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Superannuation and the economy: Energy infrastructure

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ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.3 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 17 million Australians with superannuation.

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Superannuation and the economy: Energy infrastructure

This is the first in a series of regular research reports on the role of the superannuation industry in funding the Australian economy.

The role of the super sector

Over coming decades, APRA-regulated superannuation funds – collectively institutional superannuation – will play an increasingly important role in the Australian economy. Total assets under management (AUM) is currently $2.3 trillion, and is projected to at least double by 2040 – a faster growth rate than is expected for Australian GDP.

Super funds – as part of the broader financial system – mobilise new savings to fund new fixed capital investment that builds the economy's productive capacity. Super funds provide funding to the real economy that, in some cases, may not be available from alternative sources, including for private equity and venture capital.

Ultimately, super funds make new investments to optimise outcomes for their members over the long term. In this regard, funds seek to generate high investment returns that account for the myriad risks to portfolio value. With respect to climate change, key risks to super fund assets include the direct impacts of climate change, as well as the process of transition to a lower-carbon economy.

Taken broadly, institutional superannuation will help support more sustainable economic growth and better living standards for the Australian population.

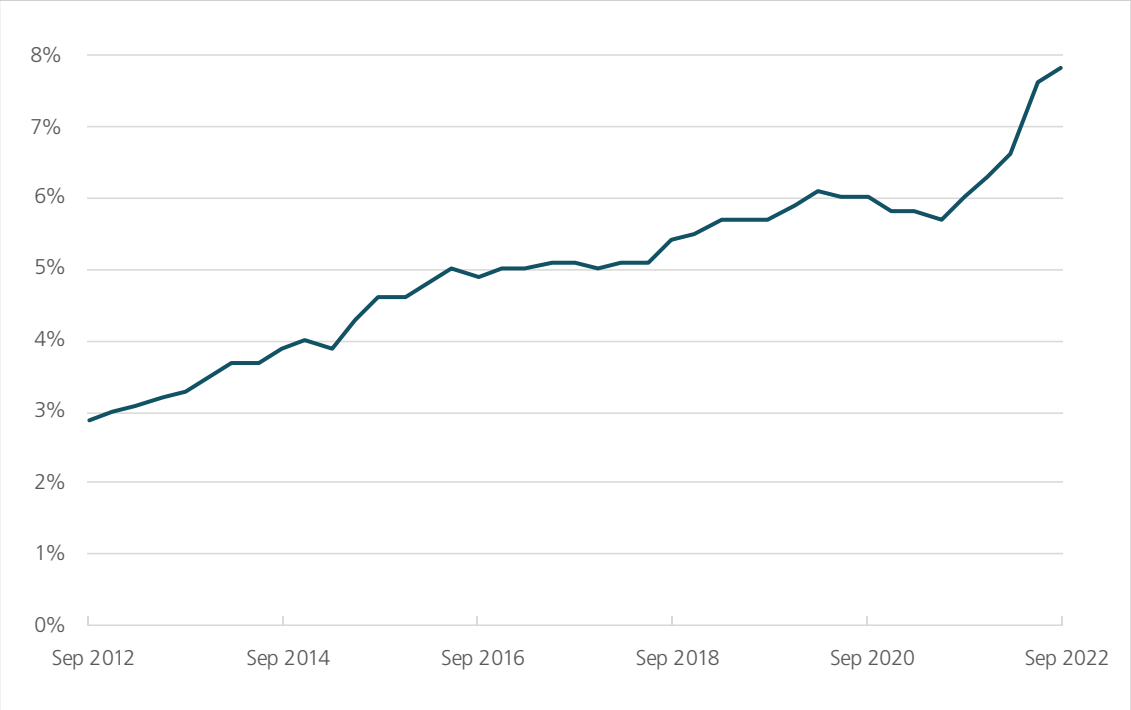
Super funds and infrastructure investment

Institutional superannuation will help fund Australia's infrastructure of the future, which includes 'hard' infrastructure (such as transport, energy and communications), and 'social' infrastructure (such as health, education, and cultural or recreational facilities).

Super funds have substantially increased their investments in infrastructure over the past decade (Chart 1). In 2010 only around one-third of funds had a significant exposure to infrastructure assets – investments totalled about $30 billion, or 3% of AUM. Today, exposure to infrastructure is the rule rather than the exception. By 2022, total investments had reached $165 billion, or 8% of AUM.

Chart 1: Total super fund infrastructure investment

(% of total AUM)



Source: APRA.

One of the key drivers of Australia's future infrastructure needs, and future super fund investments, is the process of economy-wide decarbonisation. While still in its early stages, this process reflects commitments across all levels of government and the business community. The Australian Government has committed to achieve (whole-of-economy) net zero emissions by 2050.

Australia's future energy requirements

With respect to energy infrastructure, decarbonisation will require a broad-based shift towards the generation of renewable-based electricity and the production of 'green' fuels. Complementary investments will be needed to expand and improve electricity transmission and distribution networks (to connect generators to end users), and to develop energy storage to accommodate the larger role of renewables.

For super funds, new energy infrastructure investments will involve funding for firms and governments to build new facilities – via direct ownership stakes or specialised third-party entities. More arms-length super fund investments will involve funding for firms, via capital raisings, for new projects.

Just as is the case for the broader business ecosystem, funds' investment decisions will also relate to the stewardship of existing assets (directly or indirectly held), which may involve investments that upgrade and repurpose energy-related assets and/or the orderly phase out of assets.

Super fund investments in energy infrastructure

Over the last decade, super funds' energy-related investments have shifted towards renewables, and renewable electricity generation in particular.

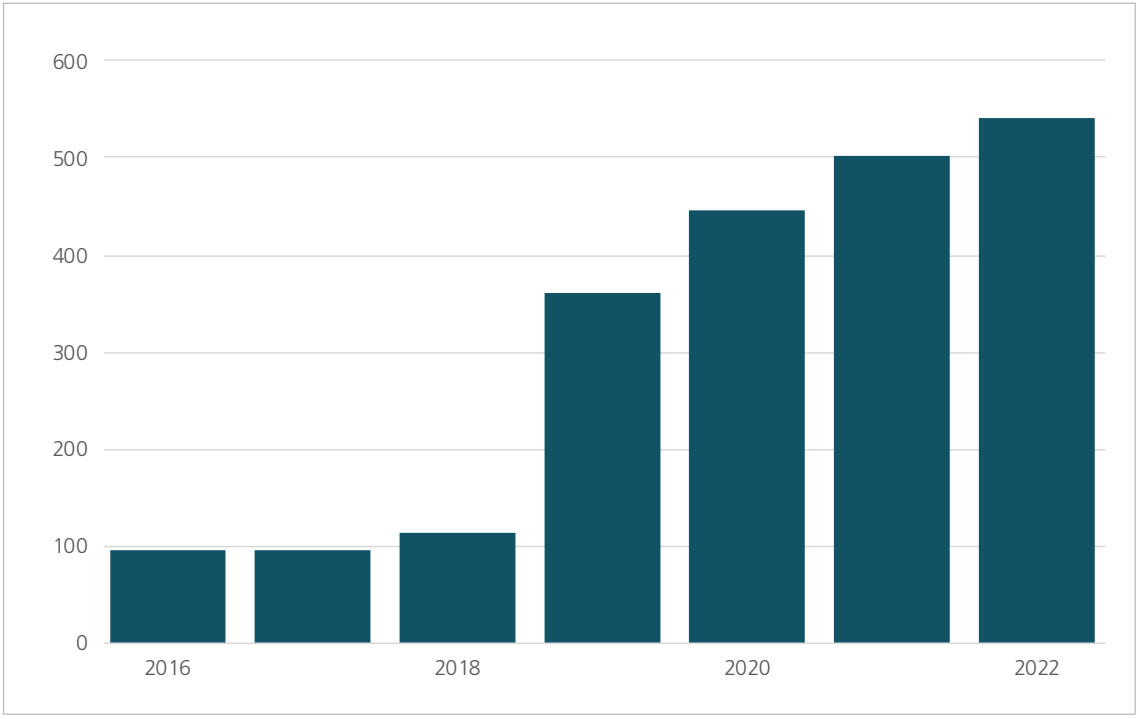
Chart 2 shows *direct* super fund holdings of renewable electricity generation assets. In terms of their generation capacity, total direct super fund investments have risen sharply over the past few years.

As well as direct investments, super funds also have substantial exposure to renewable electricity generation (and broader energy infrastructure) via specialised unlisted investment vehicles and listed markets.

Direct super fund investments in large-scale renewable electricity generation now accounts for about 5% of Australia's renewable generation capacity (about 10% if indirect holdings are included).

Chart 2: Direct super fund Investments in renewable generation

(Pro-rata generation capacity - MW)



Source: ASFA calculations.

Examples of funds' energy infrastructure assets

Wind and solar electricity generation

Rest Super fully owns the Collgar Wind Farm near Merredin in WA's central wheatbelt.

The Snowtown 2 wind farm is owned by Aware Super (33%), and by Palisade Investment Partners (67%) on behalf of other institutional investors, including HESTA.

Cbus has a significant ownership stake in the Albany Grasmere Wind Farm, the Warradarge Wind Farm and the Greenough River Solar Farm in Western Australia through Bright Energy Investments - a joint venture with Synergy, the WA government energy generator and retailer and DIF, an institutional investment partner.

A number of funds – including Hostplus and Brighter Super – have investments via Tilt Renewables, including in the Broken Hill and Nyngan solar plants in NSW, and the Coopers Gap and Silverton wind farms in Queensland.

Other wind and solar generation facilities with super fund investment include at Bald Hills in Victoria (Future Super), and Stockyard Hill in Victoria (Aware).

Electricity distribution

Ausgrid is the largest distributor of electricity on Australia's east coast – supplying Sydney, the Central Coast and the Hunter Valley. The consortium of Ausgrid investors include AustralianSuper and IFM Investors – the latter on behalf of institutional investors.

Electricity storage

Aware Super has made an investment in North Harbour Clean Energy. This company is working to develop and operate renewable energy storage projects with a focus on two critical, and already commercial, technologies – closed-loop pumped hydroelectricity, and vanadium redox flow batteries.

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