



Annual Report

For the financial year ending 30 June 2013

Issued 7 October 2013



Welcome

Anne-Marie Corboy
CEO



Angela Emslie
Board Chair

We're pleased to report Core Pool — where the majority of HESTA members have their super — delivered a competitive return of 14.79% for the 2012/13 financial year.

HESTA Income Stream members also enjoyed strong returns, with the Balanced option delivering a 15.84% return and the lower risk/return Defensive option earning 7.37% in 2012/13.

While good performance in any one year is welcome, our strategy continues to be focussed on the long-term nature of super.

Over 10 years, Core Pool has comfortably outperformed its long-term investment objective of CPI+4% (6.74% p.a.), achieving a return of 7.42% p.a.

Returns were primarily the result of strong listed equities markets over the past 12 months. Our investment modelling indicates that, over the next five years, our diversified options with exposure to global credit may struggle to reach our long-term CPI+investment objectives.

For this reason, in addition to our long-term investment objectives, we've introduced medium-term objectives for the Fund's diversified options. This gives members better insight into what we think are achievable returns over the next five years. More information on investment objectives and the performance of each investment option can be found in the investment section of this report.

The Fund continues to show steady growth and now has more than 760,000 members, 119,000 employers and \$24 billion in assets. Another year of strong growth has enabled us to start the 2013/14 financial year with a 0.02% reduction in the asset-based fee for Core Pool members. Costs were further reduced for all by 0.02%, following the Federal Government's abolition of member benefit protection on 1 July 2013.

Core Pool was one of the first funds in Australia to gain *MySuper* authorisation from the regulator in 2012/13. Members still enjoy the benefits of a diversified investment strategy and great value on fees but now have the added reassurance of *MySuper* authorisation.

In 2012/13, we launched an innovative HESTA Income Stream Ready-Made Default Strategy designed to meet the needs of members. HESTA Income Stream is one of the few to have developed a default strategy considerably different to that available to accumulation members. The Ready-Made Default Strategy allows HESTA Income Stream members to gradually reduce the risk of their investments without having to keep making changes to their investment strategy.

We continually strive to enhance member service and benefits, and our efforts have earned the Fund some of the highest industry accolades. We maintain the highest ranking from all super ratings agencies including SelectingSuper and SuperRatings.

In 2012/13, the Fund was one of only four funds to receive SuperRatings' 10-year platinum performance rating — out of the 300+ funds it has independently rated since starting benchmarking. The platinum rating recognises the best performing, 'value for money' funds, taking into account investment performance and additional benefits.

Australians also named HESTA among their most trusted brands in *Australia's Most Trusted Brands 2013*, as surveyed by Catalyst Research. HESTA was also the top-scoring fund in an independent survey of member-satisfaction levels by CoreData Consulting. More than 79% of members surveyed said they were satisfied with HESTA, compared to an average rating of 62% for all funds.

As your industry super fund for health and community services HESTA exists solely to benefit our members. Our Board and staff continuously strive to protect and build your retirement savings.



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HESTA investments

at 30 June 2013

HESTA investment performance

for year ending 30 June 2013

Investment Option	Since inception (% p.a.)	10-year (% p.a.)	7-year (% p.a.)	5-year (% p.a.)	3-year (% p.a.)	1-year return (%)
Ready-Made Investment Pools						
Conservative Pool (1/7/95*)	6.50	6.08	4.76	4.74	6.77	9.26
Core Pool (1/8/87*)	8.70	7.42	4.54	4.33	8.58	14.79
Shares Plus (1/7/95*)	8.11	7.76	4.50	4.73	9.09	18.60
Eco Pool (1/2/00*)	4.80	7.53	5.07	6.49	9.05	21.70
Your Choice Asset Classes						
Cash (1/7/01*)	4.02	4.05	3.87	3.62	3.90	3.20
Global Bonds (1/7/01*)	5.99	5.61	6.03	6.89	6.42	3.85
Property (1/7/01*)	5.64	4.90	2.42	-0.34	6.83	5.99
Infrastructure (1/7/01*)	7.80	8.50	7.19	5.40	10.27	10.85
Australian Shares (1/7/01*)	8.85	10.55	5.95	5.67	9.90	21.18
International Shares (1/7/01*)	2.13	5.28	1.99	3.57	8.43	24.59
Private Equity (1/7/01*)	6.16	8.60	6.91	5.86	10.77	9.61

Investments may go up or down. Past performance is not a reliable indicator of future performance.

*Refers to date of inception for the investment option. Returns shown are net of fees and taxes.

How returns are applied to HESTA accounts

Each month interest rates are declared that reflect HESTA's net investment results, which may be positive or negative. Interest is applied to members' accounts upon exiting the Fund or 30 June each year, based on the member's daily balance and investment choice. If declared interest rates are subsequently adjusted, the variation will be applied to member balances. For exited members, any positive adjustment of \$20 or more will be paid.

Interim interest rates are used when processing benefit payments during the year. Following a partial withdrawal, interest may be recalculated after the declaration of final rates, which can result in the member's remaining balance being higher or lower than initially indicated.

Fees and costs (available at hesta.com.au/fees) are deducted from investment earnings **before** returns are declared.

HESTA investment options

at 30 June 2013, in detail

Ready-Made Investment Pools

	Objective [#]	Strategy [^]
Conservative Pool	<p>CPI+3%</p> <p>Conservative Pool aims for the lowest year-to-year variation in returns of all HESTA's Ready-Made Investment Pools, although with lower expected rates of return than Core Pool over the long term. It's the most conservative of all HESTA's Pools and is specifically designed to offer a low-risk investment. It aims to provide stable returns slightly greater than those achieved by investing in cash alone.</p> <p>Probable number of negative annual returns over 20 years: 1*</p>	<p>Conservative Pool's asset allocation has more exposure to cash and fixed-interest markets than other Ready-Made Pools.</p> <p>It's designed to offer members a low-risk investment which seeks greater returns than cash alone. Almost 25% of its investment is in shares. This is because shares tend to have a low correlation, or relationship, with cash and bonds and as one rises in value, the other may be expected to fall. So, by investing a proportion in shares, we help reduce the risk while enhancing the potential return over the longer term.</p>
Core Pool	<p>CPI+4%</p> <p>Core Pool aims to optimise returns while in the short term achieving consistently better returns than the 90-day bank bill rate (adjusted for tax) and only occasionally having a crediting rate less than zero.</p> <p>Probable number of negative annual returns over 20 years: 3*</p>	<p>Core Pool invests in a diversified but balanced mix of assets to provide a consistent return. Its asset mix may vary during the year in accordance with market conditions to help achieve this consistency of return.</p> <p>Core Pool held a reserve for part of the 2012/13 financial year but will not do so in the future.</p>

[#]Some investment objectives changed from 1 September 2013. See page 13 for new investment objectives. For more information go to hesta.com.au/pds and read *Investment Choices*.

[^]Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit hesta.com.au

*Figures representing the long-term probability of negative returns have been determined by HESTA's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

Ready-Made Investment Pools (continued)

	Objective#	Strategy^
Shares Plus	<p>CPI+5%</p> <p>Shares Plus aims to provide higher long-term returns than Core Pool. Since there may be substantial year-to-year variation in returns, even in the longer term, Shares Plus may not outperform other Pools. It has a diversified portfolio that includes assets other than shares.</p> <p>Probable number of negative annual returns over 20 years: 4.1*</p>	<p>Shares Plus has a mixed asset allocation, with more exposure to the share market than Core Pool. However, its diversification means that it has a lower risk profile than an investment in shares alone.</p>
Eco Pool	<p>CPI+3.5%</p> <p>Eco Pool aims to optimise long-term returns while investing in companies that demonstrate best practice sustainability performance within their industry sector, relative to their peers.</p> <p>Its high allocation to shares means there is likely to be significant year-to-year variation in returns, and although we expect long-term returns similar to Core Pool, Eco Pool may not outperform other Pools, even in the long term.</p> <p>Probable number of negative annual returns over 20 years: 4*</p>	<p>Eco Pool invests in companies with the best combination of financial, environmental, social and governance performance as assessed by our managers.</p> <p>The only companies which are specifically excluded from the Eco Pool share investments are those with uranium mining operations and those that manufacture tobacco products.</p> <p>The property investment is rated 4 stars under the Green Building Council Australia's Green Star Rating System and has a NABERS Energy Base Building Rating of 4.5 stars.</p>

#Investment objectives changed from 1 September 2013. See pages 13-14 for new investment objectives. For more information go to hesta.com.au/pds and read *Investment Choices*.

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*Figures representing the long-term probability of negative returns have been determined by HESTA's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

Your Choice Asset Classes

	Objective#	Strategy^
Cash	<p>CPI+1%</p> <p>Your Choice Cash aims to produce a return equivalent to or higher than the Overnight Cash Rate. It's the most conservative of the Your Choice options.</p> <p>Probable number of negative annual returns over 20 years: 0*</p>	<p>Your Choice Cash is primarily invested in short-term bank deposits, and may include a small allocation to other cash investments. Its investments are earnings are primarily income but may include some movement in values.</p>
Global Bonds	<p>CPI+2%</p> <p>Your Choice Global Bonds aims to produce a return that is higher than the UBS Composite Bond Index. It's less conservative than cash, in that it may produce a negative return, but is more conservative than the other Your Choice options.</p> <p>Probable number of negative annual returns over 20 years: 0.3*</p>	<p>Your Choice Global Bonds is 100% invested in credit and other fixed interest products. It has investments in both Australian and international credit including products that specialise in investing in corporate credit. Investments are managed in a style similar to that used by Core Pool for this asset class. The currency exposures in international bonds are fully hedged.</p>
Property	<p>CPI+4%</p> <p>Your Choice Property aims to produce a return equivalent to or higher than the Mercer Direct Property Index. It's less conservative than cash or bonds, in that it has a high possibility of producing a negative return, but is more conservative than the remaining Your Choice options.</p> <p>Probable number of negative annual returns over 20 years: 3*</p>	<p>Your Choice Property is invested primarily in unlisted property products with a 10% holding in cash products. It will have investments in both Australian and international property. Investments are managed in a style similar to that used by Core Pool for this asset class.</p>
Infrastructure	<p>CPI+4%</p> <p>Your Choice Infrastructure aims to produce a return that is significantly higher than the UBS Composite Bond Index. It has holdings in unlisted companies and, although these are not considered speculative, is likely to produce negative returns from time to time. Returns should be less volatile than other equity investments.</p> <p>Probable number of negative annual returns over 20 years: 3.6*</p>	<p>Your Choice Infrastructure is invested primarily in unlisted infrastructure products with a 10% holding in cash products. It has investments in both Australian and international infrastructure. Investments are managed in a style similar to that used by Core Pool for this asset class.</p>

Your Choice Asset Classes (continued)

	Objective [#]	Strategy [^]
International Shares	<p>CPI + 5%</p> <p>Your Choice International Shares invests in international shares. It aims to produce high long-term returns primarily from capital gains, however it is very likely to produce negative returns from time to time.</p> <p>Probable number of negative annual returns over 20 years: 5.5*</p>	<p>Your Choice International Shares is invested in listed international shares. Investments are managed in a style similar to that used by Core Pool for this asset class. The currency exposures in international shares are managed under HESTA's active currency overlay program policy. It may include managers who also short sell shares.</p>
Australian Shares	<p>CPI + 5%</p> <p>Your Choice Australian Shares invests in Australian shares. It aims to produce high long-term returns primarily from capital gains, however it is very likely to produce negative returns from time to time.</p> <p>Probable number of negative annual returns over 20 years: 6.1*</p>	<p>Your Choice Australian Shares is invested in listed Australian shares. Investments are managed in a style similar to that used by Core Pool for this asset class. It may at times hold a small percentage of its assets in shares of companies not listed on the Australian Stock Exchange. It may include managers who also short sell shares.</p>
Private Equity	<p>CPI + 7%</p> <p>Your Choice Private Equity invests in Australian and international private equity. It aims to produce high long-term returns primarily from capital gains, however it is very likely to produce negative returns from time to time.</p> <p>Probable number of negative annual returns over 20 years: 5.2*</p>	<p>Your Choice Private Equity is invested primarily in private equity products with a 10% holding in cash products. It will have investments in both Australian and international private equity. Investments are managed in a style similar to that used by Core Pool for this asset class.</p>

[#]Investment objectives changed from 1 September 2013. See 14 for new investment objectives. For more information go to hesta.com.au/pds and read *Investment Choices*.

[^]Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit hesta.com.au

*Figures representing the long-term probability of negative returns have been determined by HESTA's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

HESTA strategic asset allocations

at 30 June 2013*

	Ready-Made Investment Pools				Your Choice Asset Classes						
	Conservative Pool (%)	Core Pool (%)	Shares Plus (%)	Eco Pool (%)	Cash (%)	Global Bonds (%)	Property (%)	Infrastructure (%)	International Shares (%)	Australian Shares (%)	Private Equity (%)
Cash	30	3	2	10	100		10	10			10
Global credit	31	15	3	14		100					
Opportunistic growth		3	5								
Direct property	5	10	6	8			90				
Infrastructure	8	13	9					90			
Australian shares	14	30	39	39						100	
International shares	11	21	31	29					100		
Private equity		4	4								90
Other assets	1	1	1								

*Strategic asset allocations may change during the year within their bands without prior notice.

On 1 September 2013, changes were made to the strategic asset allocation of some HESTA investment options. Current allocations, bands and any variations are available at hesta.com.au

Significant holdings with investment managers

The following holdings represent more than 5% of the Fund's total assets:

- Industry Funds Management Pty Ltd (16.41%)
- BlackRock Asset Management (Australia) Limited (11.03%)
- Industry Superannuation Property Trust Pty Ltd (5.01%).

HESTA investment managers

at 30 June 2013

Asset class	Investment manager	
Cash	ANZ Bank	JP Morgan Chase Bank, N.A.
	Bendigo Bank	ME Bank Limited
	Bank of Queensland	National Australia Bank Limited
	Commonwealth Bank of Australia	State Street Global Advisors, Australia, Limited
	Industry Funds Management Pty Ltd	Westpac
Global credit	Babson Capital Management, LLC	ME Portfolio Management Limited
	BlackRock Asset Management (Australia) Limited	Pacific Investment Management Company
	Industry Funds Management Pty Ltd	Shenkman Capital Management, Inc.
	ME Bank Limited	Westbourne Credit Management Limited
Property	AEW Value Investors, L.P.	Fortius Funds Management Pty Limited
	BT Funds Management No 2 Limited	Franklin Templeton Investments Australia Limited
	Challenger Manager Services Limited	Industry Superannuation Property Trust Pty Ltd
	Charter Hall Limited	IGIPT Pty Ltd
	DNZ Property Fund Limited	Morgan Stanley & Co
	EG Funds Management	Queensland Investment Corporation
	Eureka Funds Management Limited	Scarborough Pacific Group
International shares	Altrinsic Global Advisors, LLC	Lazard Asset Management Pacific Co
	Baillie Gifford Overseas Limited	Martin Currie Investment Management Limited
	BlackRock Asset Management (Australia) Limited	Mondrian Investment Partners Limited
	Citigroup Global Markets Australia Pty Limited	Sanders Capital LLC
	Copper Rock Capital Partners LLC	Somerset Capital Management
	First State Investments (Hong Kong) Limited	Taube Hodson Stonex Partners LLP
	Generation Investment Management LLP	Tradewinds Global Investors, LLC
	Hexavest Inc.	Turner Investment Partners Pty Ltd
Australian shares	Airlie Funds Management Limited	Industry Funds Management Pty Ltd
	Antares Capital Partners Limited	Maple-Brown Abbott Limited
	BlackRock Asset Management (Australia) Limited	Northcape Capital Pty Ltd
	BT Investment Management Limited	Orbis Investment Management (Australia) Pty Limited
	Citigroup Global Markets Australia Pty Limited	Paradise Investment Management Pty Ltd
	Cooper Investors Pty Limited	Perpetual Investment Management Limited
	Ellerston Capital Limited	PM Capital Limited
	Goldman Sachs Asset Management Australia Pty Ltd	Renaissance Smaller Companies Pty Ltd
	Greencape Capital Pty Ltd	Schroders Investment Management Australia Limited
		Solaris Investment Management Limited

Asset class	Investment manager	
Infrastructure	Hastings Funds Management Limited	Stafford Timberland Limited
	Industry Funds Management Pty Ltd	
Private equity	Adveq Management AG	Oaktree Capital Management, L.P.
	Coller Capital Limited	Olympus Growth Fund VI, L.P.
	Generation Investment Management LLP	Performance Equity Management, LLC
	Grey Mountain Partners Fund III	Platinum Equity Capital Partners III
	Industry Funds Management Pty Ltd	Providence Equity Partners VI
	Lexington Advisors Inc	Quay Partners Pty Ltd
	Macquarie Investment Management LLP	Siguler Guff & Company, LLC
	Newbury Partners, LLC	Vencap Limited
Opportunistic growth	BlackRock Alternative Advisors	Industry Funds Management Pty Ltd
	Bridgewater Associates, Inc	Oaktree Capital Management, L.P.
	Cowen Healthcare Royalty Management, LLC	
Currency management	Lee Overlay Partners Limited	Mesirow Financial Investment Management, Inc
	ME Portfolio Management Limited	Pareto Investment Management Limited

The Trustee retains a discretion to change the HESTA investment managers used.
Go to hesta.com.au for updated information.

Changes to HESTA's investment options as at 1 September 2013

We introduced medium-term (five years) investment objectives where appropriate (in addition to long-term objectives i.e. 10 years) for HESTA Ready-Made Investment Pools. Eco Pool's long-term investment objective has also changed from CPI+3.5% to CPI+4%.

Investment objectives are:

Investment option	Investment objective	
	Medium term	Long term
Conservative Pool	CPI+2.5%	CPI+3%
Core Pool	CPI+3.5%	CPI+4%
Shares Plus	CPI+5%	CPI+5%
Eco Pool	CPI+3.5%	CPI+4%

The investment objectives for Your Choice Asset Classes have changed from CPI+targets to objectives based on benchmarks for each asset class. Your Choice Asset Class investment options aim to achieve their investment objective over the long-term (10 years), with the exception of Your Choice Cash. It aims to achieve its investment objective each year.

Investment objectives are:

Your Choice Asset Class	Investment objective
Cash	Equivalent or more than the RBA* Cash Rate. *Reserve Bank of Australia (RBA)
Global Bonds	0.5% or more above its benchmark of: <ul style="list-style-type: none"> • 50% UBSA* Composite All Maturities Bond Index • 50% Barclays Capital Global Aggregate Hedged to \$A. *Index provided by Swiss Bank UBS
Property	Equivalent or more than its benchmark of: <ul style="list-style-type: none"> • 72.5% Mercer/IPD* Australia Property Pooled Fund Index • 17.5% US NCREIF^ National Fund Index • 10% RBA Cash Rate. *Index by investment consultant Mercer and Investment Property Databank (IPD) ^National Council of Real Estate Investment Fiduciaries (NCREIF)
Infrastructure	2% or more above its benchmark of: <ul style="list-style-type: none"> • 45% S&P/ASX* 300 Accumulation Index • 45% UBSA Composite All Maturities Bond Index • 10% RBA Cash Rate. *Standard & Poor's/Australian Securities Exchange (S&P/ASX)
International Shares	1% or more above its benchmark of: <ul style="list-style-type: none"> • 65% MSCI* All Country World ex Australia Index in \$A Net Dividends Reinvested Unhedged • 35% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Hedged. *Morgan Stanley Capital International (MSCI)
Australian Shares	1% or more above the S&P/ASX 300 Accumulation Index.
Private Equity	3% or more above its benchmark of: <ul style="list-style-type: none"> • 22.5% S&P/ASX 300 Accumulation Index • 7.5% MSCI World ex Australia in \$A Net Dividends Reinvested Unhedged • 60% MSCI World ex Australia in \$A Net Dividends Reinvested Hedged • 10% RBA Cash Rate.

HESTA reserving policy

Up to 30 June 2013, HESTA maintained an Investment Reserve which targeted a minimum of 0.2% of net assets of the Fund. As at 30 June 2013, the Investment Reserve is \$57.36 million (audited), as at 30 June 2012 it was \$63.78 million (audited) and as at 30 June 2011 it was \$0.32 million (audited).

HESTA also maintained an Administration Reserve up to 30 June 2013 that was required to hold a minimum balance of \$100,000. This reserve is being replaced by the Fund Development Reserve which will be utilised to fund the operations of the Fund, including significant projects that are not business as usual. As at 30 June 2013, the Administration Reserve is \$27.65 million (audited), as at 30 June 2012 it was \$23.21 million (audited) and as at 30 June 2011 it was \$14.20 million (audited).

Following the introduction of a new Prudential Standard (SPS 114), the Trustee is required to establish an Operational Risk Reserve from 1 July 2013. This new reserve will be funded from the Investment Reserve and Administration Reserve. The initial funding for this reserve will be \$59 million based on an assessment of the operational risks of the Fund as detailed in the Operational Risk Financial Requirement Strategy approved by the Board.



HESTA Income Stream investments

at 30 June 2013

HESTA Income Stream investment performance for year ending 30 June 2013

Investment Option	Since inception (% p.a.)	5-year (% p.a.)	3-year (% p.a.)	1-year return (%)
Balanced (12/12/07*)	0.87	3.33	8.05	15.84
Defensive (12/12/07*)	4.85	5.55	6.15	7.37
Conservative (12/12/07*)	4.23	5.60	7.15	10.27
Eco (1/7/12*)	23.85	n.a.	n.a.	23.85
Active (12/12/07*)	-0.89	1.94	8.99	21.95
Cash (1/7/08*)	4.56	4.56	4.49	3.83
Term Deposits (1/7/12*)	4.70	n.a.	n.a.	4.70
Property (12/12/07*)	-5.32	-0.16	6.86	6.81
Australian Shares (1/7/08*)	3.74	3.74	7.99	20.08
International Shares (1/7/08*)	2.06	2.06	10.50	25.53

*Refers to date of inception for the investment option

Note: Performance figures for financial years prior to 2011/12 include figures for the Super Members Pooled Super Trust (SMPST) through which the HESTA Income Stream invested until 30 November 2010. The returns quoted are not a reflection of the actual return on your account. Your actual return will depend on when you commenced investing in the income stream. This is the performance applicable to members who were members at the beginning and the end of the period, and who did not have any transactions during the period. Past performance is not a reliable indicator of future performance and the value of investments can rise or fall. Returns are quoted after fees for the period indicated.

How returns are applied to HESTA Income Stream accounts

Investment returns are applied to your account by determining the value of your chosen option, less its liabilities, each week.

The latest and historical returns are available at hesta.com.au/isperformance or by calling us on 1300 734 479.

HESTA Income Stream investment options

at 30 June 2013, in detail

	Objective#	Strategy^
Balanced	<p>CPI + 4%</p> <p>Balanced aims to produce a return of 4% above CPI over the medium to long term, while occasionally producing a negative return over a 12-month period. There may be substantial year-to-year variation in returns.</p> <p>Probable number of negative annual returns over 20 years: up to 3*</p>	<p>Balanced invests in a diversified mix of asset classes, with approximately 62% invested in growth-style assets, including listed shares and the remainder invested in defensive-style assets, such as cash, defensive property and bonds. Infrastructure assets provide a mix of both growth and defensive characteristics. The inclusion of infrastructure should give Balanced a lower risk profile than if the growth assets were all listed shares.</p>
Defensive	<p>CPI + 3%</p> <p>Defensive aims to produce a return of 3% above CPI over the medium to long term. While negative returns are possible, a negative return over a 12-month period would be exceptionally rare. There may be some year-to-year variation in returns.</p> <p>Probable number of negative annual returns over 20 years: 0*</p>	<p>Defensive invests in a diversified mix of asset classes, with approximately 84% invested in defensive-style assets, like cash, term deposits, defensive property and credit and 16% invested in growth-style assets, like listed shares. Infrastructure assets provide a mix of both growth and defensive characteristics. The diversification and defensive asset bias of this option means that it has a lower risk profile than Conservative, while its exposure to some growth assets should provide a small amount of protection against inflation.</p>

#Some investment objectives changed from 1 September 2013. See page 24 for new investment objectives. For more information go to hesta.com.au/incomestream

^ Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit hesta.com.au/ispds

*Figures representing the long-term probability of negative returns have been determined by HESTA Income Stream's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

	Objective [#]	Strategy [^]
Conservative	<p>CPI+3.5%</p> <p>Conservative aims to produce a return of 3.5% above CPI over the medium to long term, while rarely producing a negative return over a 12-month period. There may be some year-to-year variation in returns.</p> <p>Probable number of negative annual returns over 20 years: 1*</p>	<p>Conservative invests in a diversified mix of asset classes, with approximately 68% invested in defensive-style assets, including cash, term deposits, defensive property and fixed interest and the balance invested in growth-style assets, like listed shares. Infrastructure assets provide a mix of both growth and defensive characteristics. The diversification and defensive asset bias of this option means that it has a lower risk profile than either the Balanced or Active options, while its exposure to some growth assets should provide some protection against inflation.</p>
Eco	<p>CPI+3.5%</p> <p>Eco aims to optimise long-term returns while investing in companies that demonstrate best practice sustainability performance within their industry sector, relative to their peers.</p> <p>This option may produce negative returns relatively frequently due to its high allocation of growth assets.</p> <p>Probable number of negative annual returns over 20 years: up to 4*</p>	<p>Eco invests in companies with the best combination of financial, environmental, social and governance performance as assessed by our managers. The only companies which are specifically excluded from Eco are those with uranium mining operations and those that manufacture tobacco products. The property investment is rated 4 stars under the Green Building Council Australia's Green Star Rating System and has a NABERS Energy Base Building Rating of 4.5 stars.</p>
Active	<p>CPI+4.5%</p> <p>Active aims to produce a return of 4.5% above CPI over the medium to long term and may produce a negative return relatively frequently.</p> <p>There may be quite substantial year-to-year variation in returns.</p> <p>Probable number of negative annual returns over 20 years: up to 5*</p>	<p>Active invests in a mix of asset classes, however it is mainly invested in listed shares, with approximately 90% invested in growth-style assets. A small balance is invested in defensive-style assets, such as cash and defensive property. Infrastructure assets provide a mix of both growth and defensive characteristics. The diversification of asset classes means this option has a lower risk profile than an investment in shares alone.</p>

	Objective [#]	Strategy [^]
Cash	<p>CPI+1.5%</p> <p>Cash aims to produce a return equivalent to, or higher than, the Overnight Cash Rate. It is the most conservative of the HESTA Income Stream investment options.</p> <p>Probable number of negative annual returns over 20 years: 0*</p>	<p>Cash is primarily invested in at-call bank deposits, along with an allocation to short-term (less than 12 months) term deposits with highly rated banks. It may include a small allocation to other cash investments.</p>
Term Deposits	<p>CPI+1.5%</p> <p>Term Deposits aims to produce a return that is higher than the Overnight Cash Rate. It's more conservative than most other HESTA Income Stream investment options, with the exception of Cash.</p> <p>Probable number of negative annual returns over 20 years: 0*</p>	<p>Term Deposits is 90% invested in Australian bank term deposits and 10% invested in cash. It is likely to invest in term deposits with terms greater than one year (unlike the Cash investment option). The Trustee will seek to invest in a diversified range of term deposits to enable flexibility to achieve the highest rates possible while managing reinvestment risk.</p>
Property	<p>CPI+3.5%</p> <p>Property aims to produce a return equivalent to, or higher than, the Mercer Direct Property Index. It's less conservative than cash or bonds, in that it has a higher possibility of producing a negative return, but is more conservative than the remaining HESTA Income Stream investment options.</p> <p>Probable number of negative annual returns over 20 years: up to 3*</p>	<p>Property is invested primarily in unlisted property and property debt with a 15% holding in cash products. The primary characteristic of unlisted property will be that rental income is expected to generate the majority of the returns, not capital growth.</p>

[#]Investment objectives changed from 1 September 2013. See page 24 for new investment objectives. For more information go to hesta.com.au/incomestream

[^]Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit hesta.com.au/ispsds

*Figures representing the long-term probability of negative returns have been determined by HESTA Income Stream's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

	Objective [#]	Strategy [^]
Australian Shares	<p>CPI+4.5%</p> <p>Australian Shares option invests in Australian shares. It aims to produce high long-term returns, however it is likely to produce negative returns quite regularly.</p> <p>Probable number of negative annual returns over 20 years: up to 6*</p>	<p>Australian Shares option is invested primarily in listed Australian shares. It will have a strategic overweighting to smaller companies, compared to its benchmark. It may at times hold a small percentage of its assets in shares of companies not listed on the Australian Stock Exchange. It may include managers who also short sell shares.</p>
International Shares	<p>CPI+4%</p> <p>International Shares option invests in international shares. It aims to produce high long-term returns, although it's very likely to produce negative returns from time to time.</p> <p>Probable number of negative annual returns over 20 years: up to 6*</p>	<p>International Shares is invested primarily in listed international shares. It will have a strategic overweight to emerging market companies. The currency exposures in International Shares are managed under HESTA's active currency overlay program policy. It may include managers who also short sell shares.</p>

[#]Investment objectives changed from 1 September 2013. See page 24 for new investment objectives. For more information go to hesta.com.au/incomestream

[^]Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit hesta.com.au/ispds

*Figures representing the long-term probability of negative returns have been determined by HESTA Income Stream's investment consultant, Frontier Advisors Pty Ltd, based on capital market assumptions and actual outcomes may vary.

HESTA Income Stream strategic asset allocations

at 30 June 2013

	Balanced %	Defensive %	Conservative %	Eco %	Active %	Cash %	Term Deposits %	Property %	Australian Shares %	International Shares %
Australian Shares	32.0	7.0	15.0	39.0	47.0	0.0	0.0	0.0	95.0	0.0
International Shares	22.0	5.0	12.0	29.0	40.0	0.0	0.0	0.0	0.0	95.0
Australian Property	9.0	6.0	6.0	8.0	4.0	0.0	0.0	85.0	0.0	0.0
Australian Infrastructure	9.0	6.0	6.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
International Infrastructure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Australian Fixed Interest	13.0	24.0	37.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
International Fixed Interest	7.0	7.0	7.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	8.0	10.0	10.0	10.0	5.0	75.0	10.0	10.0	5.0	5.0
Term Deposits	0.0	35.0	7.0	0.0	0.0	25.0	90.0	5.0	0.0	0.0

The strategic asset allocations may change during the year within their bands without prior notice.

Current allocations, bands and any variations are available at hesta.com.au/ispsds

HESTA Income Stream investment managers

at 30 June 2013

Asset class	Investment manager	
Cash	AMP Bank Bank of Queensland Commonwealth Bank of Australia JP Morgan Chase Bank, N.A. ME Bank	National Australia Bank Limited Rabobank State Street Global Advisors, Australia, Limited Westpac
Term deposits	AMP Bank ANZ Bank Bank of Queensland Bendigo Bank	Commonwealth Bank of Australia ME Bank Rabobank Westpac Bank
Global credit	Babson Capital Management, LLC BlackRock Asset Management (Australia) Limited Industry Funds Management Pty Ltd ME Bank	Pacific Investment Management Company Shenkman Capital Management, Inc. Westbourne Credit Management Limited
Property	Challenger Manager Services Limited	Industry Superannuation Property Trust Pty Ltd
International shares	Altrinsic Global Advisors, LLC Baillie Gifford Overseas Limited BlackRock Asset Management (Australia) Limited Citigroup Global Markets Australia Pty Limited Copper Rock Capital Partners LLC First State Investments (Hong Kong) Limited Generation Investment Management LLP Hexavest Inc	Lazard Asset Management Pacific Co Martin Currie Investment Management Limited Mondrian Investment Partners Limited Sanders Capital LLC Somerset Capital Management Taube Hodson Stonex Partners LLP Tradewinds Global Investors, LLC Turner Investment Partners Pty Ltd
Australian shares	Antares Capital Partners Limited BT Investment Management No.2 Limited Ellerston Capital Limited Goldman Sachs Asset Management Australia Pty Ltd Industry Funds Management Pty Ltd	Northcape Capital Pty Ltd Paradice Investment Management Pty Ltd Plato Investment Management Renaissance Smaller Companies Pty Ltd Warakirri Asset Management Pty Ltd
Infrastructure	Industry Funds Management Pty Ltd	
Currency Management	Lee Overlay Partners Limited ME Portfolio Management Limited	Mesirow Financial Investment Management, Inc Pareto Investment Management Limited

The Trustee retains a discretion to change the HESTA Income Stream investment managers used.

Go to hesta.com.au/ispd for updated information.

Changes to HESTA Income Stream investment options

as at 1 September 2013

We introduced medium-term (five years) investments objectives where appropriate (in addition to long-term objectives i.e 10 years) for HESTA Income Stream’s diversified investment options. The long-term objectives for Defensive changed from CPI+3% to CPI+2% and Conservative changed from CPI+3.5% to CPI+2.5%. Eco’s long-term investment objective increased from CPI+3.5% to CPI+4%.

Investment objectives are:

Investment option	Investment objective	
	Medium term	Long term
Defensive	CPI+2%	CPI+2%
Balanced	CPI+3.5%	CPI+4%
Conservative	CPI+2.5%	CPI+2.5%
Eco	CPI+3.5%	CPI+4%
Active	CPI+4.5%	CPI+4.5%

The investment objectives for HESTA Income Stream sector-specific options also changed from CPI + targets to objectives based on benchmarks for each asset class.

HESTA Income Stream sector-specific options aim to achieve their investment objectives over the long-term (i.e. 10 years), with the exception of Cash and Term Deposits. These investment options aim to achieve their respective investment objectives annually.

Investment objectives are:

Your Choice Asset Class	Investment objective
Cash	Equivalent or more than the RBA* Cash Rate. *Reserve Bank of Australia (RBA)
Term Deposits	Equivalent or more than the UBSA* Bank Bill Index. *Index provided by Swiss Bank UBS
Property	Equivalent or more than its benchmark of: <ul style="list-style-type: none">85% Mercer/IPD* Australia Property Pooled Fund Index15% RBA Cash Rate *Index by investment consultant Mercer and Investment Property Databank (IPD)
Australian Shares	1% or more above the S&P/ASX 300 Accumulation Index.
International Shares	1% or more above its benchmark of: <ul style="list-style-type: none">65% MSCI* All Country World ex Australia Index in \$A Net Dividends Reinvested Unhedged35% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Hedged. *Morgan Stanley Capital International (MSCI)

HESTA Income Stream reserving policy

HESTA Income Stream does not hold reserves.



HESTA and sustainability

We're committed to developing sustainable and responsible practices that benefit our members while helping to reduce the impact on our environment and our society.

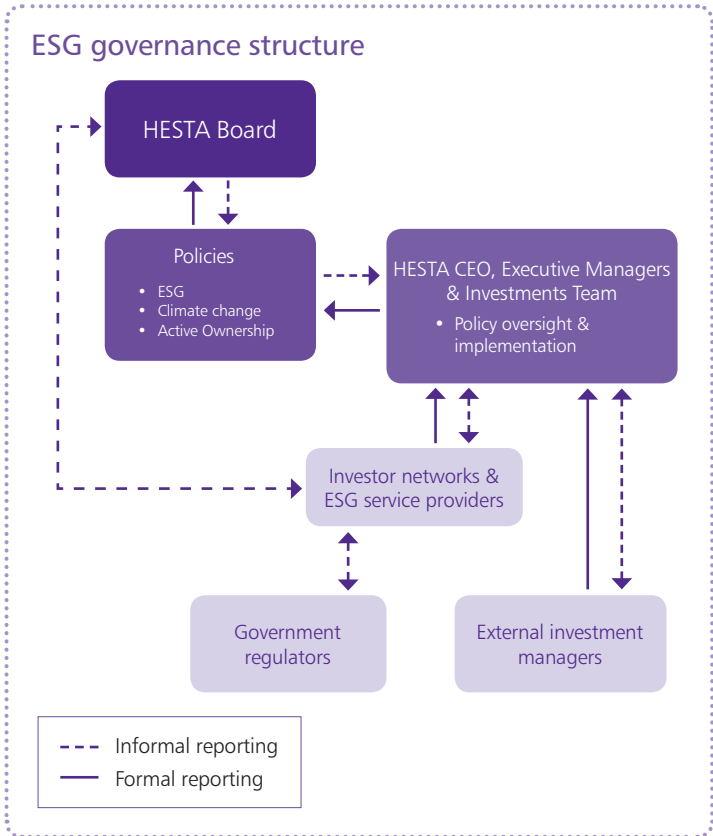
We recognise that our biggest impact is through our investments. Our approach to responsible investing is grounded in our key objective to maximise returns for members while minimising risk.

ESG governance

We're committed to incorporating environmental, social and governance (ESG) considerations into all our investment processes. At the highest level, our principles and commitment are outlined in our ESG Policy, our Active Ownership Policy and our Climate Change Policy.

The HESTA Board is responsible for approving the ESG-related policies and for overseeing their implementation. Annually, the Board assesses key ESG indicators included in HESTA's scorecard, and evaluates the implementation and performance of ESG-related policies. Every three years, the HESTA Board reviews these policies.

Our investment team is responsible for the implementation of our ESG-related policies. The team works with external investment managers and other service providers to ensure the incorporation of ESG factors enhances the sustainability the Fund's investments. We collaborate with other investors where opportunities to do so furthers our existing ESG program.



Our approach to responsible investment

The United Nations-backed Principles of Responsible Investment (PRI) provide an overarching framework for our approach to responsible investment. As a signatory to the PRI we are committed to the following six principles:

1. Incorporate ESG issues into investment analysis and decision-making processes
2. Be active owners and incorporate ESG issues into our ownership policies and practices
3. Seek appropriate disclosure on ESG issues by the entities in which we invest
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance our effectiveness in implementing the Principles
6. Report on our activities and progress towards implementing the Principles.

Incorporating ESG factors

We consider ESG factors when making decisions involving allocation to assets, and the structure and diversification of HESTA's investment portfolio.

We use external investment managers to invest on our behalf so one of our key investment decisions is the selection of these managers. Each manager's approach to ESG issues, and how it incorporates them within its investment processes and decision making, is assessed as part of our selection of new managers. Managers are also assessed on an ongoing basis, as part of our annual review of existing managers. ESG requirements are formalised through inclusion in our Investment Management Agreements or side letters.

2012/13 key highlights

ESG implementation strategy

During the year we developed a strategy paper on incorporating ESG within asset classes. The paper outlines our approach to implementing our ESG Policy and, in particular, incorporating ESG issues into our investment processes and decision-making across all asset classes. The paper included a detailed action plan which is being rolled out.

ESG issue survey

To understand our managers' approach to ESG issues in more detail we surveyed all our managers on the issue of bribery and corruption. We asked them to outline how they assess and manage the risks of bribery and corruption in their portfolios, and the actions they're undertaking to reduce exposure to bribery and corruption risks.

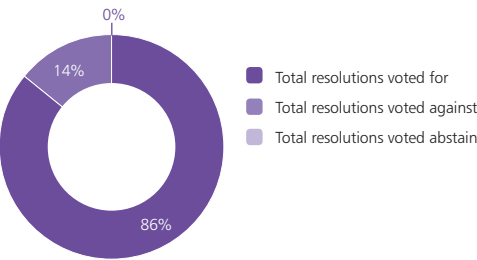
Active ownership

As a long-term institutional investor and a ‘universal’ owner, we regard ‘active ownership’ as being of particular importance in serving the interests of members. Active ownership, as outlined in our Active Ownership Policy, includes company engagement, share voting and advocacy with the aim of protecting or increasing the value of investments.

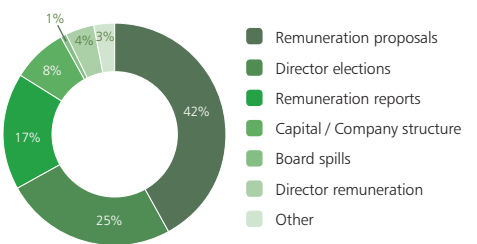
We seek to vote all the shares we own on behalf of the Fund’s members. We vote directly the shares held by our Australian equities managers. When contentious issues arise, we decide how we will vote on the resolutions, taking into account the advice of our investment managers and also our voting adviser, Australian Council of Superannuation Investors (ACSI) or International Shareholder Services (ISS). We vote, through Hermes Equity Ownership Services (Hermes EOS), the shares held by our international investment managers.

Australia

During 2012/13, we voted 2,138 resolutions at 668 meetings. We voted against 290, or 14%, of those resolutions.

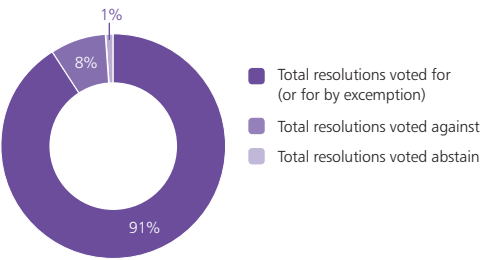


The 290 resolutions we voted against covered a range of issues including executive remuneration, election of directors and capital structure.

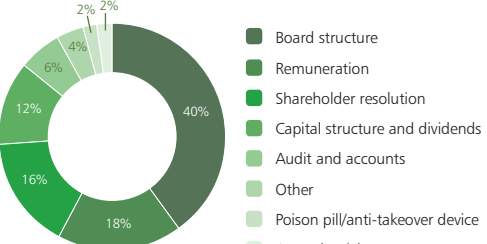


International

During 2012/13, Hermes EOS voted on our behalf on 23,252 resolutions at 1,693 of meetings. EOS voted against 1,884, or 8%, of those resolutions.



The 1,884 resolutions Hermes EOS voted against covered a range of issues including board structure, executive remuneration, shareholder resolutions, and capital structure and dividends.



More detailed reports on our share voting is available at hesta.com.au/sustainability

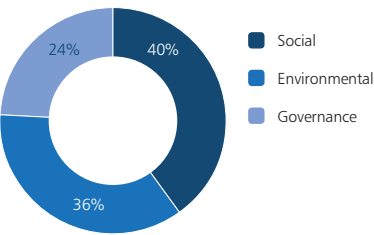
Engagement

Company engagement involves discussions with a company, usually at Board or at least senior management level, with the aim of improving ESG performance and/or disclosure. We undertake engagement with companies held by our Australian managers through ACSI and Regnan Governance Research and Engagement, and with companies held by our international managers, through Hermes EOS.

We engage with companies that most need to improve their ESG policies, practices, performance and/or disclosure in relation to key ESG issues as identified by some deficiency relative to established regulatory, industry or broader social standards, or if the company’s conduct threatens its reputation or value.

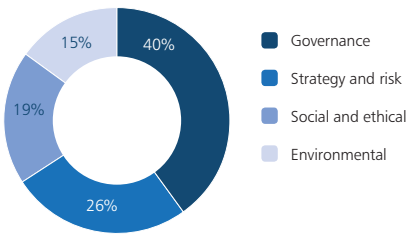
Australia

During 2012/13, we — through ACSI and Regnan — engaged with a total of 232 companies, in which HESTA has investments. 40% of engagement activity was related to social issues, 36% to environmental issues and 24% to governance.



International

During 2012/13, Hermes EOS engaged with a total of 322 companies in which HESTA has investments. 40% of engagement activity was related to governance, 26% to strategy and risk, 19% to social and ethical issues, and 15% to environmental issues.



Key engagement topics

Engagement undertaken on our behalf focussed on:

- sustainability reporting seeking improved disclosure of ESG risks
- anti-corruption policies seeking public commitments to monitor corporate behaviour regarding bribery and corruption
- labour and human rights standards seeking improved disclosure of how these risks are managed and adherence to global leading practice
- coal seam gas seeking support for best practice guidelines and improved disclosure of the potential environmental and social risks, and how these are being managed
- governance practices including director elections, executive pay and improved diversity on boards.

Collaboration

We know that, to increase our influence and ability to improve the ESG performance of our investments, sometimes it's better to work together with others in the investment community.

To this end, we collaborate with a wide range of investor networks. These networks typically address specific ESG issues, from climate change to corporate governance. We're founding members of some groups and have taken on leadership roles where we see opportunities to benefit members.

We are involved in the following networks:



*Founding member
**Founding member and owner
#High level representation on either/both the board and management or member committees of this organisation
^We provide the secretariat (up to 30 June 2013)

2012/13 key highlights

This was the fifth consecutive year that we chaired and provided the Secretariat for ESG RA. The objective of ESG RA is to facilitate improved investment decision-making by encouraging better investment-relevant ESG research by stock brokers. The annual ESG RA Awards held in March 2013 attracted more than over 100 individuals from the investment community. The Awards recognised the 'Best ESG Broking Firm' as voted by ESG RA members and the 'Best Piece' of ESG Research.

This year, we were once again represented on the IGCC's Management Committee and Chaired the Low Carbon Finance Working Group. The Chair's activities included:

- engaging with policy makers on the establishment and initial operation of the Clean Energy Finance Corporation (CEFC) in Australia
- advocacy with international investor groups and other stakeholders focussed on the development of the United Nations Framework Convention on Climate Change (UNFCCC) Green Climate Fund, and
- conceptual discussion concerning a pooled fund for low carbon investments.

Business practices

Our commitment to sustainability extends to our internal operations. Using resources more efficiently not only reduces our environmental footprint but benefits members by keeping costs low.

As part of our drive to constantly improve our sustainability, we established an Environmental Management Program in 2007. The program reports on key environmental impacts and the carbon footprint of our operations, excluding investments. Our Sustainability Coordinator and Committee oversee implementation of the program and aim to make our operations as sustainable as possible. Our environmental performance is reported annually to the HESTA Board.

Environmental performance

We report environmental performance in the following areas:

- carbon footprint
- electricity consumption
- natural gas
- diesel fuel
- water
- unleaded petrol
- paper use (office and print)
- air and taxi travel
- waste to landfill.

2012/13 environmental performance

We achieved a reduced environmental footprint, despite increasing in size as an organisation to meet the needs of our growing membership, employers and assets.

Overall, our environmental performance improved during the year, with total carbon emissions decreasing by 1.6% compared with 2011/12. Our carbon footprint is now 947.68 tonnes CO2-e, down from 962.64 tonnes CO2-e in the previous year. In a further indication of our improved efficiency, greenhouse gas emissions per full-time equivalent (FTE) staff member fell by 8.1% compared with 2011/12.

This reduction in our environmental impact was achieved despite our FTE staff numbers increasing by 7.1%. A decrease in the use of paper, lower fuel consumption and our continued efforts to improve energy use were the main drivers of our improved environmental performance. However, there still remains significant levels of estimation in the environmental performance figures, due to lack of data collection systems in smaller offices.

2012/13 key achievements

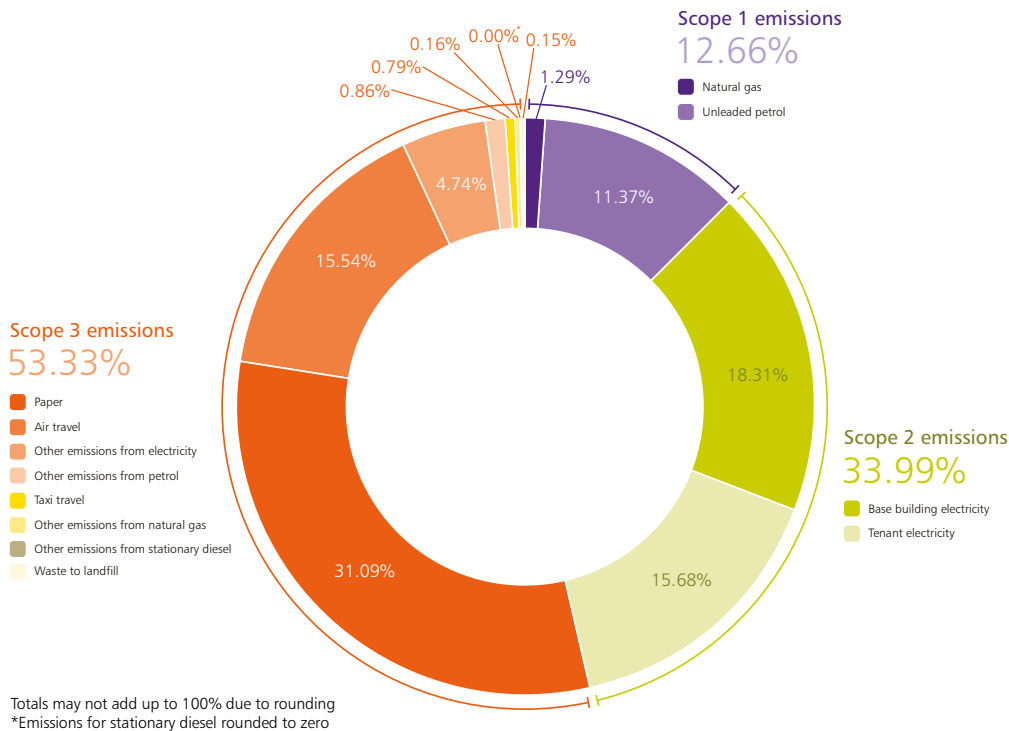
- Continued reduction in total carbon emissions.
- Approval of a new sustainability policy and plan.
- Achievement of 2010 goal to reduce printing and copy paper per FTE staff member by 5% (actual reduction of more than 10%).
- 20.04% reduction in total paper use.

Carbon footprint

We measure our carbon footprint by looking at our carbon emissions in the following way:

- Scope 1:** direct emissions from sources we own or control
- Scope 2:** indirect emissions associated with electricity use
- Scope 3:** other indirect emissions from our activities, such as emissions from waste disposal, travel and use of paper.

The graphic below shows the breakdown of emissions by type.



Note: This graphic was changed on 25 October 2013 to correct natural gas and unleaded petrol emissions.

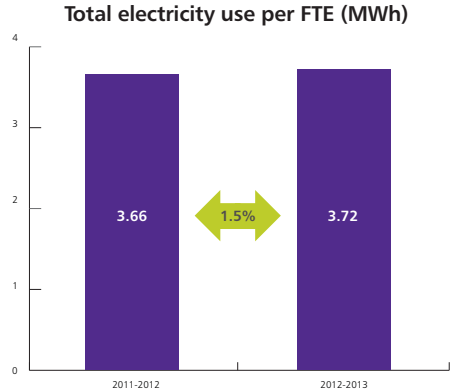
The biggest decrease in our carbon footprint came from reductions throughout the year in Scope 1 and Scope 3 emissions, which included print paper and taxi travel.

Electricity consumption

Building energy consumption accounts for more than one third of our total emissions. In 2012/13, our electricity consumption rose modestly by 8.7%, despite a 23.6% increase in occupied space.

Our direct power consumption remained steady in 2012/13. The majority of the increase in overall electricity consumption was attributable to our proportion of electricity used in the buildings we tenant. This is typically electricity to power common areas such as lifts, air-conditioning and lights.

Total electricity use per FTE staff member stayed relatively steady, up only 1.5%.



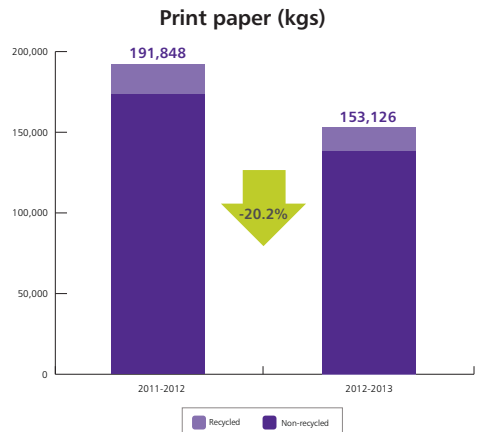
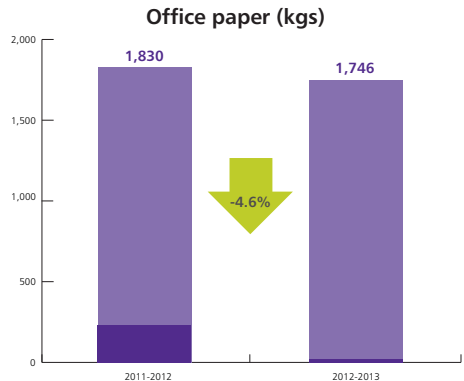
Paper use

A decrease in the use of both office and print paper was the key factor in our lower overall carbon footprint in 2012/13. After electricity consumption, paper use is the single most significant contributor to our carbon footprint, accounting for 31.9% of emissions in 2012/13.

Printed material provided to members and employers is the largest component of our paper consumption. The printers of our brochures use environmental management systems that are certified to ISO 14001 standard. They're also Eco Warranty certified.

We offer all members the choice of electronic statements in an effort to cut paper use.

In 2012/13, printed paper consumption declined by 20.2%, representing a 0.18 kilogram reduction per member or employer. Office paper consumption fell by 3.8%.



People and culture

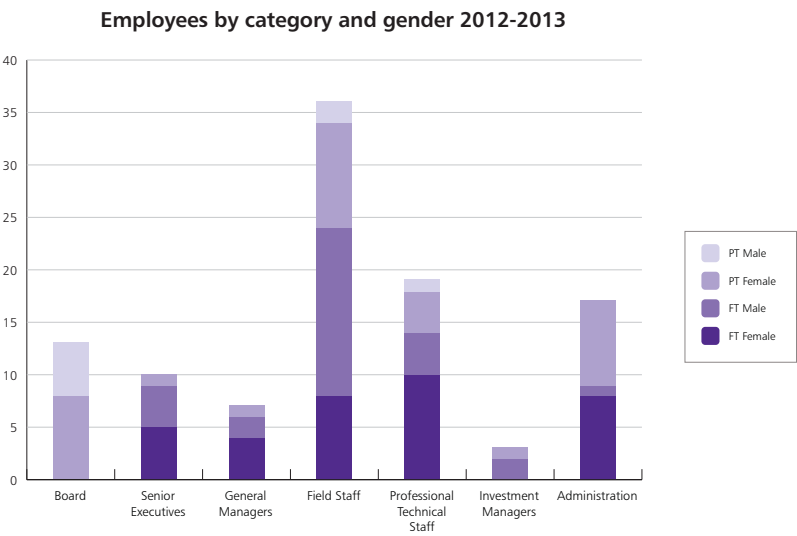
We provide a strong, mutually supportive workplace based on integrity, respect and fairness. Our forward-thinking culture fosters commitment and professionalism, and a drive to continually develop and improve.

By the end of financial year 2012/13, FTE equivalent staff had increased by 7.1% on the previous year, to 105 FTE. This reflects the growth in our membership, employers and assets.

Equal opportunity

We're committed to providing equal opportunity in employment and we strive for a workplace free of bullying and harassment. Our work environment values and respects the rights and diversity of our people.

At the end of 2012/13, 65% of our staff were female, spread evenly across all employment categories (see graph below). Our leadership group, including General Managers, Executive Managers, Deputy CEO, CEO and Board, was 63% female.



Development and wellbeing

The ongoing development of our people is a vital part of our commitment to continually improve the service we provide members. We support our people with training and development programs that include both internal and external training.

Our people can apply for company-funded professional development leave that facilitates training opportunities. We also offer an annual scholarship to assist two staff members to pursue their education and development goals. A total of 1,470 hours of professional development leave was granted during 2012/13.

We support the health and wellbeing of our people, providing flexibility and assistance when needed. Our people can access up to 15 days of personal leave each year to be used as either carer's or sick leave. We also offer flexible working hours designed to encourage a positive work/life balance. Where possible we accommodate part-time work requests.

Our people can also access an Employee Assistance Program that provides confidential counselling to manage work-related or personal issues.

HESTA and the community

As part of our commitment to sustainability, we aim to make a positive contribution to the industry and broader society in which we operate. We have a comprehensive Corporate Social Responsibility Program that supports the health and community service industry and broader community engagement.

Our people can access up to six days of paid corporate social responsibility leave annually for community service activities.

We're a long-standing supporter of the Mother's Day Classic — a fun run/walk held annually around Australia. In 2013, HESTA was a gold sponsor of the event, which raised almost \$15 million for breast cancer research. Approximately 16 of our staff walked or ran in the event and more than 43 volunteered on the day.

We also provide access to Blood Donors Leave and we facilitate charitable pay-day contributions.

Industry support

We're proud to support and recognise the health and community services industry. Our awards program provides national recognition for individual and team excellence across a range of disciplines.

In 2012/13, in addition to our existing awards covering nursing, aged care, primary health care and early childhood education and care, we launched the HESTA Community Sector Awards. Our awards program is our major community contribution and an ongoing source of pride and satisfaction for our people.



Finances

Financial Statements

The following Statement of Financial Position and Operating Statement are extracts of the audited financial statements of the Fund for the year ended 30 June 2013. Free call 1800 813 327 to request a copy of the full financial statements.

Statement of Financial Position

as at 30 June 2013

	30 June 2013 \$'000	30 June 2012 \$'000
Assets		
Investments		
Cash and Short Term Deposits	1,908,840	1,332,310
Other Interest Bearing Securities	2,162,545	1,522,340
Australian Equities	6,652,418	5,340,763
International Equities	4,876,706	3,147,733
Unlisted Unit Trusts	5,634,005	5,807,273
Unlisted Pooled Funds	388,241	307,405
Pooled Superannuation Trusts	1,868,842	1,750,806
Private Equity	497,174	342,241
Derivative Assets	55,199	21,262
Total Investments	24,043,970	19,572,133
Other Assets		
Cash and Cash Equivalents	81,327	75,773
Fixed Assets	1,252	1,096
Other Assets	55	1,429
Deferred Tax Assets	133,212	127,578
Total Other Assets	215,846	205,876
Total Assets	24,259,816	19,778,009
Liabilities		
Payables	30,564	38,977
Provision for Employee Benefits	1,891	1,501
Income Tax Payable	108,056	45,073
Derivative Liabilities	262,509	-
Deferred Tax Liabilities	227,300	14,469
Total Liabilities	630,320	100,020
NET ASSETS AVAILABLE TO PAY BENEFITS	23,629,496	19,677,989
<i>Represented by:</i>		
Liability for Accrued Benefits		
Allocated to Members' Accounts	23,544,076	19,588,389
Not Yet Allocated to Members' Accounts	406	2,613
Reserves	85,014	86,987
Total Liability for Accrued Benefits	23,629,496	19,677,989

Operating Statement

for the year ended 30 June 2013

	30 June 2013 \$'000	30 June 2012 \$'000
Investment Revenue		
Dividends	352,149	304,498
Trust Distributions	461,987	461,130
Interest	101,071	94,719
Other Investment Income	5,947	10,388
Change in Net Market Value of Investments	2,252,526	(497,172)
Direct Investment Expenses	(77,223)	(69,795)
Net Investment Revenue	3,096,457	303,768
Contribution Revenue		
Employer Contributions	2,136,174	2,078,242
Member Contributions	260,514	235,029
Transfers from Other Superannuation Funds	487,127	682,021
Total Contribution Revenue	2,883,815	2,995,292
Other Revenue		
Group Life Insurance Proceeds	63,181	43,180
Other Income	139	4,089
Total Other Revenue	63,320	47,269
Total Revenue	6,043,592	3,346,329
General Administration Expenses		
Group Life Insurance Premiums	143,660	115,898
Administrator Expenses	39,420	37,747
Trustee Office Operating Costs*	35,265	27,613
Total General Administration Expenses	218,345	181,258
Benefits Accrued as a result of Operations before Income Tax	5,825,247	3,165,071
Income Tax Expense	497,808	247,960
Benefits Accrued as a result of Operations after Income Tax	5,327,439	2,917,111

* The operating costs of the Fund include Regulator levies of \$3.8m for the year ended 30 June 2013 compared with \$0.5m for the year ended 30 June 2012.

Remuneration

Remuneration of Directors

Total remuneration received and receivable by Directors and/or relevant organisations during the year was:

Director	30 June 2013 (\$)	Remuneration paid/ payable to
J.A. Bonnington	44,365	Self
Y.M. Chaperon	39,035	Australian Nursing Federation*
L. Darmanin (appointed 14/3/13)	10,698	Australian Services Union
A.C. Emslie (Independent Chair)	105,058	Self
B.H. Holmes (Deputy Chair)	60,110	NSW Nurses and Midwives' Association
R. Kelly (resigned 27/9/12)	11,260	Medical Scientists Association of Victoria
T.D. Lyons	36,913	Australian Council of Trade Unions
V.J. Lyons (appointed 1/1/13)	18,188	Self
E.R. Mohle (term of office expired 31/12/12)	20,271	Queensland Nurses' Union
M.S. O'Halloran	16,152 22,000	Self Welfare Rights Centre
P.H. Power	38,535	Self
R.N. Royle (Deputy Chair)	45,105	Self
K.L. Shay (parental leave 1/7/12 to 31/12/12)	19,194	United Voice WA
A.J. Smith (term of office expired 31/12/12)	20,945	AJ & BJ Smith Pty Ltd
D. Smith (resigned 12/3/13)	29,323	Australian Services Union
L. Williams	37,733	Health & Community Services Union
K. Zimmermann	39,375	Self
Total	614,260	

The above remuneration received/receivable by Directors and/or relevant organisations during the year includes superannuation. The remuneration paid to an organisation is after relevant superannuation is deducted and paid/payable to the superannuation fund.

*Now named Australian Nursing and Midwifery Federation

Directors nominated to external boards

Directors nominated to external boards and their remuneration is as follows:

Director	Board	As at 30 June 2013 (\$)	Remuneration paid/payable to
J.A. Bonnington	Utilities Trust of Australia	72,082	Self
A.C. Emslie	Frontier Advisors Pty Ltd	12,000	Self
T.D. Lyons	Industry Funds Management Pty Ltd (IFM) - Investor Advisory Board	15,840	Australian Council of Trade Unions
K. Zimmermann	ISPT Pty Ltd	22,653	Self

Remuneration of Executive Management Team

Total remuneration received and receivable by Executive Management personnel and other relevant higher paid staff during the year was:

Compensation band	Number of key management personnel in band
\$40,001 - \$100,000	1
\$100,001 - \$200,000	4
\$200,001 - \$300,000	4
\$300,001 - \$400,000	1
\$400,001 - \$500,000	1
\$500,001 - \$600,000	1

Some Executive Managers commenced or departed part way through the year.

Related parties

Related party investments and transactions

At 30 June 2013 the Fund (Health Employees Superannuation Trust Australia) had:

- A 30% (2012: 30%) shareholding of ordinary and preference shares valued at \$811,445 (2012: \$811,445) in Frontier Advisors Pty Ltd. Frontier provides investment consulting services to the Fund.

Frontier receives fees from the Fund for investment consulting services. These fees were \$2,170,049 (2012: \$2,336,372).

Ms A. C. Emslie (as nominee of H.E.S.T. Australia Ltd) is a Director of Frontier Advisors Pty Ltd.

- All transactions were made on normal commercial terms, under normal conditions and at market rates. Transactions relating to dividends, investment income and subscription for new ordinary shares were on the same terms and conditions that applied to other shareholders.

There were no transactions between the Fund and the Trustee of the Fund (H.E.S.T. Australia Ltd) during the year (2012: \$nil).

Other shareholdings and transactions

As at 30 June 2013 the Fund had:

- a 16.57% (2012: 16.57%) shareholding in Superpartners Pty Ltd, valued at \$23,959,898 (2012: \$40,314,702). Superpartners provides member administration to the Fund.
- a 15.9% (2012: 15.9%) shareholding in Industry Super Holdings Pty Ltd (ISH) valued at \$57,812,063 (2012: \$47,492,921).

Industry Funds Management Pty Ltd (IFM) is a subsidiary of ISH and manages investments totalling \$4,022,707,430 (2012: \$3,447,119,347) on behalf of the Fund.

ISH has other subsidiaries with which the Fund transacts. Industry Fund Services Pty Ltd provides financial planning services to the Fund. Industry Fund Services Insurance Broking Pty Ltd provides insurance services to the Fund. Industry Super Network Pty Ltd (ISN) provides marketing, advocacy, policy development and research services to the Fund.

Ms A.C. Emslie's partner, Mr G Weaven, is a Director of ISH and ME Bank and Chair of IFM. Ms A-M Corboy, as a nominee of H.E.S.T. Australia Ltd, is a Director of ISN.

- a 15.9% (2012: 15.9%) shareholding in ME Bank valued at \$113,851,765 (2012: \$90,974,586). ME Bank is the manager of the Super Members Home Loan program and the Super Loans Trust. The investment in the Super Loans Trust was valued at \$131,194,824 (2012: \$158,296,677). The Fund also had \$308,413,846 (2012: \$252,841,725) invested in cash and term deposits with ME Bank at year end and investments in subordinated notes totalling \$15,000,000 (2012: Nil).
- a 3.8% (2012: 3.7%) shareholding in ISPT Pty Ltd valued at \$1 (2012: \$1). ISPT is the trustee and manager of four unlisted direct investment property trusts which the Fund invests in. In addition, ISPT Pty Ltd provides management services to IGIPT Pty Ltd in its capacity as trustee of the ISPT Grosvenor International Property Trust on a cost recovery basis.

ISPT Pty Ltd in its capacity as trustee and manager, managed investments totalling \$1,212,494,634 (2012: \$1,034,078,548) on behalf of the Fund.

Mr K Zimmermann, as a nominee of H.E.S.T. Australia Ltd, is a Director of ISPT Pty Ltd and IGIPT Pty Ltd.

Ms A-M. Corboy, as a nominee of H.E.S.T. Australia Ltd, is an Alternate Director of ISPT Pty Ltd and IGIPT Pty Ltd.

All transactions were made on normal commercial terms, under normal conditions and at market rates. Transactions relating to dividends, investment income and subscription for new ordinary shares were on the same terms and conditions that applied to other shareholders.



Our Board

Who runs the Fund

The Fund is run by H.E.S.T. Australia Limited, an APRA and ASIC licensed trustee company with Guarantors (who don't receive dividends). Guarantors represent employee and employer organisations and some are eligible to nominate Directors to the Board.

There are 13 Trustee Directors on the Board, with an independent chair and equal appointments from employee and employer organisations in the health and community services fields. This ensures the voices of both employers and members are heard and that their views are taken into account when decisions are made.

The Board meets up to eight times a year, overseeing every aspect of the Fund including investments, administration, communications and service delivery. The role of the Board is to determine the strategic direction of the Fund and to monitor operations, ensuring the Fund is administered in accordance with the Trust Deed, relevant legislation and regulations.

Although the Trustee is required to hold professional indemnity insurance to protect both itself and the Directors from claims against them, there has never been a claim under the insurance policy and no penalties have been imposed under the Superannuation Industry (Supervision) Act 1993, which covers the regulation, responsibilities and activities of super funds.

If you would like to know more about the governing rules of the Fund, you can obtain a full copy of the Fund's Trust Deed or the rules governing the appointment of Trustee Directors by contacting us on free call 1800 813 327.

If you have any feedback on this Annual Report you can write to:

Anne-Marie Corboy
Chief Executive Officer
HESTA
PO Box 615, Carlton South VIC 3053

More information on individual Directors is available on pages 45-49 and at hesta.com.au/aboutus where you may also obtain copies of the Board Charter and Code of Conduct.

Our Board

Trustee Directors during the period 1 July 2012 to 30 June 2013

Independent Chair



Angela Emslie
(Independent Chair)
Appointed 1 Jan 2013
(first appointed 15 Dec 1994)

Employer organisation appointed (nominated by their organisations)



Richard Royle
(Deputy Chair)
Australian Private
Hospitals Association
Appointed 1 Jan 2011



Jay Bonnington
Catholic Health
Australia
Appointed 1 Jan 2011



Valerie Lyons
Leading Age Services
Australia
Appointed 1 Jan 2013



Maree O'Halloran
Australian Council
of Social Service
Appointed 18 Jan 2010



Prue Power
Australian Healthcare
and Hospitals Association
Appointed 1 Jan 2010



Klaus Zimmermann
Aged & Community
Services Australia
Appointed 1 Jan 2012

Employee organisation appointed (nominated by their organisations)



Brett Holmes
(Deputy Chair)
Australian Nursing
Federation*
Appointed 28 Sep 2000



Yvonne Chaperon
Australian Nursing
Federation*
Appointed 29 Oct 2010



Lisa Darmanin
Australian Services
Union
Appointed 14 Mar 2013



Tim Lyons
Australian Council
of Trade Unions
Appointed 8 Feb 2010



Kelly Shay
United Voice
Appointed 1 Sep 2009
On parental leave
1/7/12 - 31/12/12



Lloyd Williams
Health Services Union
Appointed 1 Jan 2012

Directors who ceased between 1 July 2012 and 30 June 2013:

Dr Rosemary Kelly — resigned 27/9/12
Beth Mohle — term of office expired 31/12/12
David Smith — resigned 12/3/13
Tony Smith — term of office expired 31/12/12

*Now named Australian Nursing and Midwifery Federation

The Board Committees

The Board Committees as at 30 June 2013

Specialised responsibilities are delegated to Board-appointed committees consisting of Directors who report to the full Board meeting.

Audit and Risk Committee	
Chair	Jay Bonnington
Members	Lisa Darmanin, Tim Lyons, Richard Royle, Lloyd Williams, Klaus Zimmermann
Role	Responsible for ensuring the Fund observes high standards of business behaviour and ethics, complies with all legal and regulatory requirements, manages risk effectively, and provides assurance regarding the quality and reliability of financial information.

Governance and Remuneration Committee	
Chair	Angela Emslie
Members	Yvonne Chaperon, Brett Holmes, Valerie Lyons, Maree O'Halloran, Prue Power, Kelly Shay
Role	Responsible for all governance and remuneration matters including the maintenance of the appropriate balance of skills and expertise of Directors, reviewing and recommending Director training and education, Director and Executive Management remuneration, and Board performance and processes.

Directors' attendance at meetings

Directors During the period 1 July 2012 to 30 June 2013	Board meetings attended	Audit and Risk Committee meetings attended	Governance and Remuneration Committee meetings attended
Angela Emslie (Independent Chair)	8/8		3/3
Brett Holmes (Deputy Chair)	8/8	3/3	3/3
Richard Royle (Deputy Chair)	7/8	4/4	
Jay Bonnington	7/8	4/4	
Yvonne Chaperon	7/8		2/3
Lisa Darmanin Appointed 14/3/13	2/2		
Dr Rosemary Kelly Resigned 27/9/12	1/2	2/3	
Tim Lyons	7/8	2/4	
Valerie Lyons Appointed 1/1/13	4/4		1/1
Beth Mohle Term of office expired 31/12/12	4/4		
Maree O'Halloran	7/8		2/3
Prue Power	8/8		3/3
Kelly Shay (Parental leave 1/7/12-31/12/12)	4/4		1/1
David Smith Resigned 12/3/13	5/5		
Tony Smith Term of office expired 31/12/12	4/4	3/3	
Lloyd Williams	7/8	1/1	1/2
Klaus Zimmermann	7/8	4/4	

Qualifications of the Directors

Qualifications of the Directors of H.E.S.T Australia Ltd (ABN 66 006 818 695) as appointed Trustee of the Fund as at 30 June 2013 are:

Name	Qualification	Relevant experience
Angela Claire Emslie	Bachelor of Economics, Masters in Business Management, Fellow of the Australian Institute of Superannuation Trustees (FAIST), PS 146, Company Directors Course	Director of LIME Management Group Pty Ltd Former Director of Vision Super Pty Ltd and Care Super Pty Ltd Over 20 years experience as a senior manager or advisor to management
Brett Howard Holmes	Registered Nurse, Registered Midwife	Registered Nurse, 1983-1990 Registered Midwife, 1988-1990 General Secretary, NSW Nurses and Midwives' Association Trade Union Official for over 20 years
Richard Norman Royle	Bachelor of Arts, Master of Health Administration, Strategy Course for Health Care Delivery - Harvard Business School	Executive Director, UnitingCare Health Vice President and Chair, APHA Policy Committee
Jay Annette Bonnington	Bachelor of Commerce, Master of Business Administration, Fellow of CPA Australia (FCPA), Fellow of the Australian Institute of Company Directors (FAICD), Strategic Planning - Harvard	Director, St John of God Healthcare Group Director, Port of Melbourne Corporation Director, Metropolitan Fire Services Director, Utilities Trust of Australia Membership of community organisations Prior experience as a superannuation trustee
Yvonne Marguerite Chaperon	Registered Nurse Certificate, Bachelor of Laws	Nursing Lawyer representing nurses EBA negotiations as ANF Industrial Officer Assistant Federal Secretary, Australian Nursing Federation*
Lisa Darmanin	Bachelor of Business (Industrial Relations and Human Resource Management), Diploma of Community Development, RG146	Assistant Branch Secretary – Australian Services Union, Victorian and Tasmanian Authorities and Services Branch

*Now named Australian Nursing and Midwifery Federation

Name	Qualification	Relevant experience
Timothy Daniel Lyons	Bachelor of Arts, Diploma of Financial Services, Diploma - Company Directors Course - AICD, ASFA Units - Investment, Superannuation, Financial Planning	Assistant Secretary, ACTU (2008-current) Former Director, LUCRF Super Secretary/Director of over 10 ACTU-related companies Trade Union official (since 1995)
Valerie Joan Maria Lyons	Bachelor of Business, ACIS, FAICD, FCPA, FCSA, AIST	Chief Executive Officer/Member Villa Maria Society Director, Leading Age Services Australia Director/President, Leading Age Services Australia - Victoria Director, Catholic Health Australia Stewardship Board
Maree Suzanne O'Halloran	BA/DIP ED, BLEG.S/Grad Dip Legal Practice, Master of Laws	Practising as a solicitor in NSW Working in the community sector Manager, Welfare Rights Centre Former Director, SAS Trustee Corporation in NSW Director, Teachers Mutual Bank
Prudence (Prue) Howard Power	Master of Population Health, Graduate Certificate in Arbitration & Conciliation, Certificate in Mediation, Diploma in Corporate Governance, Registered Nurse	Former Executive Director, Australian Healthcare & Hospitals Association Council Member, University of Canberra 30 years of experience in management and board positions in the health industry
Kelly Louise Shay	RG146, Harvard Trade Union Program, Certificate in Trustee Governance-AIST, Company Directors Course - AICD	Assistant Secretary, United Voice (WA branch) Over 10 years union organising experience Since 2004, organising focus in aged care, child care and disabilities sectors Management Committee, Welfare Rights & Advocacy Service (WA)
Lloyd Williams	Diploma Occupational Health & Safety	Branch Secretary, Health and Community Services Union (VIC No. 2 Branch) Senior Assistant National Secretary, Health Services Union Member, Health Services Union National Executive Officer and Delegate to National Council, Health Services Union
Klaus Zimmermann	Bachelor of Business (Accounting), Business Certificate of Accounting, Diploma in Corporate Management, Justice of the Peace (South Australia)	Chief Executive Officer, Eldercare Incorporated Director, Medicare Local (Central Adelaide and Hills) Director, Applied Professional Services Pty Ltd



Other information

Key advisers and service providers

We use a number of external service providers to help us administer your account and invest your money.

Frontier Advisors Pty Ltd provides the Board with advice on investing members' money and is paid a fee for this service. The Fund is a shareholder of Frontier.

Superpartners Pty Ltd provides administrative services for the Fund, including operating the Fund's service centre, insurance administration, contribution and benefit processing and other general Fund administration. The Fund is a shareholder of Superpartners.

Other key advisers and providers as at 30 June 2013 include:

- Custodian: JP Morgan Chase Bank
- Insurer: CommInsure
- Solicitors: Dwyer Bruce Legal Pty Ltd, Holding Redlich, Mills Oakley Lawyers
- Auditors: Ernst & Young
- Taxation Accountants: PricewaterhouseCoopers

Investment managers

We use a range of professional fund managers to invest members' money according to specific objectives and strategies (including offering strategies to guard against excessive risk) set out by the Board with advice from our investment consultant, Frontier Advisors Pty Ltd.

By using investment managers, we can make use of their expertise in the investment of your retirement savings, while at the same time using our size to achieve economies of scale that keep costs low.

Derivatives policy

Derivatives are often purchased as a form of investment insurance, and include:

- futures and options: agreements to buy or sell an asset like gold, shares or bank bills in the future at a price set now
- forward rate agreements: agreements to borrow or lend money in the future at an interest rate set now
- swaps: an interest rate, currency or equity exchange between two parties
- warrants: certificates that enable a purchaser to buy stocks at a certain price within a set time frame.

Derivatives are financial instruments linked to the future purchase or sale of securities, such as shares or other assets. They are common risk management tools. The Fund has some investment in derivatives. Derivatives can be used to reduce portfolio risk, or increase it. Tight controls are used to reduce unintended risk.

Derivatives have a role to play as part of the Fund's overall investment strategy and aim to minimise investment risk in the portfolios while maximising investment returns. The Fund's policy on derivatives allows investment managers to use derivatives to pursue their investment objectives, particularly for controlling risk. Our policy allows the Trustee to use derivatives to implement strategies within the Fund.

Managers are not allowed to exceed specific asset sector investment guidelines limiting the circumstances under which they may use derivatives. Derivatives may be used in the management of the portfolio but not used to gear the portfolio or create net short positions.

Superannuation surcharge




The Federal Government abolished the superannuation surcharge tax from 1 July 2005. However, surcharge for prior years may still appear on your statement as a deduction from your account.

How do I make a complaint?

We take complaints seriously.

If you're not satisfied with our products or services, we have a complaint resolution process to address your concerns fairly and efficiently.

Internal dispute resolution process

 Step 1	 Step 2	 Step 3
<p>Call to discuss your concerns.</p> <p>If your concern relates to your:</p> <ul style="list-style-type: none">• HESTA super account, call 1800 813 327• HESTA Income Stream account, call 1300 734 479.	<p>If your concerns can't be resolved immediately, you can provide more detailed information about your complaint to our Complaints Officer by:</p> <p>Mail: Complaints Officer HESTA PO Box 600 Carlton South VIC 3053</p> <p>Email: HESTA super accounts: hesta@hesta.com.au</p> <p>HESTA Income Stream accounts: hestasis@hesta.com.au</p>	<p>We'll investigate your complaint and make every effort to respond within 10 business days. If we can't fully respond in that time, we'll endeavour to keep you informed about the progress of your complaint.</p> <p>Our response will detail the outcome of the investigation and the reason for our decision. This process is free of charge.</p>

External dispute resolution process

There are independent organisations that consumers can access free of charge to resolve disputes with financial services providers.

These independent organisations are only able to consider your complaint if you have first used our internal dispute resolution process.*

Superannuation complaints, including income streams	Non-superannuation complaints (e.g. advice about banking or managed investment products)
<p>Superannuation Complaints Tribunal (SCT) Locked Mail Bag 3060 Melbourne VIC 3001 1300 884 114 sct.gov.au</p> <p>*You can also access the SCT if your complaint has not been resolved by the internal dispute resolution process within 90 days.</p>	<p>Financial Ombudsman Service (FOS) GPO Box 3 Melbourne VIC 3001 1300 780 808 fos.org.au</p> <p>*You can also access FOS if your non-superannuation complaint has not been resolved by the internal dispute resolution process within 45 days.</p>

What you need to know about this Annual Report

This Annual Report contains information about the Health Employees Superannuation Trust Australia (the Fund) ABN 64 971 749 321 and is produced by H.E.S.T. Australia Limited ABN 66 006 818 695, AFSL No. 235249, the Trustee of the Fund.

H.E.S.T. Australia Limited is the issuer of the products 'HESTA' (including 'HESTA Personal Super') and 'HESTA Income Stream'.

Care is taken to ensure that information is correct at the date of preparation, but neither the Trustee nor its advisers accept responsibility for any error or misprint, nor for anyone acting on this information, which is of a general nature. It does not take into account your objectives, financial situation or specific needs so you should look at your own financial position and requirements before making a decision. You may wish to consult an adviser when doing this. The information also represents our interpretation of the law in some instances but should not be relied upon as legal advice. Product ratings are only one factor to be considered when making a decision. See hesta.com.au/ratings for more information.

Please note investments can go up and down. Past performance is not a reliable indicator of future performance. Consider a Product Disclosure Statement before making a decision about our products. Call HESTA super on 1800 813 327 or HESTA Income Stream 1300 734 479 — or visit hesta.com.au — for copies.

There for you



Strength in numbers

HESTA has more than 760,000 members, 119,000 employers and \$24 billion in assets and is the leading industry super fund for health and community services. HESTA's size means we can keep our fees low and provide education and advice to members about their super — at no extra cost. Find out more at hesta.com.au



A truly national fund

Our team of Client Relationship Managers, Member Education Managers and Superannuation Advisers support HESTA members and participating employers throughout Australia. Find out more at hesta.com.au/service



Strong long-term investment performance

Since its inception in 1987, HESTA's default investment option — Core Pool — has delivered above its target return over the long term.* Visit hesta.com.au/returns for information on the current and historical performance of all HESTA investment options.



Low-cost comprehensive insurance cover

Members can access low-cost comprehensive insurance to protect them and their families, including Income Protection Cover and benefits to age 67. Find out more by reading Insurance Options at hesta.com.au/pds



24/7 access to your account

Update and check your HESTA account online 24/7. Register for online access today at hesta.com.au/mol



Added extras

Access valuable extra services like financial planning, low-cost banking and discounted health insurance. Visit hesta.com.au/extras for more details.



The recognition you deserve

We work with key organisations to present awards to Australia's top nurses, early childhood educators and people working in aged care, the community sector and primary health care. Visit hestaawards.com.au for more information on the programs we run to support your industry.

*Past performance is not a reliable indicator of future performance.

More people in health and community services choose HESTA for their super



Your super fund can make a lifetime of difference

- ✓ Run only to benefit members
- ✓ Low fees
- ✓ History of strong returns