

**FUTURE
GROUP**



WHITE PAPER

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Your Future, Your Super: the case for reform

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Modelling and stakeholder evidence attributed to Mandala are drawn from the report “Superannuation and climate change: Better returns for a better climate”, commissioned by Future Group. The full methodology and assumptions are set out in that report.

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The case for Performance Test reform in four points

Australia's superannuation system should be looking forward - anticipating the energy transition, nature risk and AI-driven disruption. The Your Future, Your Super performance test, as designed, encourages funds to invest based on sectors that have performed well in the past.

A narrow set of reforms would close the gap without weakening accountability. Drawing on Mandala's 2024 modelling and Future Group's policy submissions, this paper sets out the case in four points.

01 The test did its job

Introduced in 2021 to lift accountability, reduce fees and protect member returns. The weakest funds have exited; performance standards have risen.

02 But it is facing the wrong way

Backward-looking, ten-year benchmarks force CIOs to hug the index even where they can see structural risks ahead. Climate, nature and the energy transition are material risks the test is blind to.

03 Reform unlocks a real dividend

Mandala's G-Cubed CGE modelling shows reform could lift real GDP by \$170 billion, support 620,000 new green jobs, and deliver 15% higher returns for green portfolios over ten years.

04 A practical path forward exists

Two targeted reforms preserve accountability while giving funds room to invest in the transition: empower APRA to evolve benchmarks, and add a CPI+ benchmark for diversifying private-market assets.

What the YFYS performance test does

Introduced on 1 July 2021, the Your Future, Your Super reforms were designed to reduce fees, lift performance and hold trustees accountable.

At the heart of the reforms is an annual performance test administered by APRA. Each product is assessed against a benchmark return built from its reported strategic asset allocation (SAA) and prescribed asset-class indices. Performance is measured over a ten-year horizon and if a product falls more than 0.5 percentage points p.a. below the benchmark, it fails. One failure triggers a member notification, a second consecutive failure closes the product to new members¹.

Summary of prescribed asset-class benchmarks used in the test¹

<p>Australian listed equities S&P/ASX 300</p>	<p>International equities MSCI ACWI ex-Australia</p>	<p>Australian listed property S&P/ASX 300 A-REIT</p>	<p>International listed property FTSE EPRA/NAREIT Dev.</p>	<p>Australian listed infrastructure FTSE Dev. Core Infra 50/50</p>
<p>Unlisted infrastructure MSCI AU Quarterly Private Infra</p>	<p>Unlisted property MSCI/Mercer AU Core Wholesale</p>	<p>Australian fixed interest Bloomberg AusBond Comp.</p>	<p>International fixed interest Bloomberg Global Aggregate (h)</p>	<p>Cash Bloomberg AusBond Bank Bill</p>

“Failure must be avoided at all costs - it is the death of a fund.”

CHIEF INVESTMENT OFFICER, VIA STAKEHOLDER INTERVIEWS · MANDALA, 2024

Three structural flaws in the test

The test was well-intentioned and as a blunt instrument it has delivered in its initial years of operation. But its design also penalises funds that are looking forward and seek to move on trends before benchmark indices catchup.

01 Pass / fail binary

A single failed test forces a fund to notify every member of its underperformance. A second forces closure. Mandala's stakeholder interviews describe a regime where, in one CIOs' words, "failure must be avoided at all costs" - an existential penalty that pushes funds to hug the index regardless of long-term strategy or member values.

02 Ten-year horizon punishes long-payback assets

The test front-loads returns and penalises temporary underperformance. Mandala's G-Cubed modelling of Russia's invasion of Ukraine demonstrates that significant short-term price shocks revert over the long term - yet the ten-year window forces funds to react to them anyway. Long-payback assets like renewables, social housing and other nation-building infrastructure are structurally disadvantaged.

03 Blind to member values

Ethical funds are measured against benchmarks that include the very industries those funds are designed to exclude. A fund that screens out fossil fuels is tested against an index that contains them - even when the strategy is endorsed by members and is calibrated to protect them from long-run carbon risk.

Concentration risk in listed equities

Australian benchmarks bake in dangerous levels of concentration - and current rules penalise funds that diversify away from it.

55%+

of the S&P/ASX 300 sits in financials and materials as at Jan 2026, with BHP and the big four banks alone over 30%.⁵

25%+

of MSCI World ex Australia sits in just nine mega-cap tech stocks as at Jan 2026 - a fragile base for retirement savings.⁵

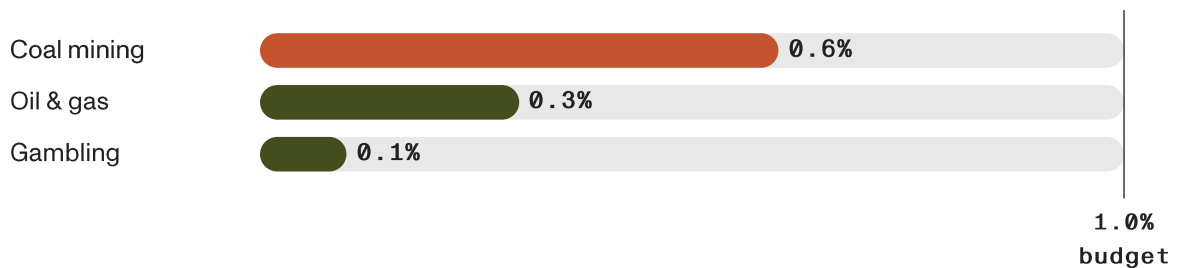
Diversifying away from this concentration can burn through scarce tracking-error budget - pushing funds back toward the index, even where trustees see the risk ahead.

The tracking error budget runs out fast

Stakeholders report Australian-equity tracking-error budgets of around 1%.³ Ethical exclusions consume that budget almost entirely.

Mandala found that the desire of investment teams to not get caught out investing too far from the benchmark has resulted in interviewed stakeholders setting tracking-error budgets of around 1% for equities. Mandala's analysis of monthly ASX 300 returns finds excluding coal mining alone uses 0.6% of tracking error, oil and gas a further 0.3%, and gambling 0.1%. Together they exhaust the budget - leaving nothing for tobacco, weapons, or for backing emerging climate solutions.

TRACKING ERROR AGAINST ASX 300 FROM SECTOR EXCLUSIONS



“Some CIOs have even questioned the ongoing ability to exclude tobacco - it just chews up a chunk of our limited tracking error budget.”

CHIEF INVESTMENT OFFICER · MANDALA STAKEHOLDER INTERVIEWS, 2024

Case study: a green fund forced to compromise

After short-term underperformance in 2021 - with the test approaching for Choice products - Mandala found that a major Australian super fund's socially responsible Choice product was forced to reduce its tracking error by lifting stakes in petroleum, gambling, heavy-emitting manufacturing, oil and gas, and arms manufacturing.²

How climate risk reaches members

Climate change drives three categories of financial risk that will reallocate capital across the Australian economy - whether super funds participate or not. Superfunds are expected by the regulator to consider these risks.

Physical risk

Direct damage to assets and property from extreme weather. Lower asset values, increased insurance claims, supply-chain disruption.

Transition risk

Disruption from changes to policy and community attitudes as the economy decarbonises. Pricing and demand shocks; stranded assets; rising defaults.

Liability risk

Exposure to costs of environmental clean-up and litigation. Reduced profits, business disruption, and credit defaults.

APRA models two scenarios for Australia

Minimal transition

The world fails to keep warming below 2°C. Higher physical risks - extreme weather and changing climate - hit assets and supply chains.

Delayed transition

Australia delays its transition to 2030, then undertakes rapid emission reductions. High transition risks dominate.

Recent climate policy changes mean Australia will avoid high physical risks, but experts still expect high transition risk. Under APRA's delayed transition scenario, the five largest banks modelled negative credit rating impacts for emissions-intensive borrowers - and the assessment revealed credit markets were not fully pricing these risks.

MANDALA 2024, CITING APRA CLIMATE VULNERABILITY ASSESSMENT, NOV 2022

The capital reallocation is already underway

Mandala's G-Cubed CGE modelling - a peer-reviewed Computable General Equilibrium framework that simulates capital flows, prices and output across sectors - was run on APRA's climate vulnerability assessment. It shows where capital moves once underpriced climate risks begin to flow through the economy.

-\$395B

Capital reduction in mining over 20 years under the delayed-transition scenario.²

-\$245B

Capital reduction in manufacturing reflecting the carbon intensity of these sectors.²

The same modelling shows a \$450 billion increase in services-sector investment over the same period. For super funds, the implication is direct: forward-looking portfolios capture the upside of this reallocation; benchmark-hugging portfolios bear the downside without claiming the gains.

Green portfolios outperform the ASX 300

+15%

Green portfolio outperformance over 10 years.²

+28%

And over 20 years - as markets begin to price in climate risk.²

If government were to fill the green investment gap that constrained super funds left behind, federal net debt would rise 13%.⁴ The reallocation is inevitable. The question is who pays.

Three regimes, one portfolio

Australian super funds now sit at the intersection of three legal and regulatory regimes that pull in different directions on the same portfolio.

YFYS

Backward-looking. Benchmark-relative. Return-focused.

Failing once notifies members; failing twice closes the fund to new members.

AASB S2

Forward-looking. Risk-based. Strategy-focused.

Mandatory climate disclosure applies to super funds from 2025.

Best-interest duty

Long-term. Member-focused.

Trustees must act in the best financial interests of members, including considering all material financial risks and opportunities, such as long-term climate related risks where relevant.

Where the regimes collide

01 Transition risk vs benchmark risk

AASB S2 motivates funds to reduce exposure to high-carbon assets. YFYS highlights deviation from carbon-heavy benchmarks.

03 Data asymmetry

AASB S2 requires detailed disclosure of climate exposures. YFYS does not incorporate climate risk in benchmarks.

02 Long-term vs short-term

AASB S2 examines resilience over decades. YFYS rewards short-to-medium-term tracking of benchmarks.

04 Portfolio construction constraints

YFYS imposes tracking-error constraints that discourage underweighting fossil fuels and overweighting climate assets.

Future Group's three reforms

These reforms preserve accountability while giving super the flexibility to invest in the transition. Views 1-2 address benchmark flexibility and private-market assets. View 3 applies the same principle to listed equities.

VIEW 01

Empower APRA to evolve the test by adding benchmarks

Amending or adding benchmarks currently requires a regulatory change - a high bar. APRA should be empowered to adapt benchmarks as new asset classes emerge and best practice changes, subject to consultation and transparent criteria.

WHY IT MATTERS

The test can keep pace with the energy transition, capturing emerging asset classes such as renewables, transmission and climate infrastructure that today's equity-and-bond benchmarks cannot measure fairly.

VIEW 02

Add CPI+ benchmarks for diversifying assets

Keep the test structure but add a CPI-linked benchmark of CPI+3 for alternatives. Funds get flexibility on strategic asset allocation, with the CPI+ benchmark available for up to 20% of the portfolio.

WHY IT MATTERS

Unlisted infrastructure, private debt and real assets are measured against an inflation-plus hurdle that reflects how these assets actually behave - not an equity-or-bond proxy that misprices their risk.

Sub-sector benchmarking

A public-markets fix using indices that already exist - giving funds room to manage concentration, climate risk and member values without weakening the test.

VIEW 03

GICS sub-sector benchmarks: adding additional benchmarks can hold funds to account while allowing more diverse strategies and ESG exclusions

Funds should be allowed to report strategic equity exposures at the sector level, using Global Industry Classification Standard (GICS) sub-indices already published by existing index providers. This is not a new mechanism: sub-sector benchmarking is already used across listed property, listed infrastructure and fixed income within the current performance test. There is no technical barrier to extending it to equities.

Members should not be forced to carry systemic concentration risk simply because the benchmark does. Sub-sector benchmarks would let portfolios reflect climate and concentration risk without creating unacceptable performance test risk.

FUTURE GROUP

Practical, incremental, urgent.

The Your Future, Your Super reforms were well-intentioned, and they have delivered. The weakest funds have exited; performance standards have risen across the industry; member outcomes have improved. The case for some form of test is settled.

But a test designed in 2021, looking backward over a ten-year window at benchmarks built for a different economy, is now actively working against the very members it was designed to protect. The reforms set out in this paper are not radical - they preserve every existing accountability mechanism. They simply allow the test to reflect how superannuation actually works, and what the next decade requires of it.

Government should act on performance-test reform before the next test cycle: empower APRA to evolve benchmarks, introduce CPI+ measures for alternatives, and ensure the test reflects every member's interests - not just the average one.

THE CALL TO ACTION

"Capital is the key to achieving net zero. We don't have the time to wait until 2050. The policy settings that govern super will determine whether we get there."

SIMON SHEIKH, CEO, FUTURE GROUP

REFERENCES

Sources & further reading

1 Annual Superannuation Performance Test; YFYS FAQs; CPPP Investment Indices

APRA

Performance-test mechanics; failure consequences; prescribed asset-class benchmarks

2 Superannuation and climate change: Better returns for a better climate

Mandala (2024)

Stakeholder interviews p.6; case study p.8; G-Cubed pp.15-20; methodology pp.25-29

mandalapartners.com/reports/super-and-climate-change

3 Constraints and Sustainable Tracking Error

Conexus Institute

Tracking error analysis (cited in Mandala 2024, p.9)

4 2021 Intergenerational Report

The Treasury

Modelling reproduced in Mandala (2024), p.22

5 S&P/ASX 300 Index and MSCI World ex Australia Index factsheets

S&P Dow Jones Indices and MSCI Inc.

Index composition data as at January 2026

FURTHER READING

Treasury Laws Amendment (Your Future, Your Super) Act 2021

Commonwealth of Australia

Assented 22 June 2021; commenced 1 July 2021

AASB S2 Climate-related Disclosures

Australian Accounting Standards Board

September 2024

A NOTE ON FIGURES

Future Group figures (\$13.8bn FUM, 400k+ members) are drawn from the Future Group internal data as at end April 2026. Modelling attributed to Mandala reflects Mandala's G-Cubed CGE framework; full methodology and assumptions are set out in the Mandala report (April 2024).

A dedicated, multi brand superannuation platform building the savings of our members.

OUR MISSION

To use the power of superannuation to build a future free from climate change and inequality.

Our platform today

\$13.8BN

Superannuation funds under management

400k+

Members across superannuation products

5 BRANDS

Future Super, Verve Super, smartMonday, Guild Super, Child Care Super