in the consultation paper.

### *Option 1: Adjust for emerging and alternative asset classes*

IIA agrees there needs to be adjustment for emerging and alternative asset classes. Our support for Option 1.1 is discussed below, with the strong caveat that if not designed appropriately, this option risks introducing a new asset class could unintentionally marginalise the very investments it is meant to support.

### **Option 1.1: Introduce a new emerging covered asset class benchmarked by a CPI + X target**

1. *To what extent does the test constrain decisions to invest in certain asset types? Which asset types are most affected, and why? Provide evidence or examples to support your views.*

The current test constrains decisions to invest in illiquid and bespoke opportunities such as venture capital, renewable energy projects and social and affordable housing. In addition, other emerging opportunities such as blended finance vehicles and place-based impact funds are similarly discouraged. These types of investments deliver system-level, long-term value but may lag in the early years. They are often mapped to listed equity or generic unlisted benchmarks and therefore face short-term tracking-error penalties. This creates a rational bias toward large, liquid, listed assets over genuine impact and transition investments.

2. *To what extent would a new covered asset class with a CPI + X benchmark address investment constraints the test may impose? Provide evidence or examples to support your views.*

This option could address investment constraints unintentionally imposed by the test by providing a clear, outcome-aligned hurdle that matches the economic profile of assets such as social housing, distributed energy and placed-based impact vehicles. International examples<sup>1</sup> show that a CPI + X framing is more consistent with the cashflow and risk profile of assets with real return and impact mandates than equity or bond indices, and therefore better aligned with member's long-term retirement outcomes.

3. *How could this new covered asset class be designed?*

IIA recommends a principles-based approach to the design of this new covered asset class, with a focus on countering the perception that these assets sit outside core fiduciary activity.

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<sup>1</sup> See examples: UK social and affordable housing funds (Triple Point Social Housing REIT; Civitas Social Housing; The Good Economy). European energy transition funds. Australia: New Forests Nature-based Solutions Funds.

### 3.1. How should eligible asset types be determined? What criteria could apply?

Eligible assets should be defined by economic and impact characteristics, not labels. Criteria could be developed based on the principles outlined in the Table 1.

Table 1. Principles for development of criteria to determining eligible asset types

Principle	Rationale
<b>Limited or non-existent benchmark coverage</b>	Asset types for which no appropriate investable, transparent benchmark currently exists.
<b>Emerging or evolving markets</b>	Asset types where market depth, track record or data availability is still developing, making them unsuitable for comparison with mature asset classes.
<b>Long duration or J-curve return profile</b>	Assets that naturally take longer to mature or exhibit early negative returns and there cannot be fairly assessed against short-term benchmarks. These include: early-stage infrastructure, community assets, energy transition projects.
<b>Diversification and portfolio-construction value</b>	Assets that improve long-term risk-adjusted returns at the portfolio level but may underperform traditional benchmarks in the short term.
<b>Clear investment thesis and governance standards</b>	To avoid the category becoming a 'catch-all', eligible assets should meet minimum standards for transparency, valuation, reporting and manager capability.
<b>System-level risk and spillover effects</b>	Assets to be assessed for their potential to generate system-wide economic spillovers that materially affect the long-term financial interests of members as universal owners.

### 3.2. How should the CPI + X target be set?

The CPI + X benchmark should be set as a real return target that reflects the long-term economic characteristics of eligible assets. An inflation-linked pricing formula provides an appropriate anchor aligned with the retirement income objective. The 'X' should represent the expected real return premium based on long run performance, risk profile, liquidity, and revenue characteristics.

### *3.3. Should different targets apply to growth and defensive assets?*

Different targets should apply for growth and defensive assets, with periodic review by an independent expert panel to ensure the benchmark remains transparent, credible, and fit-for-purpose.

Internationally, impact-aligned real assets tend to have the following ranges:

- Defensive, contracted assets, e.g. social housing, community infrastructure: CPI 1.5 – 2.5%
- Growth oriented transition assets, e.g. distributed energy, microgrids, nature-based markets: CPI + 3-5%<sup>2</sup>

### *3.4. What allocation cap should apply, and why?*

An allocation cap needs to be large enough to support meaningful capital mobilisation into emerging markets. We suggest 5% at the whole of fund level as an appropriate allocation to enable investments such as social and affordable housing, community infrastructure, energy transition. This allocation remains small enough to satisfy prudential expectations around liquidity, valuation uncertainty and market depth.

Over time, the cap could be reviewed and IIA would like to see it increased as evidence accumulates on performance against CPI + X, the maturity of underlying markets and the robustness of valuation and reporting standards.

### *3.5. What other safeguards should apply, and why?*

For an individual covered asset type, this new covered asset classification should be temporary. No covered asset type should remain under this classification permanently. The benchmark should be reviewed periodically at biennial intervals (see response to Option 3: Introduce a routine review of the benchmarks).

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<sup>2</sup> Ibid; also OECD and GIIN

To maintain integrity and prevent the category from becoming a ‘catch-all’ for underperforming or hard-to-benchmark assets, funds should apply clear, consistent classification rules and document how each asset meets the eligibility criteria. APRA should retain the ability to review or reclassify assets to ensure system-wide consistency. Enhanced transparency will strengthen credibility, reduce the risk of style drift, and reinforce that the framework is grounded in financial discipline rather than thematic preferences. This could include: disclosure of allocations, performance against CPI + X, valuation approaches and risk-management processes.

### **Option 1.2: Improve the existing Alternatives covered asset class**

IIA does not recommend this option.

### *Option 2: Introduce an assessment of risk-adjusted returns*

IIA supports Option 1.1, which applies at the whole-of-portfolio level, so an additional risk-adjusted return assessment under Option 2 is not required.

### *Option 3: Introduce a routine review of the benchmarks*

IIA supports the introduction of a biennial benchmark review cycle to ensure the framework remains aligned with market conditions and investment practice. Benchmarks inevitably lag innovation, and impact-aligned and emerging asset classes evolve rapidly as new markets deepen, data improves and investable opportunities expand. A regular review process will help ensure that benchmarks remain fit for purpose and do not unintentionally constrain capital flows into productive, real-economy assets.

IIA recommends that each review draw on independent experts with experience in impact investing, real-economy asset classes and alternative benchmarks, and that it be informed by global frameworks such as Global Impact Investment Network (GIIN), Impact Management Platform (IMP) and the Organisation for Economic Cooperation and Development (OECD). Reviews should follow a transparent methodology, include consultation with industry and assess whether suitable indices or proxies have emerged that could support more precise or differentiated benchmarking over time.

### *Option 4: Test externally directed accumulation products*

Not applicable – our submission focuses on benchmark settings and not product-level testing.

## Conclusion

Reviewing the superannuation performance test is a chance to ensure super funds can invest confidently in the real economy assets that will drive productivity, transition and community wellbeing over the decades ahead.

As the test evolves, impact-aligned and emerging asset classes must not be marginalised or treated as peripheral. These investments are increasingly central to Australia's future economy and to long-term member outcomes. With clear safeguards, routine benchmark reviews and a forward-looking approach, changes to the performance test can support innovation and enable funds to invest for the future while maintaining strong prudential discipline.

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