

Rest Submission: Strengthening the Superannuation Performance Test

June 2026

Rest Super welcomes the opportunity to provide views to Treasury in its consultation to strengthen the superannuation performance test.

Rest is one of Australia's largest superannuation funds, with over two million members – or around one-in-seven working Australians – and around \$105 billion in assets under management¹. We represent around one million members under the age of 30, who are decades from retirement. Many of our members work in part-time or casual jobs, which can make it harder to build super consistently over their working lives. We put our members needs at the centre of everything we do, and we are deeply committed to maximising the retirement outcomes of our members.

Rest's primary investment goal is to grow members' savings, so they have the opportunity to live their best retirement, by delivering net investment returns above the rate of inflation. Rest sets an investment strategy and an objective for each investment option. Investing only for our members, Rest's membership profile gives us a distinct long-term investment horizon, enabling us to invest at scale, compound returns over decades, and maximise returns for a given level of risk while keeping costs low. Rest strongly supports removing current barriers that can discourage super funds from being able to invest in members' best financial interests, particularly in relation to reforming the superannuation performance test.

Executive Summary

Rest believes that all super funds that manage Australians' super assets should provide competitive investment performance relative to appropriate benchmarks. There must be clear expectations for fund performance, and consequences for funds that persistently do not meet them. As such, Rest has long supported the policy objective of the performance test.

However, the current performance test framework needs to be improved so it is more sophisticated in assessing and supporting member outcomes. First and foremost, the guiding principle for the consideration of improvements to the performance test must be what is best for members.

For Rest members, who are typically younger and often decades from retirement, preserving the ability for trustees to invest across a broad opportunity set for long-term compounding returns is central to delivering strong retirement outcomes.

The current design of the performance test means super funds face barriers that can prevent them from investing in a full range of opportunities on behalf of members. The design of the current benchmarks, combined with the existential consequences for super funds that fail the test, mean that investments in assets not included in the benchmarks or emerging asset classes can be disincentivised. As a result, the current design of the test can inhibit super funds from contemplating investments that may be in members' best financial interests.

We acknowledge that there has been a lack of consensus on a way forward on appropriately improving the performance test, and that discussions on reform have been ongoing for some years.

In light of this, we are committed to working constructively with Government, regulators, industry and other stakeholders towards meaningful, practical and enduring improvements to the performance

test. We consider that the recommendations we have made in this submission would represent such an outcome.

Recommendation

In summary, Rest recommends that the Government proceed with the following reforms:

1. Option 1.1: The introduction of an “Emerging Assets” asset class with a CPI+X benchmark for asset types not well-represented in other existing benchmarks (such as venture capital, agriculture and natural capital, residential housing and climate transition investments).
2. Option 3: Routine periodic reviews of the benchmarks by an independent Expert Panel convened by APRA, with the benchmarks removed from Regulation and instead included in a more flexible instrument, administered by APRA and overseen by the Expert Panel.
3. Option 4: Extension of the performance test to externally directed accumulation products.
4. Amendment to the administration fee methodology, so that actual and benchmark RAFE are calculated on the historic year against the same year of investment performance, to better represent historical net performance.

Additional recommendation: Standardised Investment Product Labelling

We acknowledge that the complex and often technical discussions regarding the most appropriate performance testing framework can be divorced from the reality of how members interact with and understand their superannuation investment options.

Rest believes the increased number and complexity of products in the super landscape makes it difficult for members to compare product structures, features and risk on a like-for-like basis. Building on our previous responses to Treasury’s Sustainable Investment Product Labelling consultation, we believe similar principles should be applied more broadly across investment options, with a particular focus on risk categorisation (including standard definitions for investment product naming terms such as “Conservative”, “Balanced”, “Growth”, “High Growth” and the like).

We therefore recommend Government commence the development of a standardised investment product labelling framework that applies consistent risk categories and descriptors across comparable options, enabling clear, like-for-like member comparison and improved consumer understanding. Such a framework would improve transparency, enable more meaningful comparison and support more informed member decision-making.

Conclusion

The reforms we have recommended in this submission, if enacted, would require careful consideration of implementation. We would recommend and welcome further consultation with industry, once decisions have been made as to future reform direction.

Rest values the opportunity to engage in Treasury’s consultation and provide this submission. We would welcome the opportunity to further discuss any matters outlined in this submission at your convenience.

Our detailed responses to all consultation questions are outlined in the next section.

Detailed responses to consultation questions

Option 1.1: Introducing a new emerging covered asset class

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 performance test clearly constrains investment decisions and can deter investment in certain assets. In particular, it encourages ‘benchmark hugging’ and discourages investment in areas that are not well captured by the benchmarks, creating tracking error even where those investments may offer strong risk-adjusted returns and be in members’ best financial interests. Although there are a number of asset types affected, some key examples of emerging asset classes not well-represented by the existing benchmarks include:

- **Venture capital**, which is measured against the listed equities benchmark (with mature listed companies), whereas venture capital investments have different returns profile with returns tending to occur later during the investment horizon (‘J-curve’).
- **Residential housing**, which is measured against the property benchmark. However, the benchmark’s lack of residential exposure means funds are discouraged from investing, despite the potential benefits. This applies to housing right across the market spectrum, including social, affordable and market.
- **Agriculture and natural capital**, which are not well-represented in current benchmarks, with investments discouraged and resulting in tracking error. Australian super funds have historically had low exposure to agriculture investments.
- **Climate transition investments** (including renewable energy projects), which are not well-represented in the current backwards-looking benchmarks (such as the unlisted infrastructure benchmark), can be discouraged under current settings.

Of course, the performance test is not the only barrier to investing in some of the above areas, but one of a number of barriers. For example, the ongoing inclusion of stamp duty under *ASIC Regulatory Guide 97* detracts from the attractiveness of certain Australian investment types, notably direct property – including data centres, agriculture, residential housing, and many infrastructure investments – relative to other asset classes². The prioritisation of fee reduction over net returns in RG 97 can also create an uneven playing field for private equity and venture capital³.

Rest members, often younger and on lower incomes with lower account balances, are disproportionately exposed to the impacts from the housing crisis, climate change and any future deterioration in domestic economic growth. As a member of the Treasurer’s Investor Roundtable, and a signatory to the Housing Accord, Rest welcomes the ongoing dialogue with Government regarding removing the various barriers to investment in areas that can provide strong risk-adjusted returns for members, and also provide broader financial benefits to the Australian economy, communities and Rest members. Reforming the performance test, on its own, may not have the effect of significantly changing capital flows.

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.

Rest supports Option 1.1 (introducing an “Emerging Assets” asset class, with a CPI+X benchmark) as a practical and commonsense way of removing barriers to investing in some of the areas identified in question 1. As outlined below, we consider Option 1.1 and Option 3 should be coupled together, as they provide a mutually reinforcing package of reforms to the test.

A CPI+X test benchmark that applies to identified asset types as a general benchmark would allow trustees more flexibility in their investment choices into emerging assets.

For genuinely emerging assets, the economic mismatch between expected cash flows and risks can be so severe that tracking error against the assigned benchmark is essentially noise, not a measure of implementation skill. A CPI+X benchmark for these sleeves measures whether the allocation added absolute return to members rather than arbitrarily assessing against the performance of unrelated assets. It would directly lower the regulatory barrier to innovation, which is acknowledged as a side effect of the test.

This asset class must be ‘optional’, in the sense that funds may decide to make use of the new “Emerging Assets” asset class or may instead allocate to benchmarks currently used for such investments.

3. How could this new covered asset class be designed? In particular:

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

We consider that the asset types outlined above in question 1 (venture capital, residential housing, agriculture and natural capital, and climate transition investments) are the kind of investments appropriate for inclusion in a new “Emerging Assets” asset class. However, the best approach to determining appropriate assets for inclusion would be through broad principles-based criteria (rather than through a more prescriptive mechanism of specifying specific asset types). This will ensure the new asset class benchmark is flexible enough to incorporate new and emerging investments over time, particularly as technological and societal preferences evolve.

The kinds of principles that might form the basis for a broad definition include:

- asset types that are not well-represented in other existing benchmarks; and
- in addition, have risk and return characteristics that are materially different to the characteristics of the existing benchmarks.

In addition to a broad principles-based definition, it would be appropriate to provide illustrative examples of the kinds of assets appropriate for inclusion (such as venture capital, residential housing, agriculture and natural capital, and climate transition investments). Such changes would sit comfortably in an instrument like APRA’s Reporting Standard SRS 550.0 Asset Allocation.

For the avoidance of doubt, we consider that the Emerging Assets asset class should otherwise apply across asset types (i.e. inclusive of listed and unlisted investments, and both growth and defensive assets) and be agnostic as to market (i.e. apply to both domestic and overseas markets).

We also agree with the suggestion in the consultation paper that the inclusion of a specific asset type in the Emerging Assets asset class would be as an 'interim measure' until the relevant asset type has sufficiently matured and suitable market indices become available.

It would be open to APRA to supervise (and periodically audit) trustees' use of the Emerging Assets asset class, to ensure the kinds of assets envisaged for inclusion are the ones being included.

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

As outlined under Option 3, we consider that all benchmarks (including the Emerging Assets asset class) should be overseen by an independent Expert Panel, convened by APRA. The independent Expert Panel would set the CPI+X target, taking into account relevant considerations, and would periodically review the benchmark. A relevant factor to consider, in setting the target, is the universe of product-level investment objectives that currently exist for trustees' investment options (e.g. Rest's MySuper Growth option has a CPI+3% objective after fees and tax, over rolling 10-year periods).

Given CPI volatility and the need for a degree of smoothing, we agree with the proposal outlined in the consultation paper to use a 10-year rolling geometric average of CPI, which aligns with the look-back period for assessment of investment returns in the performance test. We support using a geometric average, given this would align with the current test construct and how funds generally calculate CPI+X product-level investment objectives.

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

We consider that, for simplicity, it would be preferable for one target to apply to the Emerging Assets asset class. However, if that is to be the case (and given both growth and defensive assets would be included in the same asset class), it would be appropriate to calibrate the CPI+X target accordingly. We understand some industry stakeholders propose a CPI+1% for Emerging Assets (Defensive) and CPI+2.5% or 3% for Emerging Assets (Growth).

3.4. What allocation cap should apply, and why?

In order to avoid any perception of 'gaming' and to ensure member confidence, we would accept a decision to impose an allocation cap. However, in order to properly acquit the policy intent of helping to remove barriers to investing in areas not properly represented in current benchmarks, Rest's view is that any such cap should be no less than 10% (at the product strategic asset allocation level). Having a 10% cap is particularly appropriate to allow sufficient allocation in product options where members may have stated preferences for allocations to emerging asset classes, such as climate solutions or renewable energy investments.

3.5. What other safeguards should apply, and why?

In addition to the above, in order to avoid any perception of 'gaming' and to ensure member confidence, we would also accept a decision to apply the new Emerging Assets asset class to new investments, rather than existing holdings at the time of introduction of the new benchmark. Funds would therefore not be permitted to retrospectively adjust APRA filings to adjust historical allocations to the new Emerging Assets asset class.

4. What are the key implementation and transition considerations for this option?

As outlined in the consultation paper, we agree that the new Emerging Assets asset class benchmark should have prospective application (i.e. only apply to that portion of a product's investment history that follows the introduction of the benchmark). This is important for procedural fairness, and regulatory certainty.

Option 1.2: Improving the existing Alternatives covered asset class

5. To what extent would improving the Alternatives covered asset class address investment constraints the test may impose? Provide evidence or examples to support your views.

6. How could the Alternatives covered asset classes be improved? In particular:

6.1. What asset types should be eligible, and why?

6.2. What changes should be made to the benchmarks, and why?

7. What are the key implementation and transition considerations for this option?

Rest supports Option 1.1 rather than the Option 1.2 of improving the existing Alternatives covered asset class. The Alternatives asset class is an existing well-understood asset class within the current test and includes different types of investments (e.g. commodities, insurance-linked securities, distressed credit⁴) that may have very different characteristics to “emerging” assets.

Rest considers that applying the benchmark tests existing in the three Alternatives asset classes (being various proportions of international equities and international fixed income) would result in ongoing barriers to investment in areas referred to in question 1 (particularly unlisted assets) and would not acquit the policy intent of removing such barriers.

We consider the Alternatives asset class should continue to exist separate to the “Emerging Assets” asset class.

Option 2: Introduce an assessment of risk-adjusted returns

8. To what extent would introducing a simple reference portfolio address investment constraints the test may impose? Provide evidence or examples to support your views.

9. How could the simple reference portfolio be designed? In particular:

9.1. What asset classes and market indices should be included in the reference portfolio, and why?

9.2. Is volatility an appropriate proxy for risk? If not, is there an alternative approach?

9.3. What is an appropriate failure buffer to apply under this approach, and why?

10. What are the key implementation and transition considerations for this option?

For the reasons outlined below, Rest strongly does not support Option 2, being the introduction of an assessment of risk-adjusted returns through the use of a Simple Reference Portfolio (SRP), under a single metric test.

As the consultation paper makes clear that the SRP would not operate as part of a multi-metric test but would exist as the single metric with the current existential consequences of failure for trustees, measuring returns against a risk-adjusted SRP is a flawed policy solution. Option 2 also proposes using volatility as a proxy for risk, which we also would consider is not appropriate.

Option 2 risks turning the performance test from a measure of investment skill into a measure of risk appetite.

Funds may respond by positioning their portfolios just above the growth allocation of the reference portfolio in order to maximise expected returns while remaining close to the benchmark. This could create a new form of benchmark hugging, occurring at the strategic asset allocation level rather than through individual investment decisions.

A further challenge is that any attempt to calibrate a risk-adjusted reference portfolio relies heavily on historical data. Over most recent decades, growth assets such as equities have delivered strong returns, meaning the historical evidence tends to favour higher-risk portfolios. As a result, a risk-adjusted benchmark may unintentionally embed yesterday's winners as the "neutral" position for the future.

Historical measures of risk can also be misleading. Some risks simply do not emerge during the period being observed, making certain assets appear safer than they truly are. This issue can be particularly pronounced for unlisted assets, where appraisal-based valuations can smooth reported volatility and make risk-adjusted performance appear stronger than it really is.

The result is that a risk-adjusted reference portfolio may reward exposures whose risks have not yet been revealed, while penalising genuinely diversified strategies whose benefits only become apparent during periods of market stress.

Ultimately, there is no purely objective way to solve this problem. Any risk-adjusted framework requires forward-looking assumptions about future risk and return, which reintroduces the judgement and subjectivity that the simple reference portfolio was designed to avoid.

For these reasons, we believe Option 2 could encourage greater herding, increase procyclical investment behaviour, and reduce diversity in fund investment strategies over time.

A SRP by design excludes significant parts of the investment universe, particularly unlisted assets, which have been a hugely important source of returns and diversification for super fund members. Adopting a SRP performance test would only serve to disincentivise investment in unlisted assets (such as infrastructure, private equity and property), given these assets would be benchmarked against a risk-equivalent portfolio of stocks and cash/bonds and therefore subject to even more tracking error than the existing test. This would work against the policy intent of removing barriers to investment in some of the areas identified in the response to question 1 above.

Further, Option 2 would also penalise sustainability-focused strategies that intentionally tilt portfolios away from certain sectors and towards sustainability themes (energy transition, climate resilience, labour standards, governance). These tilts:

- May lag market proxies in short or medium horizons.
- Often embed real-option value and tail-risk mitigation that is not captured in a SRP metric.

Under a SRP test, these deliberate sustainability exposures can be misclassified as "implementation risk" or "underperformance".

We are therefore concerned a move to Option 2 would incentivise trustees to:

- reduce sustainability-related tilts to minimise shorter term benchmark tracking risk
- avoid investing in emerging sustainability themes with longer payoff horizons, and
- converge sustainability focussed portfolios toward market-neutral positions to avoid relative underperformance in the short term.

Such outcomes would plainly not be in members' best financial interests.

If, however, it is decided to proceed with Option 2 and consistent with our comments on Option 1.1, any reform should have prospective application only (i.e. only apply to that portion of a product's investment history that follows the introduction of the revised test). This is important for procedural fairness, and regulatory certainty.

Option 3: Introduce a routine review of the benchmarks

11. Would introducing a routine review support the ongoing effectiveness of the benchmarks? Provide evidence or examples to support your views.

Rest supports Option 3 (introducing a routine review of the benchmarks) as a practical and commonsense way, together with Option 1.1, of ensuring the ongoing effectiveness of the performance test framework including its ability to evolve over time. Benchmarks should not be considered as 'set and forget' – markets evolve over time and the efficacy of individual benchmarks will change. A formalised way of reviewing the benchmarks is essential to the ongoing success of the test.

12. How could a routine review of the benchmarks be designed? In particular:

12.1. What issues should be within scope of the review, and why?

The routine and periodic review should have in scope matters including:

- The current benchmarks (including potential changes to the benchmarks, such as the selected indices used for measurement).
- Potential new benchmarks for inclusion. As examples, Rest would support consideration of additional benchmarks including:
 - An appropriate standalone benchmark for private equity; and
 - Appropriate 'climate transition indices' for Australian and International equities and fixed-income, which would sit alongside the current benchmarks as alternatives for trustees.
- The calculation of actual and benchmark RAFE (outlined further below).

In relation to the proposal for inclusion of 'climate transition indices', this is an extremely important reform to progress. Many funds, including Rest, offer sustainability-focused choice options that achieve competitive returns while intentionally tilting portfolios away from certain sectors and towards sustainability themes including the climate transition. Members actively choose these options. However, under current settings, funds' performance is measured against

standard traditional benchmarks which can include significant fossil fuel exposure, assets which members may have actively chosen not to have exposure to through selection of a sustainable option. This issue should be properly considered by the review.

A routine benchmark review would also consider the suitability of existing benchmark indices. Alternative benchmarks could be considered for suitability, including considering the cost to super funds, and therefore members, of the benchmarks (noting this is not currently expressly considered). This is particularly important, given the current index provider monopoly arrangements and consequent impacts on competitive dynamics.

12.2. Who should be responsible for conducting the review, and why?

We consider the review should be conducted by an independent Expert Panel convened by APRA. The Panel would comprise appropriate investment and superannuation experts, and take submissions from regulators, industry and other stakeholders in conducting the review. A technical expert working group would help inform the Panel in its deliberations.

12.3. How frequently should the review occur, and why?

Given the long-term nature of superannuation investment, it is important that there is stability and certainty for investors and changes to benchmarks are not made too regularly. At the same time, a semi-regular cadence of review would ensure appropriate changes could be made in a timely manner. We consider that a frequency of a review every 3 to 5 years provides an appropriate balance. An initial general review after 3 years could assist in responding to any more immediate required changes, with a subsequent general review every 5 years.

13. How should the benchmarks be specified and updated over time?

Rest agrees with the suggestion in the consultation paper that, rather than remaining in regulations, the benchmarks should instead be included in a more flexible instrument, administered by APRA and overseen by the Expert Panel. This approach would ensure that the legislative process does not constrain timely updates to the benchmarks, while maintaining transparency and regulatory certainty.

14. What are the key implementation and transition considerations for this option?

Consistent with our previous views, as a matter of principle, changes to benchmarks should have prospective application only (i.e. only apply to that portion of a product's investment history that follows the introduction of the revised test).

15. What other issues with the benchmarks could warrant consideration, either as part of a regular review, or more broadly?

Fees and expenses

Rest believes that the calculation of actual representative administration fees and expenses ("RAFE") and a comparison to benchmark RAFE is an appropriate method, within the existing performance test framework, to represent costs for members. However, we consider an amendment

to the treatment of actual and benchmark RAFE is needed to more fairly provide a measure of long-term net returns, and reasonable comparison between fund performance.

Administration fees, represented by actual and benchmark RAFE, should be calculated on the historic year against the same year of investment performance, to better represent historical net performance. The current treatment of only the most recent RAFE being used to net against historic net returns is a distortion of the experience of any member in a fund. Including historic RAFE against the year of return will mean that funds that have reduced their fees over time will have this reflected in the net returns in each year, without having a distortion effect.

We believe this simple improvement is capable of being implemented relatively easily, and would improve the accuracy of the test.

Option 4: Test externally directed accumulation products / Whether to test single-sector products or retirement products

16. Are there specific products for which performance testing would be unsuitable? If so, why? Provide evidence or examples to support your views.
17. How could the test be extended to externally directed products? What design elements need to be considered?
18. What are the key implementation and transition considerations in extending the test to externally directed products?

The recent catastrophic collapses of the Shield and First Guardian Master Funds resulted in losses to almost 12,000 Australians of around \$1.2 billion.⁵ These losses involved externally-directed managed investment schemes being offered on superannuation platforms, which were not subject to the superannuation performance test. There were several factors that appear to have contributed to these losses including significant limitations in the regulatory framework for managed investment schemes and deficiencies in the exercise of due diligence over investments on platforms. These losses show that current consumer protections have not kept pace with the development of new commercial models.

Rest strongly supports extending the performance test to externally directed accumulation products. As a principle, performance testing should be applied as broadly as possible across the superannuation system. The increasing number of members opting to use these products to invest their retirement savings should be afforded the same level of protection by the performance test as members in products covered by the test.

We consider it appropriate to use the same methodology for testing externally-directed accumulation products as that currently applying to trustee-directed accumulation products. Although investment options in such products are not directed by the trustee, the trustee remains ultimately responsible for deciding which investment options are offered to members and ongoing monitoring of those options. Like all trustees, they must act in members' best financial interests.

Expanding the test to these products would serve to increase accountability by trustees for the investment options offered on platforms. It is one piece in the puzzle of urgently-needed consumer protections to respond to the regulatory gaps exposed by the Shield and First Guardian catastrophes.

19. What are the key considerations in extending the test to single-sector products?

Rest is supportive in-principle of single-sector products being subject to the performance test. However, as outlined in the consultation paper, there are distinct design and implementation considerations that would need to be considered.

We would welcome the Government's ongoing consultation and engagement as potential future reform direction is considered.

20. What are the key considerations in extending the test to retirement products?

21. Could performance testing retirement products create risks to broader retirement income objectives? If so, what are these risks and how could they be mitigated?

Rest supports the extension of a testing regime to retirement products, to ensure consumer protection mechanisms are extended across all members in the system.

However, the structure of the performance test would need to be altered to reflect the characteristics of product design for members in this phase. The existing test architecture assumes accumulation, whereas the retirement phase necessitates a significant change in assumptions. We should not import accumulation-style performance logic into retirement products.

Retirement products are designed for income stability, longevity protection, and sequencing-risk management, not maximum benchmark-relative returns. A test that scores only return against an SAA-mapped proxy penalises exactly the features that make a retirement product good: defensive positioning, drawdown protection, potential annuity-style components, and de-risking as members age.

For members in the retirement phase, the path of returns matters more than the average due to sequencing risk. A fund protecting members from a 2022-style downturn while they're withdrawing adds enormous value that a 10-year average return comparison completely misses, and may even penalise.

Retirement products are increasingly personalised (account-based pensions, blended annuities, bucketing strategies), so there's no single representative member or comparable cohort, whereas the test presumes a homogeneous default.

Applying the accumulation test as-is would push retirement products toward growth-heavy, benchmark-hugging designs. This would directly contradict the Retirement Income Covenant's mandate to balance income, risk, and flexibility. The likely consequence is product withdrawal or homogenisation right when the system needs retirement innovation the most.

Any retirement quality filter must incorporate consideration of the following: income sustainability metrics, sequencing-risk controls, longevity protection, and liquidity and drawdown management.

We would welcome the Government's ongoing consultation and engagement as potential future reform direction is considered.

¹ As at 31 December 2025.

² See further in Rest's February 2026 submission to ASIC's consultation on proposed changes to stamp duty disclosure requirements [here](#).

³ Mandala (2025) [Private Capital: Australia's Untapped Opportunity](#) notes that RG 97 incentivises prioritising fee reduction over net returns and creates an unlevel playing field for unlisted assets. The performance test uses an inappropriate benchmark, creating distortionary behaviour that harms member outcomes. It estimates super fund under-allocation to private equity and venture capital is costing retirees up to \$20,000.

⁴ See APRA Reporting Standard SRS 550.0 Asset Allocation.

⁵ See ASIC (2026). [First Guardian Master Fund](#) and [Shield Master Fund](#).