Atchison

Superannuation Market Place

Quarterly Review to 30 September 2023

Identifying Opportunity™

Special Feature: Australian Sustainability Reporting Standards

Australian Sustainability Regulation

In June 2023, the Australian government released the second consultation paper on climate-related financial disclosure to ensure greater transparency and accountability of large businesses and financial institutions regarding their climate-related plans, financial risks, and opportunities.

The reform principles are designed by the Australian Treasury to:

- *Support climate goals of net zero emissions by 2050,*
- *Improve quantity, quality, and comparability of disclosures,*
- *Assist businesses, investors, regulators, and the public in having a clear and common understanding about obligations for entities to disclose climate-related financial risks,*
- *Align with international reporting practice (e.g. IFRS Accounting Standards),*
- *Be scalable and flexible to accommodate future developments in the global baseline,*
- *Be allied to risk.*

The proposed roadmap for mandatory disclosure requirements is outlined below:

Timing	Reporting entities
2024 Scope 1 & 2 2025 Scope 3	Large entities and public companies (entities that fulfill 2 out 3 thresholds: over 500+ employees, over $500 million annual revenue, or assets over $1 billion)
2026 Scope 1 & 2 2027 Scope 3	Medium-sized companies (entities that fulfill 2 out 3 thresholds: over 250+ employees, over $200 million annual revenue, or assets over $500 million)
2027 Scope 1 & 2 2028 Scope 3	Smaller reporting companies (entities that fulfill 2 out 3 thresholds: over 100+ employees, over $50 million annual revenue, or assets over $525 million)

The 3-scope greenhouse gas (GHG) protocol includes:

Category	Scopes	Sources
Direct GHG Emissions	Scope 1	Direct sources in four categories: • 1. Stationary combustion (combustion of fuels in stationary equipment) • 2. Mobile combustion (combustion of fuels in transportation devices) • 3. Process emissions (emissions from physical or chemical processes) • 4. Fugitive emissions (intentional and unintentional releases, such as equipment leaks)
Indirect GHG Emissions	Scope 2	Stationary combustion (the consumption of purchased electricity, steam, heating, and cooling)
	Scope 3	Other Emissions that occur in the value chain, including both upstream and downstream emissions, as well as emissions related to outsourced/contract manufacturing, leases, or franchises that are not included in Scope 1 or Scope 2

Regulation on Financial Institutions

It is proposed that mandatory climate-related financial risk disclosure requirements would also apply initially to large financial institutions, including banks, insurers, credit unions, and superannuation funds, to establish uniformity throughout the economic landscape and to bolster the management of prudential risks.

The Australian Prudential Regulation Authority (APRA) CPG 229 Climate Change Financial Risk (November 2021) provide guidance to RSE licensee and flexibility to configure an approach to climate risk management in a manner best suited to achieving business objectives.

APRA is seeking to ensure that the RSE licensee manages risks and opportunities that may arise from a changing climate. In the context of CPG 229, the climate-change associated financial risks involve:

- *Physical risks: risks arising from the physical impacts of climate change, such as extreme weather events, sea-level rise, and changes in precipitation patterns.*
- *Transition risks: risks arising from the transition to a low-carbon economy, such as policy and legal changes, technological developments, and shifts in market preferences.*
- *Liability risks: risks arising from the legal and financial implications of climate change, such as litigation, and reputational damage.*

Refer to Atchison Sustainability Review 2023 for detailed qualitative and quantitative ESG (environmental, social, and governance) analysis.

Superannuation Market Place

Total Australian superannuation assets declined by 0.1% over the quarter to September 2023 but remained above $3.5 trillion (refer to equity performance over the quarter, as shown in Table 1 below), all assets experienced negative returns in the September quarter as investors reacted negatively to rising bond yields and geopolitical events.

Table 1: Quarterly Equity Performance – 30 September 2023

Asset Class	Index	Quarterly Return (%)
Australian Equities	S&P/ASX 200 TR	-0.8
International Equities	MSCI World Ex Australia (AUD)	-0.4
International Equities (Hedged)	MSCI World Ex Australia (in local currency terms)	-2.9
Australian Listed Property	S&P/ASX 200 A-REIT TR	-2.9
International Listed Property	FTSE EPRA/NAREIT Developed Ex Australia (AUD)	-2.7

Source: S&P, MSCI, FTSE, FE

The composition of the Australian superannuation pool, in terms of fund types, is as follows:

Table 2: Assets by Fund Type – 30 September 2023

Type	Assets ($ Billion)	Assets (%)
APRA-Regulated		
Corporate	56.5	1.6%
Industry	1204.9	33.8%
Public Sector	525.9	14.8%
Retail	676.6	19.0%
Other	1.8	0.1%
Total APRA-Regulated	**2465.7**	**69.3%**
Self-managed super funds	**884.6**	**24.8%**
Other	**210.2**	**5.9%**
Total	**3560.5**	**100.0%**

Source: APRA, Atchison Consultants

Australian superannuation total assets remained at $3.6 trillion in September quarter. According to APRA, contributions into superannuation in the September 2023 quarter totalled $42.3 billion, which decreased by 16.4% from $50.55 billion, and increased by 9.5% over the year compared to September 2022.

Based on Atchison Consultant's forecast model, over the coming 10 years, total super assets are expected to grow to $6.0 trillion in 2033.

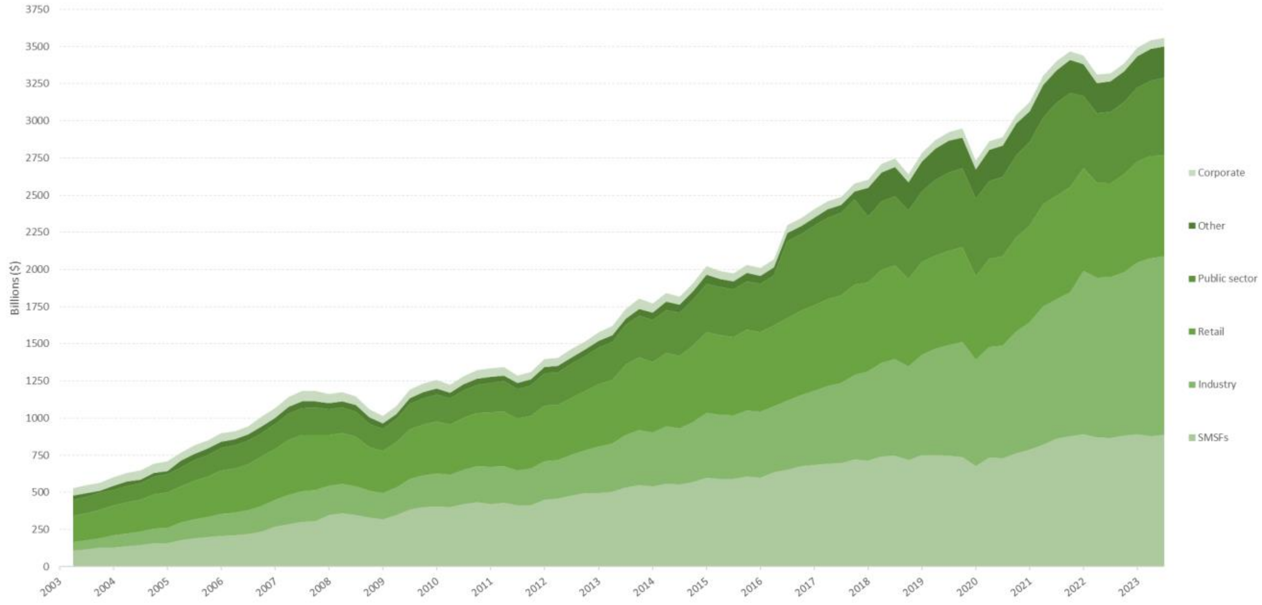
Superannuation Industry Sectors

In September 2023, Industry funds held the largest proportion of superannuation assets, accounting for 33.8% of total assets, and self-managed funds followed with 24.8% of total superannuation assets. Retail funds held the third-largest portion, representing 19.0%.

Industry, Public Sector, and Self-Managed Super Funds showed upward trends over the September 2023 quarter, as evident in Figure 1.

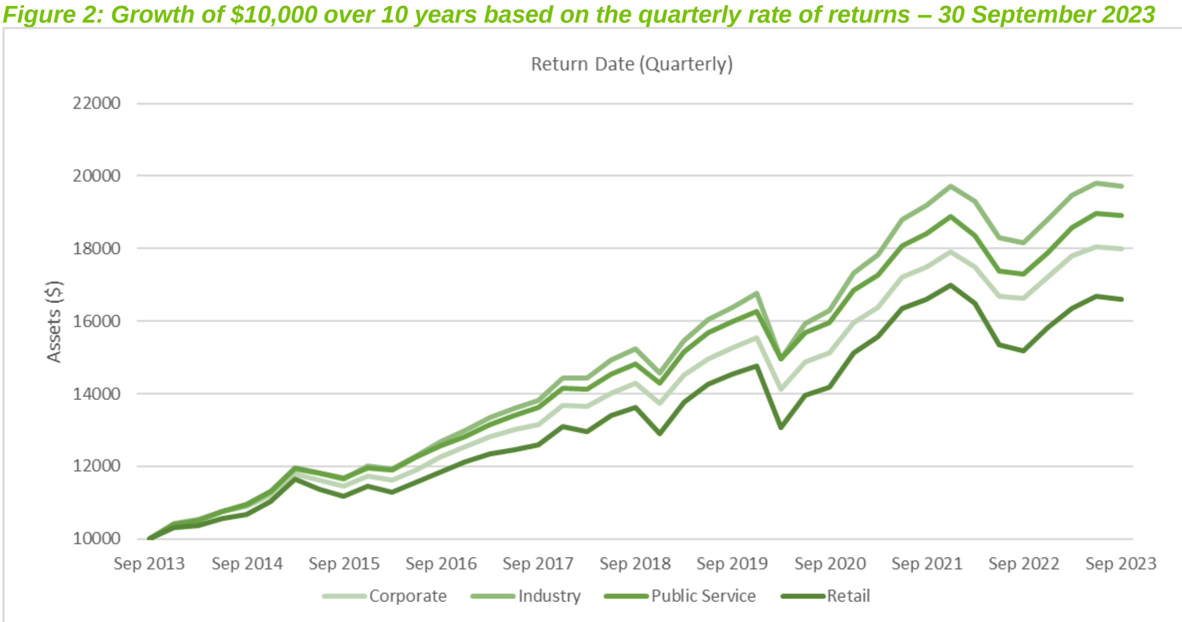
Figure 1 also provides a breakdown of the superannuation industry over time.

Figure 1: Superannuation Assets by Segment – 30 September 2023



Source: APRA, Atchison Consultants

Figure 2: Growth of $10,000 over 10 years based on the quarterly rate of returns – 30 September 2023



Source: APRA, Atchison Consultants

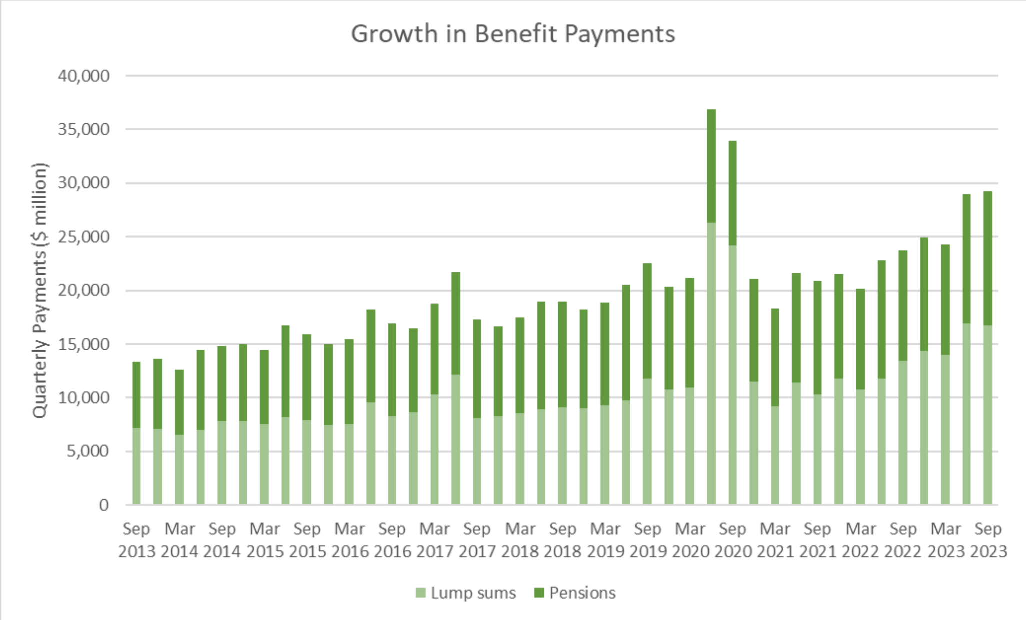
The rate of return across all superannuation fund categories declined in the September quarter, after 3-quarter robust performances. Equity markets experienced a pullback as investor sentiment was adversely affected by increasing bond yields and shocking events in the Middle East. Figure 2 shows the rate of return over the last 10 years, where industry and public sector funds have produced stronger returns over the 10-year period relative to retail and corporate funds. This reflects member sentiment but also the difficulty retail funds have faced over the last 10 years in gaining and returning to members when competing against not-for-profit funds.

Asset Flows

Contributions to APRA-regulated superannuation (excluding self-managed funds) amounted to $42.3 billion in the September 2023 quarter, a 12.5% increase over the year compared to September 2022.

As shown in Figure 3, $29.2 billion was paid in benefit payments in the September quarter, representing a +0.66% increase over the quarter. Benefit payments have increased 21.8% over the year ending in September 2023, driven by a 30% increase in lump sum payments.

Figure 3: Benefit payments – 30 September 2023



Source: APRA, Atchison Consultants

Asset Allocations

As shown in Table 3 below, superannuation entities reduced their allocation to Cash by -1.6%, while the significant increase in assets over the one-year period to 30 September 2023 was towards Fixed income of 1.3% and International Listed Equity of 1.0%.

Table 3: Average Asset Allocation – 30 September 2023

Type	September 2022 (%)	September 2023 (%)
Cash	**10.1%**	**8.5%**
Fixed income		
Australian fixed income	10.9%	11.7%
International fixed income	8.1%	8.6%
of which: currency hedged	75.0%	77.7%
Total fixed income	**19.0%**	**20.3%**
Equity		
Australian listed equity	21.7%	21.9%
International listed equity	25.4%	26.4%
of which: currency hedged	25.1%	27.3%
Unlisted equity	5.3%	5.1%
Total equity	**52.4%**	**53.3%**
Property		
Listed property	2.7%	2.4%
Unlisted property	5.6%	4.8%
Total property	**8.3%**	**7.3%**
Infrastructure		
Listed infrastructure	1.4%	1.4%

Australian unlisted infrastructure	3.5%	3.7%
International unlisted infrastructure	2.9%	3.2%
of which: currency hedged	75.8%	77.7%
Total infrastructure	**7.8%**	**8.3%**
Commodities	**0.1%**	**0.1%**
Other	**2.2%**	**2.1%**
of which: hedge funds	0.8%	0.7%
Total	**100.0%**	**100.0%**

Source: APRA, Atchison Consultants

Table 4 shows the weighted asset allocation for Not-For-Profit funds (Industry and Government Superannuation funds), Retail funds, and MySuper funds.

Table 4: Superannuation Fund Asset Allocation – 30 September 2023

Type	Corporate (%)	Industry (%)	Public Sector (%)	Retail (%)	MySuper (%)
Growth Assets					
Equity	45.6%	51.3%	53.9%	57.2%	52.3%
Property	9.2%	7.6%	7.9%	6.0%	7.3%
Infrastructure	5.8%	11.3%	7.6%	3.9%	10.4%
Other	2.9%	1.4%	3.1%	2.8%	8.2%
Total Growth Assets	**63.5%**	**71.6%**	**72.5%**	**69.9%**	**78.2%**
Defensive Assets					
Cash	7.0%	7.4%	8.6%	10.6%	3.1%
Fixed Income	29.3%	20.9%	18.9%	19.4%	18.6%
Commodities	0.2%	0.1%	0.0%	0.2%	0.1%
Total Defensive Assets	**36.5%**	**28.4%**	**27.5%**	**30.2%**	**21.8%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.1%**	**100.0%**

MySuper funds represented the highest allocations to growth assets, relative to the other sectors, 78.2%, while Corporate funds have a more balanced approach with a significant portion allocated to Defensive Assets (36.5%). In noting the above, Retail funds held the highest allocation to equities (57.2%). The largest allocators to infrastructure assets were Industry with 11.3%.

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