

# HESTA Active Ownership Policy

## (April 2010)



### 1. Scope

This policy governs HESTA Super Fund's share voting and company engagement activities and was approved by the HESTA Board of Directors in April 2010.

This policy focuses on HESTA's ownership of Australian and international shares. It does not apply in full to shares held in pooled investment vehicles. Where possible, HESTA will aim to apply these active ownership policies to all of the fund's assets across all major asset classes.

This policy should be read in conjunction with the HESTA ESG Policy.

### 2. HESTA as an Active Owner

HESTA is a long-term institutional investor and a 'universal' owner (please see HESTA's ESG Policy for definitions) - for these reasons HESTA regards active ownership as being of particular importance in serving the interests of our members. HESTA is also a signatory to the United Nations Principles for Responsible Investment (UNPRI.) This policy, and the actions governed by this policy, represent HESTA's commitment to UNPRI Principle 2 "We will be active owners and incorporate ESG issues into our ownership policies and practices".

Active ownership is directed at protecting or increasing the economic value of an asset in which HESTA has made an investment. In general, HESTA does not support divestment as a strategy for driving change at the company level. We believe that it is more effective to engage with a company, to vote on resolutions and potentially be a participant in shareholder-sponsored resolutions, than to withdraw our funds as a protest.

HESTA believes active ownership has four main components: corporate engagement, share voting, public policy, and disclosure.

- *Corporate engagement.* Corporate engagement means to have discussions with a company, usually at Board or at least senior management level within the company, with the objective of changing the behaviour of that company. This will generally occur when HESTA or its agents have identified underperformance by a company, or where the company has failed to meet accepted corporate practice or where the company's conduct places in doubt the reputation and value of the company. The issues addressed will generally focus on material environmental, social and governance (ESG) factors but may also extend to business strategy issues – for example, mergers and acquisitions, capital structure and capital allocation. In general these discussions will be conducted on a confidential basis to encourage trust and openness thereby increasing the likelihood of beneficial change.

- *Share Voting.* HESTA regards voting its shares at company meetings as a key obligation to both its members and to the companies in which we invest. It is an integral part of active ownership. We think of share voting as an important tool for engaging with companies. A vote is a visible and concrete expression of what may have been expressed in private discussion with the company's chair or board. Voting is also an effective way for HESTA and other investors to publicly express our views on what a company is doing right, and what a company needs to change. For this reason, HESTA will try to vote unambiguously 'for' or 'against' all company proposals in order to send a clear signal to the company. However, it may be that HESTA will vote 'abstain' as part of the engagement process – for instance, HESTA may signal to a company our desire for change by voting 'abstain' while simultaneously informing the company's board that if change is not sufficient future votes may be 'against' rather than 'abstain'. (Of necessity, there will also be other types of votes that may be driven by regulatory requirements or the circumstances of individual jurisdictions – for instance an 'abstain' or 'take no action' in circumstances where there has been a share issuance and the manager has participated in that issuance.) HESTA's objective is to vote on all shares in its portfolio with the following qualifications and exceptions:
  - Share blocking markets: there are some markets that place regulatory barriers to voting usually in the form of limitations on trading of shares if a vote is enacted. HESTA will seek to vote in these markets, however voting may be limited, and HESTA accepts that it may not vote in some or all of these markets.
  - Stock lending: HESTA maintains an active share lending program. Where there is a significant vote, or where HESTA is a major shareholder, HESTA will seek to recall the shares from loan and vote those shares, particularly where our vote on a resolution is 'no' or 'abstain'.
  - Pooled vehicles: HESTA has some investments in pooled vehicles where the fund manager, not HESTA, has the legal right to vote the shares contained in the pooled vehicle. In these cases HESTA accepts that it cannot vote these shares, and will instead seek to monitor, and on occasion influence, voting by the fund manager.
  - Power of Attorney (PoA) markets: there are some international markets where voting can only be carried out by an individual actually attending the meeting. This usually needs to be carried out by HESTA through its custodian appointing an individual through a standing Power of Attorney for each market, who will then vote in accordance with HESTA's instructions or those of our service providers. The rules on Powers of Attorney vary by market, apply for different periods of time and have various cost implications. HESTA will put in place PoAs for the larger markets (for example, Brazil, Argentina, Sweden and Poland) but will take a cost/benefit view on the smaller markets which employ this structure, meaning that there may be some smaller markets where HESTA will not vote shares that it may hold.
- *Public Policy.* This concerns the law or the rules set by governments and regulators which companies must observe if they desire to operate or have their shares publicly traded in that country – for example, the rules governing the

disclosure of financial information to shareholders, company law governing meetings of the company and the election of directors. Some standards, such as those for accounting, are set at a global level. It is these laws, rules, and regulations that set the minimum rules for corporate behaviour and transparency. We have a direct interest in engaging with regulators, and sometimes with governments, to recommend changes or express our views on proposed changes to regulatory regimes to protect the rights, and enhance the interests, of shareholders.

- *Disclosure.* We believe we have an obligation to be as transparent as possible in our engagement and voting activities – in particular to our members as we are conducting these activities on their behalf. On engagement with companies, we undertake to report to our members by means of our website at least on a six monthly basis. Reporting on company engagement will be limited by the need to maintain the confidentiality of discussions, as we believe confidentiality is important in increasing the effectiveness of the engagement program. However, subject to that requirement, as much information as possible will be disclosed on our website. HESTA similarly undertakes to publish our share voting activities in Australia and internationally on at least a six monthly basis. Further details on disclosure are provided below.

Resourcing of our company engagement and share voting activities is a significant item for HESTA. As with our overall ESG budgeting (of which engagement and voting is a subset) HESTA evaluates its engagement and voting programs on the basis of whether they are in the interest of members. It should, however, be pointed out that resourcing issues also mean that we do things differently in voting Australian shares and international shares.

- For Australian shares the decision on how to vote is made by HESTA – authority for voting is held by HESTA's Executive Manager - Investments and Governance (EM-IG). This process is resource intensive as voting is undertaken on all of HESTA's Australian share holdings and involves obtaining and actively considering advice on ASX 300 companies from a number of sources. (Further details on this process are provided below in Section 3.)
- We do not have the resources to follow the same decision-making framework for international shares. HESTA will generally hold shares in excess of 2,000 non-Australian companies. In order to maintain quality and consistency of voting we have outsourced voting to Hermes Equity Ownership Services (Hermes EOS), the same organisation that provides company engagement services. We believe there are significant benefits in having the one organisation perform these two functions.

### 3. Australian Shares – Company Engagement and Share Voting

#### 3.1 Engagement

HESTA's main partners for engaging with Australian companies are Regnan Governance Research and Engagement and the Australian Council of Superannuation Investors (ACSI).

HESTA is a founding member and part owner of Regnan. Regnan brings together the necessary expertise and operational capacities to undertake this task. Regnan will also engage with government regulators and agencies on changes necessary to improve governance and / or the efficiency of markets.

HESTA is a foundation member of the Australian Council of Superannuation Investors (ACSI). ACSI engages with S&P/ASX200 companies on behalf of HESTA and other member funds with respect to their ESG practices and encourages improvements in governance and ESG risk management practices. ACSI also engages with government, regulators and the investment community to promote best practice ESG standards.

Whilst both organisations seek improved performance across each of the three pillars of environmental, social and corporate governance investment risk HESTA recognises that both organisations each has their own program to achieve these shared objectives, and working co-operatively where possible.

Important aspects of our engagement program are also conducted with other key organisations:

- the Australian Institute of Superannuation Trustees (AIST) makes submissions on behalf of its members to key reviews undertaken by government departments and regulators, and
- the Investor Group on Climate Change (IGCC) plays a major role in encouraging carbon disclosure through the Carbon Disclosure Project and also has a significant impact on public policy in this area.

HESTA is a member and active participant in each of these organisations.

HESTA will publish reports from these organisations in order to disclose to our members the full range of the engagement activities undertaken on HESTA's behalf.

#### 3.2 Share Voting

HESTA seeks to vote all shares at Australian company meetings. HESTA has appointed CGI Glass Lewis (CGI) to act as its corporate governance adviser on votes at Australian company meetings.

##### *Process and Voting Authority*

For Australian equities the process is as follows for each company meeting:

- CGI will issue a report recommending 'for', 'against' or 'abstain / take no action' votes according to their assessment of each resolution on the basis of their guidelines

- HESTA will request each of its fund managers that hold the stock to provide their views on each resolution – HESTA regards this advice as critical as fund managers tend to have a detailed understanding of both the governance and operations of their investee companies. It is also part of our process of encouraging fund managers to take a closer interest in ESG matters
- HESTA's EM-IG has the authority to vote
- In determining the vote the EM-IG will consider the information provided by CGI and the relevant fund managers (where this information is available), and will have reference to the relevant guidelines (please see below). The voting decision will ultimately be based on HESTA's view of the long-term interests of its members.

### *Guidelines*

HESTA, in determining votes, will consider best practice guidelines and information on governance standards from the following organisations: ACSI, the Australian Stock Exchange, CGI, the Association of Superannuation Trustees of Australia (ASFA) and the Investment and Financial Services Association (IFSA).

### *Publication*

HESTA will publish on its website its voting for Australian companies on a six monthly basis. The voting report will be tabled at a meeting of the HESTA Trustee Board prior to publication.

## **4. International Shares – Company Engagement and Share Voting**

### **4.1 Engagement**

HESTA's main partner for engagement services outside Australia is Hermes Equity Ownership Service (Hermes). Hermes will engage with non-Australian companies on ESG and business strategy matters. HESTA will also, from time to time, partner with other organisations – for example ACSI, and / or other institutional investors by such means as the UNPRI Clearinghouse – in engagement activities outside Australia.

On engagement with regulators and on issues of broad market concern, HESTA will maintain its active participation in and memberships of a range of international bodies such as the UNPRI, the International Corporate Governance Network, and the Global Dialogue.

HESTA will publish on its website a report on engagement activities undertaken by Hermes. Publication of these reports will be at least on a six monthly basis.

### **4.2 Share Voting**

HESTA has also appointed Hermes to undertake voting for HESTA's non-Australian share holdings. By this means HESTA seeks to vote all shares at company meetings subject to the limitations outlined above (share blocking markets, stock lending requirements, and pooled vehicles).

As part of the agreement between HESTA and Hermes arrangements have been made for collaboration on Hermes engagement strategy and planning (both with

companies and regulators), and on Hermes' governance guidelines and voting application. This collaboration is in conjunction with Hermes' other clients.

### *Process and Voting Authority*

HESTA has instructed its custodian and its international equities managers that Hermes will be undertaking the voting of non-Australian shares. Hermes will evaluate each company vote in accordance with the Hermes Corporate Governance Principles, and will also consider any information provided by HESTA's international equities managers.

Hermes has the authority to vote on behalf of HESTA. HESTA retains the right to override Hermes' voting decisions: in all cases HESTA's decision on voting will prevail. The decision for voting the shares of non-Australian companies – whether by Hermes or HESTA - will ultimately be on the basis of the long-term interests of HESTA's members.

### *Guidelines*

In making its share voting decision Hermes will consider the specific circumstances of the companies involved and will apply the Hermes Global Corporate Governance Principles including (where relevant) separate regional guidelines for France, Germany, Italy, Japan, Russia, Spain, Sweden, the United Kingdom, and the United States.

### *Publication*

HESTA will publish on its website voting undertaken by Hermes on behalf of HESTA at least on a six monthly basis.