

Annual Report 2016

Issued 29 September 2016



Who are we?

The HESTA team is built around the shared belief that it's a privilege to work with those in health and community services – who make such a significant contribution to our community. And, our employees want to play a role in their financial security.

Since 1987, we have been the industry super fund for health and community services.

We have grown to become the only national super fund solely dedicated to the sector, with more than 800,000 members across Australia, over 80% of whom are women.

We have over \$34 billion in assets invested around the world.

Our mission is to make a real difference in the retirement outcome of every member. Achieving the best possible retirement for each of our members is at the core of all that we do.

We do this because we know that the retirement outcome for our members can all too often end with a shortfall. We also strive to overcome barriers of complexity, inertia and fear that can stop people engaging with their super and planning for a better financial future.

The history of health and community services is one of a calling to support, empower and serve, but one that is still vastly undervalued. And disappointingly, in 2016 an Australian woman's story is still one plagued with imbalances and inequalities.

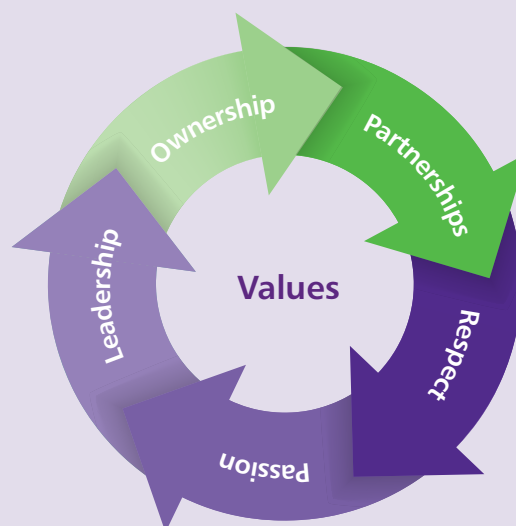
So, our vision is to be the super fund for Australian health and community services and prepare and empower our members for wellbeing in retirement. We aim not to just make a difference, we aim to lead and lay the foundations of an enduring legacy.

Mission

To make a real difference in the retirement outcomes of every member.

Vision

Be the super fund for Australian health and community services and prepare and empower our members for wellbeing in retirement.



We are a values-led organisation with a culture that's everyone's responsibility, and one our employees take seriously. Our people aim to have a positive impact with every interaction and we have a solutions-focused mindset, never forgetting we are here to serve our customers, with our values embedded through the organisation and continually guiding us.

Some key stats

As at 30 June 2016



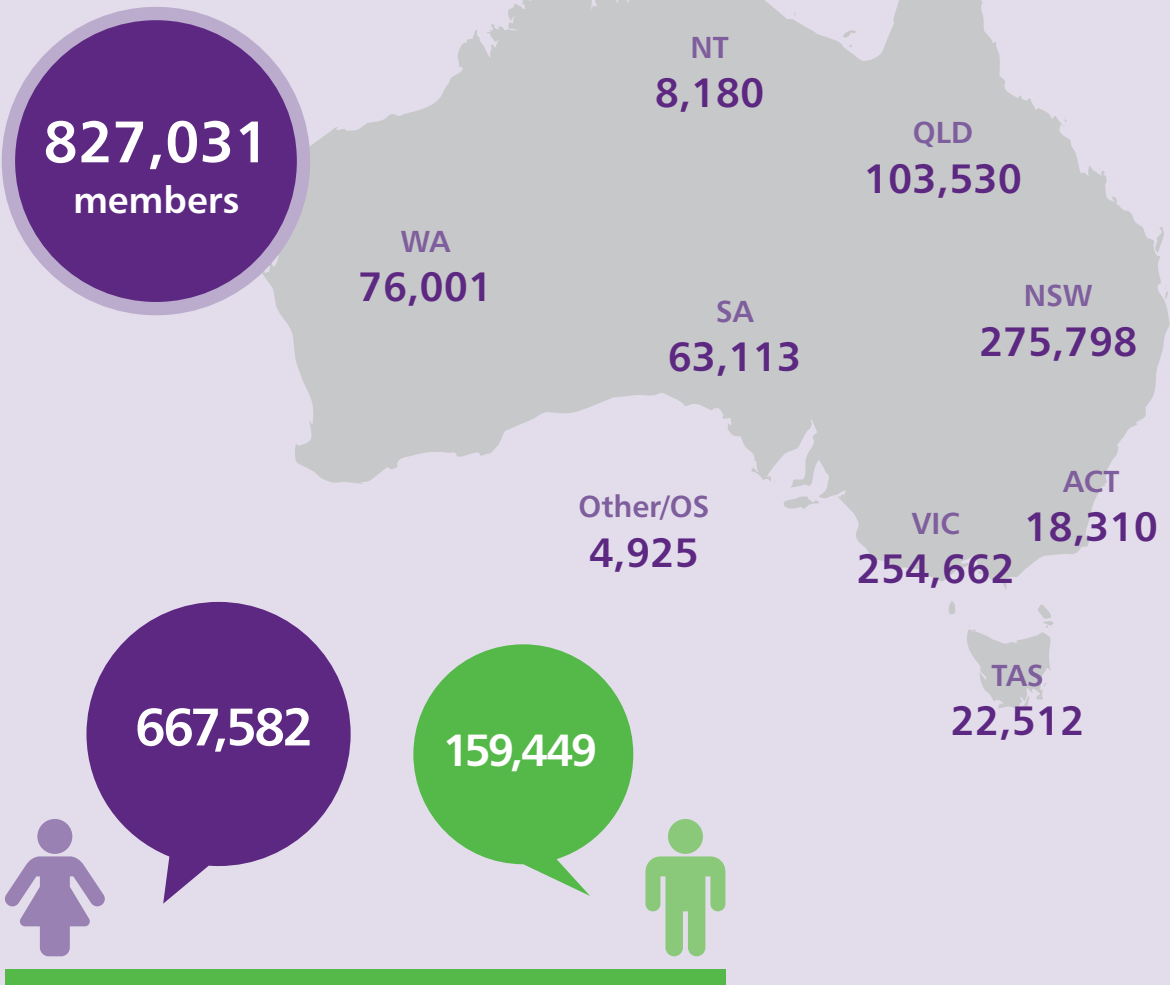
Assets invested globally

\$34 billion



We service over
70,000
employers
Australia-wide

Total members by state



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Welcome



Debby Blakey, CEO and Angela Emslie, Independent Chair

At HESTA, our mission has always been clear: to make a real difference in the retirement outcome of every member.

For almost 30 years, safeguarding and improving the financial wellbeing of HESTA members has been our first priority, and we feel privileged that our members and their employers have entrusted us to support them to create a better financial future.

With this in mind, we have reflected on our organisational values and proudly unveiled new values that we feel embody everything HESTA represents – Leadership, Passion, Partnerships, Ownership and Respect.

Leadership

In July 2015, we pioneered video snapshot statements and retirement outcome projections with members and we have been delighted to see more members making extra contributions to their super.

We have continued to integrate environmental, social and governance (ESG) factors into our investment decision making. We do this because we recognise that these factors can impact the long-term value of our investments. We also recognise that to be an effective steward of our members' investments we must consider more than just financial returns in isolation.

Passion

We have long advocated for a fairer super system, particularly for women and those on modest wages. We have been pleased to see the recent bipartisan focus on super equity, tackling the gender super savings gap which sees women retire with almost half the super of men.

In July, HESTA was the first industry super fund to commit to a Reconciliation Action Plan (RAP). This year HESTA was represented on the first ever Indigenous Super Summit, an initiative of the Indigenous Superannuation Working Group. The Summit provided a forum for the super industry and various organisations to work through the issues central to improving retirement outcomes for Indigenous people.

We continue to strive to be an industry leader in everything we do. Independent super ratings agency, Chant West, recognised us with the Specialist Fund of the Year award and HESTA Income Stream – our investment product for those drawing an income from their super – was also recognised with the 'Outstanding Value' award in Canstar's 2016 Account Based Pension awards.

Partnerships

The HESTA Awards Program recognises and rewards outstanding individuals and organisations in health and community services. In the 10 years since we launched our first Award – the HESTA Australian Nursing Awards – we have met many inspiring finalists, and are

proud to have supported professional development and the expansion of innovative programs and services with assistance from **ME** – the bank for you. Our unique national suite of awards shines a spotlight on the incredible work of health and community services, a sector that touches the lives of all Australians.

Ownership

Our value of ownership involves acknowledging challenges, and it's no secret that this year has been a challenging time on global investment markets. Core Pool – our *MySuper*-authorised default investment option – achieved a modest annual return of 3.03%. While markets have experienced some turbulence, it's important to look beyond just one year and remain focused on continuing to achieve strong long-term performance for our members.

Since 1987, Core Pool has achieved an average return of 8.69% per annum – comfortably outperforming its CPI+4% (6.98% p.a.) investment objective (CPI as at 31.03.16).

Respect

Developing socially responsible business practices positively impacts the wellbeing of our members and employees as well as broader society, while enhancing the Fund's operations.

This year, we established a Sustainability Committee to embed sustainability and corporate social responsibility in our broader business strategy and day-to-day operations. The role of the Committee is to formulate and implement the sustainability plan and provide guidance and feedback in order to achieve our sustainability objectives.

We value the support of our members, employers and associations and we look forward to continuing our journey with each and every one of you as we work towards our goal of making a real difference in the retirement outcome of every member.



Angela Emslie & Debby Blakey

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 sector. 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.

The Trustee holds professional indemnity insurance to protect both itself and the Directors from claims against them and 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 1800 813 327.

More information on individual Directors is available on pages 8–9 and at hesta.com.au/disclosure where you may also obtain copies of the *H.E.S.T. Australia Limited Constitution and Governance Disclosures*.

Our Board



From left to right:
Dr Deborah Cole, Daniel
Sims, Lloyd Williams, Valerie
Lyons, Gary Humphrys, Klaus
Zimmermann, Brett Holmes,
Helen Gibbons, Catherine (Cath)
Smith, Michael Borowick JP,
Angela Emslie, Lisa Darmanin
and Pip Carew

HESTA's Board is made up of a Board of Directors consisting of representatives nominated by Guarantor organisations in health and community services. There are six Directors on the Board representing the Employee Guarantors and six representing the Employer Guarantors – an additional Director serves as the Independent Chair.

Angela Emslie

Independent Chair

Angela Emslie was first appointed to the Board in 1994 and has held the position of Independent Chair since 2013. Angela has extensive experience as a professional Trustee Director having served on a range of industry fund and related boards for almost 20 years. Angela is currently Director of Frontier Advisors (nominated by HESTA), Member of Industry Super Australia Advisory Council (nominated by HESTA), Director of Suicide Prevention Australia and was elected to the Board of Principles for Responsible Investment in 2016.

Employer organisation appointed Directors (nominated by their organisations)

Klaus Zimmermann

Deputy Chair

Klaus was appointed to the Board in 2012, representing Aged & Community Services Australia. Klaus has more than 30 years of experience at senior executive, CEO and board levels, and has worked in the aged care sector since 1991.

Daniel Sims

Director

Daniel was appointed to the Board in 2016, representing the Australian Private Hospitals Association. Daniel has 25 years of experience working as a financial executive in the healthcare industry in both Australia and the US.

Dr Deborah Cole

Director

Deborah was appointed to the Board in 2015, representing the Australian Healthcare and Hospitals Association. Deborah has a long history working in senior positions in the health and community services sector.

Catherine (Cath) Smith

Director

Cath was appointed to the Board in 2015, representing the Australian Council of Social Service. Cath has 30 years experience in the not-for-profit social and community services sector.

Gary Humphrys

Director

Gary was appointed to the Board in 2015, representing Catholic Health Australia. Gary has extensive experience as a professional Trustee Director to the energy and mining industries and has held board and related committee roles.

Valerie Lyons

Director

Valerie was appointed to the Board in 2013, representing Leading Age Services Australia. Valerie has 35 years of experience in the health and finance industries including over 20 years experience in leadership roles.

Employee organisation appointed Directors (nominated by their organisations)

Lloyd Williams

Deputy Chair

Lloyd was appointed to the Board in 2012, representing the Health Services Union. Lloyd is current Branch Secretary at the Health and Community Services Union (HACSU) and National President of the Health Services Union (HSU).

Brett Holmes

Director

Brett was appointed to the Board in 2000, representing the Australian Nursing and Midwifery Federation. Brett is the General Secretary of the New South Wales Nurses and Midwives' Association (NSWNMA) and Branch Secretary of the Australian Nursing and Midwifery Federation (NSW Branch).

Helen Gibbons

Director

Helen was appointed to the Board in 2016, representing United Voice. Helen is the Assistant National Secretary at United Voice and has held a number of senior leadership roles at United Voice since 2004.

Lisa Darmanin

Director

Lisa was appointed to the Board in 2013, representing the Australian Services Union. Lisa is Executive President of the Australian Services Union (ASU), Victorian and Tasmanian Authorities and Services Branch. Prior to this role Lisa worked as an ASU Organiser.

Michael Borowick JP

Director

Michael was appointed to the Board in 2015, representing the Australian Council of Trade Unions. Michael is the Assistant Secretary of the Australian Council of Trade Unions (ACTU).

Pip Carew

Director

Pip was appointed to the Board in 2014, representing the Australian Nursing and Midwifery Federation. Pip is the current Assistant Secretary of the Australian Nursing and Midwifery Federation (Victorian Branch).

We are grateful to those Directors who served on the Board during the financial year:
Richard Royle – employer representative resigned 13 November 2015
Robert (Bob) Lewtas – member representative resigned 31 December 2015.

Board Committees (as at 30 June 2016)

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

Audit and Risk Committee

Chair	Valerie Lyons
Members	Michael Borowick JP, Lisa Darmanin, Helen Gibbons, Gary Humphrys, 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	Pip Carew, Dr Deborah Cole, Brett Holmes, Daniel Sims, Catherine Smith, Lloyd Williams
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 of 1 July 2015 to 30 June 2016)	Board meetings attended	Audit and Risk Committee meetings attended	Governance and Remuneration Committee meetings attended
Angela Emslie	8/8	-	7/7
Lloyd Williams	7/8	-	7/7
Klaus Zimmermann	8/8	5/5	-
Michael Borowick JP	7/8	2/2	-
Paula (Pip) Carew	7/8	-	6/7
Dr Deborah Cole	8/8	-	6/7
Lisa Darmanin	7/8	4/5	-
Helen Gibbons (appointed 4/02/2016)	2/3	1/2	-
Brett Holmes	7/8	-	5/7
Gary Humphrys	6/8	5/5	-
Robert (Bob) Lewtas (resigned 31/12/2015)	3/4	2/3	-
Valerie Lyons	7/8	4/5	4/4
Richard Royle (resigned 13/11/2015)	3/3	2/2	-
Daniel Sims (appointed 01/01/2016)	3/4	-	2/3
Catherine (Cath) Smith (appointed 25/09/2015)	6/6	-	3/3

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Key achievements

Snapshot of our key achievements and proud moments from 2015/16

Our products

- HESTA was awarded the Heron Partnership **5 Quality Stars Rating** for 2016/17 for HESTA (Accumulation), HESTA Core Pool (MySuper option) and HESTA Income Stream products. The definition of the 5 Star Rating is Outstanding – an outstanding product with a great depth of features and flexibility.

- HESTA Income Stream won the **Outstanding Value award** in the Canstar 2016 Account Based Pension awards. We are only one of nine companies that achieved this honour.



- Winner of SuperRating's **Workplace Super Product of the Year – Value Choice**.



- We were named **Chant West Specialist Fund of the Year** and received 5 apples on both HESTA (Accumulation) and HESTA Income Stream products.



Robert Fowler, Debby Blakey, Lisa Samuels and Neil Saxton at the Chant West Awards

Our commitment

Responsible investment

- HESTA developed an international passive low carbon shares portfolio during the year. The portfolio aims to achieve a carbon footprint at or below 50% of the Index while delivering index-like returns.
- HESTA established a \$30 million mandate with Social Ventures Australia to invest in Health and Community Services in Australia delivering both financial returns and a measurable social impact.

Sustainability

- In 2015/16 HESTA became a **City Switch Award finalist** for the refurbishment of the National Office. Sustainability was a major driver of the project and was considered at all levels, from the cost of the project, design, demolition, material selection, project communication and stakeholder management to ergonomics and operations.
- We partnered with QANTAS to offset our carbon footprint via an **Indigenous carbon farming project**, which aligns with HESTA's Reconciliation Action Plan.
- We proudly achieved the following environmental impact, compared to the 2014/15 financial year:
 - decreased emissions by 18%
 - reduced electricity consumption for lighting and power by 44%
 - reduced paper consumption by 11%
 - reduced total waste generated by 55%
- HESTA became a member of the **Corporate Environmental Managers Group Forum**, where senior environmental and sustainability managers collaborate and share knowledge and best practice information regarding sustainability.



Sophie Sigalas, Lizzy Keenan and Jan Sparks

Our organisation

HESTA won the Best B2B campaign (under \$40,000) at the AIST Awards for Excellence.

We were recognised as an ABA100 Winner in the **Australian Business Awards 2016 for Employer of Choice**. The Australian Business Award for Employer of Choice recognises organisations which have developed leading workplaces that maximise the full potential of their workforce through practices that demonstrate effective employee recruitment, engagement and retention.



Our people

- **HESTA Chair, Angela Emslie**, was elected to the Board of the United Nations Principles for Responsible Investment (PRI).
- **HESTA CEO, Debby Blakey**, was announced as a Women of the Year finalist in the 2015 Women in Financial Services Awards. Debby was also named a Pay Equity Ambassador by the Workplace Gender Equality Agency. Their ambassador program is for CEOs across Australia who want to stand up for pay equity and set new norms in business practice by sharing their approach to equal pay.
- **Sophie Sigalas, Executive – People Strategy**, was awarded a FEAL scholarship to complete the Australian Institute of Company Director's (AICD) Company Director's course.
- **Mary Delahunty, General Manager Business Development & Policy**, was awarded a prestigious 2015 Churchill Fellowship to study gender equity reforms in international retirement systems. Mary's research was used to construct HESTA's submission to the Senate inquiry into the economic security of women in retirement.
- **James Harman, General Manager – Listed Assets**, was selected in this year's Chief Investment Officer Magazine's 40 under 40, which recognises the top investment professionals from around the globe.
- **Josephine Toral, Investment Analyst – Unlisted Assets**, was awarded the Michael O'Sullivan ESG Rising Star Award. The Award – sponsored by ACSI – aims to advance the ESG agenda through the development of the next generation of ESG advocates and professionals within the profit to member's superannuation sector.

We're sharing the stories of our members

We launched a new-look national advertising campaign in January, featuring the incredible work of health and community services and the dedicated people working in the sector.

Sarah Ravine

Homeless Healthcare

Sarah and her team are based in Perth and provide basic healthcare support in parks and other locations across the city for people who are homeless.

From basic health checks and wound dressing to providing thongs when people need shoes, these are remarkable women doing amazing work.

Homeless Healthcare were 'Team Innovation' winners at the HESTA Australian Nursing Awards in 2015.



Maureen Crawford

Interchange

Maureen founded Interchange over 30 years ago when her son was diagnosed with severe intellectual disabilities. Out of this need, Maureen formed Interchange.

Today, Interchange provides family respite and social opportunities for thousands of children and young people with a disability across Australia.

Maureen received the 'Unsung Hero' award at the HESTA Community Sector Awards in 2015.

To learn more visit hesta.com.au/memberstories

We publicly stand up for women and the low paid

In March, we welcomed the recommendations of a ground breaking Senate report into women's financial security in retirement.



HESTA's Mary Delahunty, General Manager Business Development & Policy (left) and Lisa Samuels, Executive – Marketing Strategy (right), pictured at the Senate inquiry into the economic security for women.

We have been strongly advocating on behalf of our members and this year provided a submission to the Senate inquiry into the economic security of women in retirement. This inquiry examined why women retire with significantly less super than men and what changes could be made to improve the system.

HESTA's submission stressed that the wage gap between men and women remains the biggest factor in women retiring with less than men and that the gap in super savings that women experience is not due to the choices they make or unpaid time out of the workforce.

The vast majority of HESTA's more than 800,000 members are women working in health and community services, where the gender pay gap is 27.7%, according to figures from the Workplace Gender Equality Agency and it is for this reason that HESTA continues to advocate.

HESTA's submission was underpinned by three key recommendations

1

Removal of the \$450 monthly super threshold

The successful introduction of *SuperStream*, which simplifies and removes the administration burden on businesses, means employers can now make contributions more easily. As this barrier is removed, all employees should be eligible for guaranteed super contributions, including those who earn less than \$450 a month.

This is particularly vital for nurses and others in care-giving professions who may work shift work across multiple employers.

2

Retaining the low income super contribution

This year we continued our campaign pressuring the government to abolish plans to discontinue the low income superannuation contribution (LISC) in 2017.

HESTA has been a leader in this campaign since 2014 and were pleased when the government announced retention of this measure, albeit renamed.

3

Valuing unpaid caring roles

HESTA believes that Australia can learn from the many overseas examples where unpaid caring roles are recognised and remunerated.

Many European and South American countries have systems that ensure women receive a pension voucher or benefit for time taken off work to raise children or care for the elderly.

HESTA was the first industry super fund to develop a Reconciliation Action Plan (RAP)

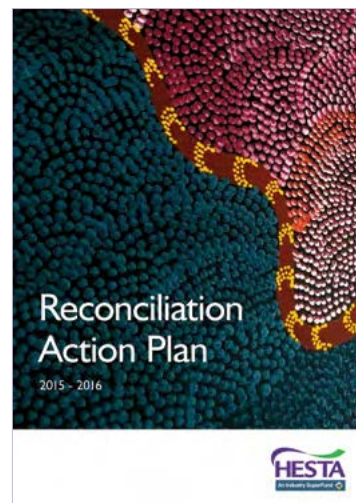
On 31 July 2015, Our Executive of People Strategy – Sophie Sigalas – travelled to Cairns to launch HESTA's first Reconciliation Action Plan.

It was a proud moment for our organisation, as we are the first industry super fund to implement a Reconciliation Action Plan.

Since adopting our RAP, HESTA has taken positive steps in building engagement and community partnerships with Aboriginal and Torres Strait Islander organisations. HESTA has established an internal RAP working group and RAP champions within each state and territory, who meet regularly to share ideas and experiences. HESTA celebrated National Sorry Day and NAIDOC Week, and has engaged with local Indigenous identities to present to employees about Aboriginal and Torres Strait Islander culture and traditions.

As part of the RAP, we have established partnerships with associations including the Congress of Aboriginal and Torres Strait Islander Nurses and Midwives, and the National Aboriginal and Torres Strait Islander Health Workers Association. HESTA has continued to be a part of the Indigenous Super Working Group, and has recently committed to partnering with the First Nations Foundation as a sponsor of the Big Super Day Out.

You can read our full RAP commitment at hesta.com.au/RAP



“The ideals of reconciliation are very important to HESTA members, who are at the coalface of the country’s commitment to closing the health gap between Indigenous and non-Indigenous Australians. In establishing this RAP, we seek to build respect through understanding and shared learnings, increase confidence and choice in retirement for the first Australians and achieve equity in the treatment of non-Aboriginal and Aboriginal peoples.”

Our vision for reconciliation



We are committed to building community partnerships built on **respect**.



Increase **confidence** and choice in retirement for all members including Aboriginal and Torres Strait Islander peoples.



We will advocate for **equity** outcomes between non-Aboriginal and Aboriginal and Torres Strait Islander peoples.

Partnerships

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Recognising everyday heroes

HESTA is proud to support people working in health and community services. The HESTA Awards Program nationally recognises outstanding contributions in nursing, primary health care, aged care, early childhood education and care, and community services. These awards acknowledge the achievements of those who have made a real difference to the lives of people in our community.

Recognising our everyday heroes

In 2015/16 we met 53 inspiring finalists – across nursing, aged care and primary health care – and provided, courtesy of **ME**, prize money to assist in professional development or the expansion of programs and services.

Each of the five industry-specific award programs aims to promote the vital work of that sector, whose care and support touches families, friends and fellow Australians every day.



Clockwise from top left: **ME** CEO Jamie McPhee, winner Angie Monk and HESTA CEO Debby Blakey; winner Camille Koch, Jo Boylan and Sandra Thomson; Team Excellence winner Boab Health Services Podiatry represented by Amy Freeman; winner Doris Johnson and winners LtoR: Rita Boombi, Karen Barnett and Maureen Crawford.



Recognising nurses, midwives, personal care attendants and assistants in nursing.



Recognising carers of the elderly in their homes, retirement villages or aged care facilities.



Recognising early childhood education and care professionals.



Recognising physios, GPs, dentists and other primary health care professionals.



Recognising outstanding contributors to the community sector.

Taking the HESTA spirit into the community

We encourage and support our employees to give back to their communities and organisations, in ways that are meaningful to them. And our employees value the opportunity to get involved, volunteer and fundraise.

Given the industry we serve – health and community services – we are a very community-minded organisation that sees the benefits of the high employee morale and improved connections our team members can make through supporting causes that are important to them and by contributing their knowledge, skills and experience towards the betterment of the community. HESTA employees may be granted up to six days of paid leave to engage in community activities per year.

In 2015/16, HESTA employees recorded 39 days of community service leave. This time was spent on initiatives such as volunteering in schools, mentoring and volunteering in hospitals. HESTA also supports employees to make regular pay-day contributions to a charity of their choice.



The Mother's Day Classic (MDC) is an annual event where individuals can join thousands of people in supporting and remembering those touched by breast cancer, while raising funds to continue important research. The event is held in all capital cities and regional locations across Australia on Mother's Day – each year.

We see this event as an important initiative as our gendered member base means that breast cancer is a real threat to the lives of many of our members and employees. That's why we have been involved from the very beginning and this year we celebrated 19 years as a proud supporter.

We have been a gold sponsor since 2012 and have announced our commitment as gold sponsors through to at least 2018. Eight HESTA employees volunteered their time this year to serve on MDC committees around the country, and have been doing so since the event started.

It's become a long-held tradition for many HESTA employees to show their support for the MDC and, in 2016, 73 employees volunteered at events across Australia and participated in the walk/run with colleagues, friends and family members. All proceeds from the MDC Foundation Ltd are donated to the National Breast Cancer Foundation, a not-for-profit organisation that supports research into breast cancer prevention and treatment. Since 1998 the MDC has raised \$27.4 million dollars.

HESTA employees have access to Blood Donors Leave and HESTA has become a member of the Red Cross' Red25 group to track donations. To encourage uptake by employees, HESTA has facilitated regular visits to blood donation centres.



As part of our 2015 end of year celebrations, HESTA partnered with TLC for Kids – who provide gifts for children who are hospitalised during the Christmas period – to establish a wishing tree that provided hundreds of gifts to donate to the program.

Employees in the National Office also support the McGrath Foundation via the purchase of books and toys. Profits from the sale of these items go to the placement of McGrath Breast Care nurses in communities across Australia.

Proudly partnering with over 70,000 employers

We view each employer as a partner and look for solutions to ensure that every member, no matter where they work, or who they are employed by, has access to a range of education and advice options.

We provide these services to HESTA members and employers, at no additional cost, and play a vital role in assisting members regarding investment and retirement decisions.

Workplace visits

Our workplace visit program has helped thousands of people working in health and community services in the 2015/16 financial year.

Workplace visits

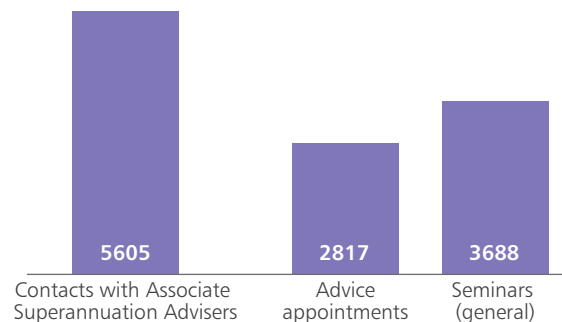


Financial advice

2015/16 saw an increase in financial advice provided by HESTA to members.

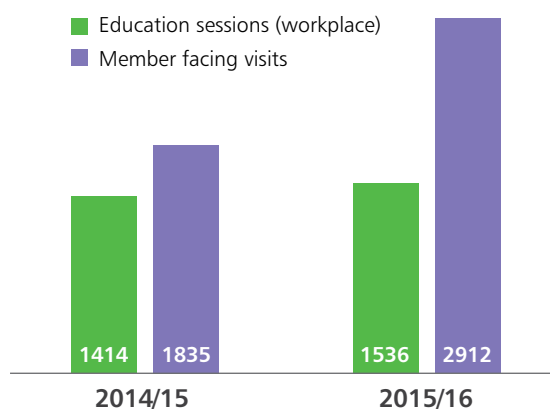
In 2016, HESTA embarked on an online financial advice service with the aim of delivering financial advice at scale to HESTA members. HESTA also created a new team dedicated to the provision of general advice to members and employers.

Financial advice 2015/16



Member engagement

The number of education sessions and member visits provided in workplaces increased in 2015/16.



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Investor update

As a long-term patient investor, HESTA is focused on achieving strong, competitive long-term returns, as that will make the biggest difference to growing HESTA members' balances over time.



Rob Fowler
Chief Investment Officer

The financial year was marked by continued turbulence and uncertainty across global share markets. While this volatility is a normal part of investing, we understand that it can be unsettling for members.

The majority of HESTA members have their super invested in Core Pool, which posted a 3.03% return last financial year. It is normal when investing, to experience years when returns will be modest.

Members invested in Core Pool last financial year still received a return that was more than that available on bank term deposits or from the Australian or overseas share markets over the same period.

Since inception in 1987, Core Pool has outperformed its CPI+4% investment target, returning 8.69% per annum. We remain confident that our long-term, patient investment approach will continue to deliver good performance for members.

HESTA has a history of achieving strong long-term returns. You can find out more about the 2015/16 investment performance via our Investor Update videos at hesta.com.au/2016performance

How returns are applied to HESTA accounts

Each week 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 at 30 June each year, based on the member's daily balance and investment choice.

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

Significant holdings with investment managers

The following investment managers manage more than 5% of the Fund's total assets:

- Industry Funds Management Pty Ltd (17.96%)
- BlackRock Asset Management (Australia) Limited (6.3%).

HESTA investment performance

for year ending 30 June 2016

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	5.28	6.82	6.62	6.50	4.42
Core Pool (1/8/87*)	8.69	5.76	8.84	8.35	8.68	3.03
Shares Plus (1/7/95*)	8.27	5.90	9.52	8.97	9.26	1.65
Eco Pool (1/2/00*)	5.93	6.86	10.59	10.78	11.15	6.55
Your Choice Asset Classes						
Cash (1/7/01*)	3.68	3.42	3.20	2.93	2.37	2.06
Global Bonds (1/7/01*)	5.88	5.86	6.34	6.06	5.47	6.26
Property (1/7/01*)	6.59	4.77	7.47	9.00	10.47	11.35
Infrastructure (1/7/01*)	8.09	7.81	9.43	9.43	9.26	12.28
Australian Shares (1/7/01*)	8.69	6.58	9.75	7.98	8.07	2.56
International Shares (1/7/01*)	3.66	4.35	9.45	9.95	10.06	-3.96
Private Equity (1/7/01*)	7.92	9.35	12.95	13.21	15.26	10.32

Investments may rise or fall. Past performance is not a reliable indicator of future performance.

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

** Annualised return for the period.

HESTA investment options

at 30 June 2016, in detail

Ready-Made Investment Pools

	Objective	Strategy ^
Conservative Pool	<p>Medium-term (5 years) CPI+2.5% Long-term (10 years) CPI+3%</p> <p>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.</p> <p>It is designed to:</p> <ul style="list-style-type: none"> • be the most conservative of HESTA's Pools • offer members a low-risk investment • seek greater returns than cash alone. 	<p>Asset allocation includes:</p> <ul style="list-style-type: none"> • more exposure to cash and credit markets than other Ready-Made Pools • approximately 25% of investments in shares. <p>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. Investing a proportion in shares helps reduce risk while enhancing the potential return over the longer term.</p>
Core Pool	<p>Medium-term (5 years) CPI+3.5% Long-term (10 years) CPI+4%</p> <p>Aims to optimise returns while only occasionally having a crediting rate less than zero.</p>	<p>Invests in a diversified but balanced mix of assets. Aims to provide a less volatile return than would otherwise be expected in an investment with it's investment objective.</p>
Shares Plus	<p>Medium-term (5 years) CPI+4.5% Long-term (10 years) CPI+4.5%</p> <p>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. It may not outperform other Pools. It has a diversified portfolio that includes assets other than shares.</p>	<p>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>Medium-term (5 years) CPI+3.5% Long-term (10 years) CPI+4%</p> <p>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. It may be more suitable for an investor with a higher tolerance to investment risk. Although we expect long-term returns similar to Core Pool, it may not outperform other pools, even in the long term.</p>	<p>Invests in companies with the best combination of financial, environmental, social and governance performance as assessed by our managers. Companies specifically excluded from the Eco Pool's investments are those with uranium mining operations, those that manufacture tobacco products and certain companies with exposure to thermal coal. The Property investment is appropriately green rated. The Alternative Growth investments are in Cleantech.</p>

Your Choice Asset Classes

	Objective	Strategy ^
Cash	<p>Equivalent or higher than the RBA Cash Rate.</p> <p>Is the most conservative of the Your Choice options. It aims to achieve its investment objective each year.</p>	<p>Primarily invested in short-term bank deposits, and may include a small allocation to other cash investments. Its investment earnings are primarily from income but may include some movement in values.</p>
Global Bonds	<p>0.5% or more above its benchmark of:</p> <ul style="list-style-type: none"> • 50% Bloomberg AusBond Composite 0+ Year Index • 50% Barclays Capital Global Aggregate Hedged to \$A. <p>Aims to achieve its investment objective over the long-term (10 years).</p> <p>Global Bonds is:</p> <ul style="list-style-type: none"> • less conservative than Your Choice Cash • may produce a negative return, but • is more conservative than other Your Choice options. 	<p>Is 100% invested in bonds and other credit products.</p> <p>The underlying investments are similar for this asset class in Core Pool, being a range of global credit products, but excluding some unlisted debt that is considered higher risk. All currency exposures in international credit are fully hedged.</p>
Property	<p>Equivalent or higher than its benchmark of:</p> <ul style="list-style-type: none"> • 72.5% Mercer/IPD Australian Property Pooled Fund Index • 17.5% US NCREIF National Fund Index • 10% RBA Cash Rate. <p>Aims to achieve its investment objective over the long-term (10 years). It is less conservative than cash or bonds, as it has a higher chance of producing a negative return. However, it is more conservative than the remaining Your Choice options.</p>	<p>Is invested primarily in unlisted property products, and has a 10% holding in cash investments. Your Choice Property investments are managed in a similar style to that used by Core Pool for this asset class.</p>
Infrastructure	<p>2% or more above its benchmark of:</p> <ul style="list-style-type: none"> • 45% S&P/ASX 300 Accumulation Index • 45% Bloomberg AusBond Composite 0+ Year Index • 10% RBA Cash Rate. <p>Aims to achieve its investment objective over the long-term (10 years). It has holdings in unlisted infrastructure companies. Although these holdings are not considered speculative, they are likely to produce negative returns from time-to-time as their returns are expected to comprise of capital gains (or losses) and income. Returns should be less volatile than other equity investments as the earnings of these companies are expected to be relatively stable.</p>	<p>Is invested primarily in unlisted infrastructure products with a 10% holding in cash products. It will have investments in both Australian and international infrastructure. The underlying investments are similar to those for this asset class in Core Pool.</p>

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 investment options (cont.)

at 30 June 2016, in detail

Your Choice Asset Classes (cont.)

	Objective	Strategy [^]
International Shares	<p>1% or more above its benchmark of:</p> <ul style="list-style-type: none"> • 50% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Unhedged • 50% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Hedged. <p>Aims to achieve its investment objective over the long-term (10 years). It aims to produce a long-term return primarily from capital gains, however, it is very likely to produce negative returns from time-to-time.</p>	<p>The underlying investments in Your Choice International Shares are similar for this asset class in Core Pool. 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>1% or more above its benchmark of S&P/ASX 300 Accumulation Index.</p> <p>Aims to achieve its investment objective over the long term (10 years). It aims to produce long-term returns primarily from capital gains, however, it is very likely to produce negative returns from time-to-time.</p>	<p>The underlying investments in Your Choice Australian Shares are similar for this asset class in Core Pool. Your Choice Australian Shares investments are managed in a style similar to that used by Core Pool for this asset class. It can 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>3% or more above its benchmark of:</p> <ul style="list-style-type: none"> • 22.5% S&P/ASX 300 Accumulation Index • 67.50% MSCI World ex-Australia in \$A Net Dividends Reinvested Hedged • 10% RBA Cash Rate. <p>Aims to achieve its investment objective over the long term (10 years). It targets high long-term returns, primarily from capital gains, however, it is very likely to produce negative returns from time to time.</p>	<p>Invests primarily in Australian and international private equity and also has a 10% holding in cash products. The underlying investments are similar to those for this asset class in Core Pool.</p>

[^] 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 2016*

	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	29.0	2.0	2.0	8.5	100.0	0.0	10.0	10.0	0.0	0.0	10.0
Global Credit	26.0	14.0	3.0	15.5	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Alternative Defensives	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Alternative Growth	0.0	7.0	9.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property	8.0	10.0	6.0	8.0	0.0	0.0	90.0	0.0	0.0	0.0	0.0
Infrastructure	11.0	13.0	9.0	0.0	0.0	0.0	0.0	90.0	0.0	0.0	0.0
Australian Shares	13.0	27.0	36.0	33.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0
International Shares	12.0	26.0	34.0	31.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Private Equity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	90.0
Other assets	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Where n.a. appears above, strategic asset allocations are not applicable.

* Strategic asset allocations may change during the year within their bands without prior notice. Go to hesta.com.au/pds and read *Investment Choices* for more information.

HESTA investment managers

at 30 June 2016

Asset class	Investment manager	
Cash	<p>Australia and New Zealand Banking Group Bendigo and Adelaide Bank Limited Bank Of Queensland Limited Commonwealth Bank of Australia IMB Ltd JP Morgan Chase Bank, N.A. Members Equity Bank Pty Limited</p>	<p>National Australia Bank Limited Rabobank Australia Limited Rural Bank Limited State Street Global Advisors, Australia, Limited St George Bank – A Division of Westpac Banking Corporation Westpac Banking Corporation</p>
Global Credit	<p>Babson Capital Management, LLC and Babson Capital Europe Ltd BlackRock Asset Management (Australia) Limited BT Investment Management (Institutional) Limited Challenger Management Services Limited</p>	<p>Industry Funds Management Pty Ltd Members Equity Bank Pty Limited ME Portfolio Management Limited PIMCO Australia Pty Limited Shenkman Capital Management, Inc. Westbourne Credit Management Limited</p>
Property	<p>AEW Capital Management, L.P. BT Investment Management Limited Charter Hall Holdings Pty Limited EG Funds Management Pty Ltd Eureka Funds Management Limited Fortius Funds Management Pty Limited Franklin Templeton Investments Australia Limited</p>	<p>Investa Wholesale Funds Management Limited ISPT Pty Ltd IGIPT Pty Ltd MSREF V International-GP, L.L.C. QIC Property Management Pty Ltd Scarborough Pacific Group Pty Limited Stride Property Limited</p>
International Shares	<p>Artisan Partners Limited Partnership Baillie Gifford Overseas Limited BlackRock Investment 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 Industry Funds Management Pty Ltd</p>	<p>Lazard Asset Management Pacific Co Martin Currie Investment Management Limited Mondrian Investment Partners Limited PM Capital Limited Robeco Hong Kong Limited Russell Investment Management Limited RWC Asset Management LLP Sanders Capital LLC Somerset Capital Management Taube Hodson Stonex Partners LLP</p>
Australian Shares	<p>Airlie Funds Management Limited Allan Gray Australia Pty Limited (formerly Orbis) Antares Capital Partners Limited BT Investment Management Limited Citigroup Global Markets Australia Pty Limited Cooper Investors Pty Limited Ellerston Capital Limited Goldman Sachs Asset Management Australia Pty Ltd Greencape Capital Pty Ltd</p>	<p>Industry Funds Management Pty Ltd Invesco Australia Limited Maple-Brown Abbott Limited Northcape Capital Pty Ltd Perpetual Investment Management Limited PM Capital Limited Renaissance Smaller Companies Pty Ltd Schroders Investment Management Australia Limited Solaris Investment Management Limited</p>
Infrastructure	<p>Hastings Funds Management Limited Industry Funds Management Pty Ltd Kohlberg Kravis Roberts & Co. L.P.</p>	<p>Palisade Investment Partners Limited Stafford Timberland Limited</p>

Asset class	Investment manager	
Private Equity	Adveq Management AG Allegro Funds Pty Ltd Brandon Capital Partners Pty Ltd Collier Investment Management Limited FSN Capital Partners AS FTV Management Company, L.P. Generation Investment Management LLP Grey Mountain Partners LLC Industry Funds Management Pty Ltd JMI Management Inc Leapfrog Investments Group Ltd Lexington Advisors Inc Littlejohn & Co., LLC Newbury Associates LLC	Oaktree Capital Management, L.P. Olympus Advisors LLC PAG Asia Capital Limited Performance Equity Management, LLC Platinum Equity Advisors LLC Providence Equity Partners LLC Rio Energy Investment Holdings LLC Roark Capital Management LLC Stafford Fund Nominees Pty Ltd Stafford Private Equity Pty Ltd Siguler Guff Advisers, LLC Stone Point Capital LLC TDR Capital, LLP Vencap Limited
Opportunistic Growth	BlackRock Financial Management, Inc Bridgewater Associates, Inc Healthcare Royalty Management, LLC	Industry Funds Management Pty Ltd Oaktree Capital Management, L.P.
Currency Management	Lee Overlay Partners Limited ME Portfolio Management Limited	Mesirow Financial Investment Management, Inc Pareto Investment Management Limited
Risk Management Strategies Manager	QIC Limited	

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

HESTA Income Stream investments

at 30 June 2016

HESTA Income Stream investment options are designed for members who are either approaching or in retirement.

In addition to the 10 investment options we offer members, we also provide an innovative HESTA Income Stream Ready-Made Strategy (default). This strategy, which combines HESTA Income Stream Defensive and Balanced investment options, offers a simple solution to pre-retirees and retirees, gradually reducing their investment risk over time.

How returns are applied to HESTA Income Stream accounts

Investment returns are applied to members' accounts by determining the value of their chosen option, less its liabilities, each week.

The latest and historical returns are available at hesta.com.au/isperformance

HESTA Income Stream investment performance

For year ending 30 June 2016

Investment Option	Since inception (% p.a.)	5-year (% p.a.)	3-year (% p.a.)	1-year return (%)
Balanced (12/12/07*)	3.84	9.02	9.49	4.33
Defensive (12/12/07*)	5.18	6.11	5.83	5.05
Conservative (12/12/07*)	5.31	7.48	7.35	4.86
Eco (1/7/12*)	15.09	n/a	12.31	7.11
Active (12/12/07*)	3.06	10.12	10.62	0.91
Cash (1/7/08*)	3.87	3.33	2.75	2.38
Term Deposits (1/7/12*)	3.58	n/a	3.21	2.76
Property (12/12/07*)	-0.02	9.19	10.41	12.40
Australian Shares (1/7/08*)	5.90	8.39	9.58	2.58
International Shares (1/7/08*)	5.33	11.57	10.90	-4.33

*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 net of indirect costs for the period indicated.

HESTA Income Stream investment options

at 30 June 2016, in detail

	Objective	Strategy [^]
Balanced	<p>Medium-term (5 years) CPI + 3.5% Long-term (10 years) CPI + 4.0%</p> <p>Balanced aims to produce a return of 4.0% above CPI over the long term. Returns may vary substantially from year-to-year and this option may occasionally produce a negative return.</p>	<p>Balanced invests in a diversified mix of asset classes, with 62.0% invested in growth style assets, including listed shares and the remainder invested in defensive style assets, like 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>Medium-term (5 years) CPI + 2.0% Long-term (10 years) CPI + 2.0%</p> <p>Defensive aims to produce a return of 2.0% above CPI over the medium to long term. Negative returns can occur, but generally occur very infrequently.</p>	<p>Defensive invests in a diversified mix of asset classes, with 16.5% invested in growth style assets, like listed shares and 83.5% invested in defensive style assets, like cash, term deposits, defensive property and credit. 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>
Conservative	<p>Medium-term (5 years) CPI + 2.5% Long-term (10 years) CPI + 2.5%</p> <p>Conservative aims to produce a return of 2.5% above CPI over the medium to long term. There may be some year-to-year variation in returns, with negative returns occurring infrequently.</p>	<p>Conservative invests in a diversified mix of asset classes, with 31.5% invested in growth style assets like listed shares, and approximately 68.5% invested in defensive style assets including cash, term deposits, defensive property and fixed interest. 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>Medium-term (5 years) CPI + 3.5% Long-term (10 years) CPI + 4.0%</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. This option may produce negative returns quite frequently due to its high allocation of listed shares.</p>	<p>Eco invests in companies with the best combination of financial, environmental, social and governance performance as assessed by our managers. Companies which are specifically excluded from Eco are those with uranium mining operations. Those that manufacture tobacco products and certain companies with exposure to thermal coal are also excluded. The property investment is appropriately green rated. The Alternative Growth investments are in Cleantech.</p>

[^] 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 investment options

at 30 June 2016, in detail

	Objective	Strategy ^
Active	<p>Medium-term (5 years) CPI + 4.5% Long-term (10 years) CPI + 4.5%</p> <p>Active aims to produce a return of 4.5% above CPI over the medium to long term. This option may vary substantially year-to-year and produce a negative return quite frequently.</p>	<p>Active offers a diversified asset portfolio, investing predominantly in growth style assets like listed shares, while maintaining a balance of defensive assets like defensive property and cash. In addition, infrastructure assets are included, which 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>
Cash	<p>Return equivalent or higher than the Reserve Bank of Australia (RBA) Cash Rate.</p> <p>Cash aims to produce an annual return equivalent to or higher than the RBA Cash Rate. It is the most conservative of the HESTA Income Stream investment options.</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>Bloomberg AusBond Bank Bill Index.</p> <p>Term Deposits aims to produce a return equivalent or higher than the Bloomberg Ausbond Bank Bill Index, a benchmark tracking the performance of bank bills of equal face value, each with a maturity seven days apart. Term Deposits are more conservative than most other HESTA Income Stream investment options, with the exception of Cash.</p>	<p>Term Deposits is 90.0% invested in Australian bank term deposits and 10.0% invested in cash. It is likely to invest in term deposits with terms of 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>Equivalent or higher than its benchmark of:</p> <ul style="list-style-type: none"> • 85.0% Mercer/IPD Australian Property Pooled Fund Index • 15.0% RBA Cash Rate. <p>Property aims to produce a long-term return equivalent or higher than its benchmark. It is less conservative than Cash or Term Deposits because it has a higher possibility of producing a negative return from time to time.</p>	<p>Property is invested primarily in unlisted property and property debt with a 15.0% holding in cash products. The primary characteristic of the unlisted property will be that rental income is expected to generate the majority of the returns, not capital growth.</p>

	Objective	Strategy [^]
Australian Shares	<p>Equivalent or higher than its benchmark of:</p> <ul style="list-style-type: none"> 1.0% or more than the S&P/ASX 300 Accumulation Index. <p>Australian Shares aims for a long-term return of 1.0% or more above its benchmark, the Standard and Poor's (S&P)/Australian Securities Exchange (ASX) 300 Accumulation Index. This benchmark includes up to 300 of Australia's largest securities by float-adjusted market capitalisation. The index has large-cap, mid-cap and small-cap shares and covers more than 80% of Australian equities market capitalisation. Australian Shares aims to produce long-term returns primarily from capital gains, but carries the risk of negative returns quite frequently.</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>1.0% or more than its benchmark of:</p> <ul style="list-style-type: none"> 50.0% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Unhedged 50.0% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Hedged. <p>International Shares aims to produce a long-term return of 1.0% or more above its benchmark. This benchmark reflects the strategic asset allocation of International Shares and HESTA's strategic currency overlay program policy outlining the management of currency exposure for international share investments. The Morgan Stanley Capital International (MSCI) All Countries World Index (excluding Australia) tracks large and mid-cap shares from developed and emerging market countries. International Shares aims to produce a long-term return primarily from capital gains but carries the risk of producing negative returns quite frequently.</p>	<p>International Shares is invested primarily in listed international shares. It will have a strategic overweighting 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>

[^] 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 2016

	Balanced %	Defensive %	Conservative %	Eco %	Active %	Cash %	Term Deposits %	Property %	Australian Shares %	International Shares %
Australian Shares	27.0	6.0	13.5	33.0	43.5	n/a	n/a	n/a	95.0	n/a
International Shares	27.0	6.0	13.5	31.0	43.5	n/a	n/a	n/a	n/a	95.0
Alternative Growth (Cleantech)	0.0	n/a	n/a	4.0	0.0	n/a	n/a	n/a	n/a	n/a
Property	9.0	6.0	6.0	8.0	4.0	n/a	n/a	85.0	n/a	n/a
Infrastructure	9.0	6.0	6.0	0.0	4.0	n/a	n/a	n/a	n/a	n/a
Alternative Defensive	0.0	0.0	0.0	0.0	n/a	n/a	n/a	n/a	n/a	n/a
Term Deposits	n/a	n/a	n/a	n/a	n/a	n/a	90.0	n/a	n/a	n/a
Global Debt	22.0	31.0	44.0	15.5	0.0	n/a	n/a	n/a	n/a	n/a
Cash	6.0	10.0	10.0	8.5	5.0	75.0	10.0	10.0	5.0	5.0
Cash Term Deposits	0.0	35.0	7.0	0.0	n/a	25.0	0.0	5.0	n/a	n/a

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/ispds

HESTA Income Stream investment managers

at 30 June 2016

Asset class	Investment manager	
Cash	AMP Bank Limited Bank Of Queensland Limited Bendigo and Adelaide Bank Limited Commonwealth Bank of Australia IMB Ltd JP Morgan Chase Bank, N.A. Members Equity Bank Pty Limited	National Australia Bank Limited Rabobank Australia Limited Rural Bank Limited State Street Global Advisors, Australia, Limited St George Bank - A Division of Westpac Banking Corporation Westpac Banking Corporation
Term Deposits	AMP Bank Limited Australia and New Zealand Banking Group Bank Of Queensland Limited Bendigo and Adelaide Bank Limited Commonwealth Bank of Australia	IMB Ltd Members Equity Bank Pty Limited National Australia Bank Limited Rabobank Australia Limited St George Bank – A Division of Westpac Banking Corporation
Global Credit	Babson Capital Management, LLC and Babson Capital Europe Ltd BlackRock Asset Management (Australia) Limited BT Investment Management (Institutional) Limited	Challenger Management Services Limited Industry Funds Management Pty Ltd PIMCO Australia Pty Limited Shenkman Capital Management, Inc. Westbourne Credit Management Limited
Property	Investa Wholesale Funds Management Limited	ISPT Pty Ltd
International Shares	Artisan Partners Limited Partnership Baillie Gifford Overseas Limited BlackRock Investment 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 Industry Funds Management Pty Ltd	Lazard Asset Management Pacific Co Martin Currie Investment Management Limited Mondrian Investment Partners Limited Robeco Hong Kong Limited Russell Investment Management Limited RWC Asset Management LLP Sanders Capital LLC Somerset Capital Management Taube Hodson Stonex Partners LLP
Australian Shares	Antares Capital Partners Limited BT Investment Management (Institutional) Limited Citigroup Global Markets Australia Pty Limited Cooper Investors Pty Limited Ellerton Capital Limited Goldman Sachs Asset Management Australia Pty Ltd	Industry Funds Management Pty Ltd Invesco Australia Limited Maple-Brown Abbott Limited Northcape Capital Pty Ltd Plato Investment Management Renaissance Smaller Companies Pty Ltd
Private Equity	Generation Investment Management LLP	Stafford Fund Nominees 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

Investment policies

Derivatives policy

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

- **futures and options:** agreements to buy and 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.

Our approach to responsible investment

We strive to continuously improve our responsible investment practices. Our approach is grounded in our key objective to maximise the returns for members while minimising risk.

Environmental, social and governance considerations

We're committed to incorporating environmental, social and governance (ESG) considerations into all our investment processes and decision making.

At the highest level, our principles and commitment are outlined in our ESG, Active Ownership and Climate Change Policies.

Our Board is responsible for approving ESG-related policies and for overseeing their implementation. Each quarter the Board monitors ESG risks and annually reviews the implementation, performance and progress in relation to ESG-related policies.

Our investment team is responsible for the implementation of our ESG-related policies and works with our external investment managers and other service providers to ensure that the incorporation of ESG factors protects and enhances our investments over the long term. We collaborate with other investors, where it furthers our ESG program.

Principles for Responsible Investment

HESTA is a signatory of, and an active participant in, the United Nations backed Principles for Responsible Investment (PRI). HESTA's ESG Policy recognises the PRI as a guiding framework for integrating ESG considerations into our investment processes and decision-making.

The PRI provides a common language that is understood globally by all participants in the investment industry – superannuation funds, fund managers, asset consultants, governments, and non-government organisations (NGOs). As a signatory to the PRI, we're committed to the six principles of responsible investment which are available at unpri.org/about/the-six-principles.

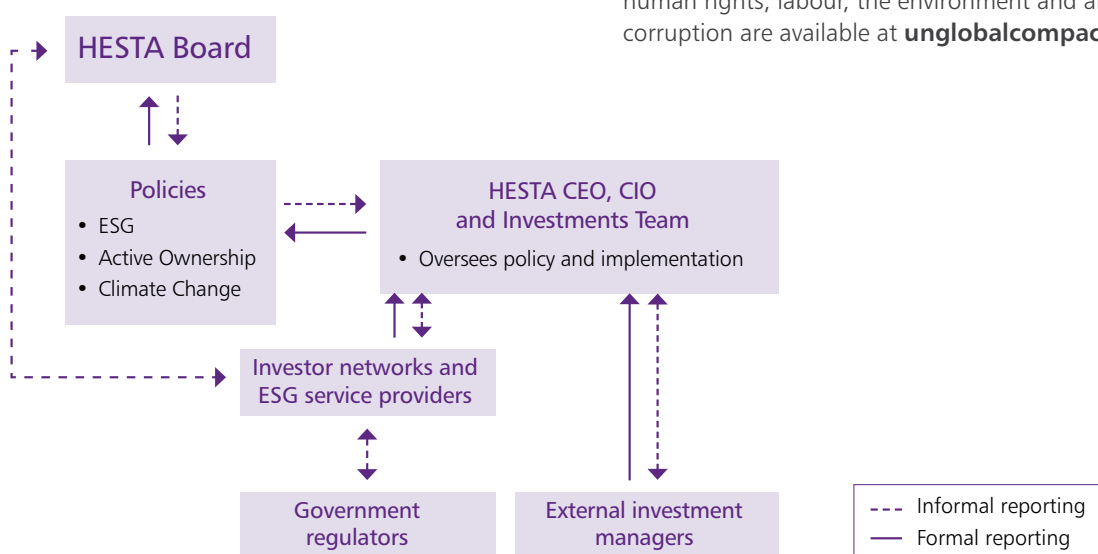
We, along with all other signatories, complete the PRI Reporting and Assessment Framework each year, the outputs of which are available at hesta.com.au/esg

2015/16 policy and governance highlights

Introducing the UN Global Compact

This year we enhanced our ESG Policy to recognise the UN Global Compact (UNGC) as a guiding framework for assessing the companies in which we invest. The Policy outlines our expectation that investee companies comply with the 10 principles of the UNGC. The Principles, which cover the areas of human rights, labour, the environment and anti-corruption are available at unglobalcompact.org

ESG governance structure



Collaboration

We know that to increase our influence and ability to improve the ESG performance of our investments, often it's better to work together with others in the investment community. That's why we're involved in a wide range of investor collaborations. These collaborations typically champion specific ESG issues, from climate change to corporate governance.

We are founding members of some groups and take a leadership role where we see that it provides opportunities to benefit our members.

And, we're involved in the following networks:

ACGA
Principal function(s): public policy on investment related corporate governance matters in Asia
ACSI*#
Principal function(s): advice on share voting, company engagement, public policy on investment relevant environmental, social or governance matters in Australia
ESG Research Australia (ESG RA)*
Principal function(s): ESG incorporation in stockbroker company analysis in Australia
GRESB
Principal function(s): Assessing ESG performance of real estate managers and funds globally
Hermes EOS
Principal function(s): Advice on international shares engagement and voting, public policy on investment relevant environmental, social or governance matters
International Corporate Governance Network
Principal function(s): Public policy related to corporate governance
Investor Group on Climate Change*#
Principal function(s): Public policy focused on investment related climate change and carbon pricing matters in Australia
PRI
Principal function(s): Best practice standards, networking, collective shareholder action on investment relevant environmental, social or governance matters globally
Regnan*#
Principal function(s): Company engagement, public policy in Australia
Responsible Investment Association Australasia (RIAA)
Principal function(s): Industry body for responsible and ethical investment in Australia

*Founding member

#High level representation on either/both the board and management or member committees of this organisation

2015/16 collaboration highlights

PRI private equity limited partner responsible investment due diligence questionnaire

During the year, HESTA participated on the private equity limited partner responsible investment due diligence questionnaire working group. Launched in November 2015, the LP RI DDQ provides a consistent list of questions that investors can ask fund managers during the selection process, to understand and evaluate how fund managers integrate ESG factors into their investment policies.

ACSI corporate governance guidelines update

ACSI's governance guidelines outline long term investor expectations of listed Australian companies. The guidelines are designed to assist companies to understand the corporate governance standards expected of them by their ultimate owners, shareholders. They are also designed to assist superannuation funds to assess the ESG practices of investee companies, particularly when exercising their voting rights. HESTA contributed to the bi-annual update of the guidelines, which were released in October 2015.

Becoming a member of the Asian Corporate Governance Association

HESTA's investments in Asian listed companies have grown over the past few years. As Asia typically has lower corporate governance standards and practices than Australia, it's important to ensure that we're taking steps to improve both the standards in these markets and the practices of our investee companies. These steps included becoming a member of the Asian Corporate Governance Association (ACGA). ACGA is an organisation dedicated to working with investors, companies and regulators to implement and/or improve effective corporate governance practices in the region.

Incorporating ESG factors

We use the services of external investment managers to invest on our behalf so appointment of these managers is one of the most important decisions we make.

As part of the manager selection process, we assess the integration of ESG factors into the manager's policies, processes, practices and disclosure. As at 30 June, 80% of our total assets were managed by managers that have made a formal commitment to ESG integration either through an ESG policy or by becoming a signatory to the PRI.

Our expectations related to ESG integration are formalised through inclusion in our contractual arrangements with managers. This ESG integration is also assessed, on an ongoing basis, as part of our review of existing managers.

Where, during either the manager selection or review, if any element of our managers' ESG integration does not meet our expectations, we will engage with the manager to seek improvements.

2015/16 ESG incorporation highlights

Listed assets

ESG in shares manager monitoring

During the year, HESTA undertook onsite ESG review meetings with the majority of Australian shares managers and approximately one third of international shares managers, discussing key ESG integration highlights and challenges and engaging them on prominent ESG issues. One of the ESG issues we engaged on this year was responsible tax practices. We also monitored the managers' implementation of HESTA's restriction on investment in new or expanded thermal coal assets.

Integrating ESG in fixed income

Approximately 15% of HESTA's portfolio is invested in fixed income products, largely corporate and government bonds. This year we expanded our formal manager ESG assessment framework into this asset class. We undertook manager ESG assessments for existing managers and also as part of the due diligence prior to appointing a new manager. In the case of the new manager, we not only assessed the integration of ESG into the prospective managers' investment processes and decision making but also worked with the manager to design a portfolio in which, a key feature is the explicit incorporation of various ESG criteria to guide the selection of the securities for the mandate.

Unlisted assets

Enhancing our Private Equity Manager ESG Assessment Framework

Following the release of the PRI Private Equity LP RI DDQ, outlined earlier, HESTA incorporated the questions into our own private equity manager ESG assessment framework. To ensure a consistent approach, we also engaged with our private equity advisor on the questionnaire which resulted in them also incorporating the questions into their manager ESG assessment process.

Incorporating ESG risks within HESTA's direct and indirect investments

From time to time, our managers present opportunities to invest directly in a company or asset. Assessment of ESG risks are incorporated in HESTA's Direct Investment Framework which is used to assess these opportunities and influence our investment decision making.

Global Real Estate Sustainability Benchmark (GRESB) supporting ESG integration

HESTA is a member of GRESB, an industry-driven organisation committed to assessing the ESG performance of real estate managers and portfolios globally. HESTA uses manager responses to the GRESB survey as a key input to our Property Manager ESG Assessment for the selection of new managers and the review of existing managers. This year, the majority of HESTA's property managers provided responses to the GRESB survey, with two of our managers assessed by GRESB as being in the top three managers in the Australian office category.

Managing significant risks and opportunities

We identify and manage ESG risks in our portfolio in a variety of ways, including through our external investment managers or through the use of specialist ESG-engagement service providers (see the Company Engagement section on page 42).

However, from time-to-time we may identify a particular ESG risk that is sufficiently significant that HESTA needs to manage and oversee the risk more directly. Climate change is an example of this and resulted in HESTA's Climate Change Policy being developed and a number of strategies implemented to address climate change risks across the portfolio.

Another example is where – consistent with HESTA's ESG Policy – a company is identified as not complying, directly or indirectly, with international treaties, conventions and laws, or standards or guidelines for responsible corporate behaviour including those specified in the UNGC, as outlined on page 37.

To ensure we assess and manage these significant ESG issues in a consistent manner, HESTA has a formal ESG Escalation Process. This process outlines a series of risk management approaches aimed at addressing the ESG risk and, in the case that all the risk management approaches fail, provides HESTA the option to consider divestment as a final option.

2015/16 ESG risk management highlights

Offshore asylum seeker processing centres

In accordance with our ESG Escalation Process, if a company is identified as not complying, directly or indirectly, with international laws, standards or guidelines, we may consider divestment as a final option. We undertook a detailed evaluation of Australian offshore asylum seeker processing centres in line with our Escalation Process including:

- detailed assessment of the reports of a number of independent non-government organisations, including the United Nations Human Rights Commission and the UN Rapporteur on Torture, which found that the mandatory, prolonged, indefinite, and non-reviewable nature of detention at the Australian offshore asylum seeker processing centres breached international human rights law

- extensive consultation with relevant stakeholders, and
- engagement with the company management and Board

After careful consideration, the HESTA Board determined to divest any company that provides services to offshore asylum seeker processing centres in Australia (or otherwise engaging Australia's jurisdiction).

Tackling carbon risk and opportunities

This year, HESTA undertook a range of activities to better understand and address climate change risks and opportunities. As part of tackling carbon risks in particular, HESTA measured the carbon footprint of the listed shares component of our portfolio for the first time this year. As at 30 June 2015, the carbon footprint of HESTA's Australian shares portfolio was 7.61% less carbon intensive than the benchmark (S&P/ASX 300) and the carbon footprint of HESTA's International shares portfolio was 19.01% less carbon intensive than the benchmark (MSCI All Country Weight Index ex Australia). While the initial focus of the carbon footprint was on the listed shares portfolio due to its relatively large size in HESTA's portfolio (over 50%) and its relatively robust carbon data and methodologies, we are investigating future expansion of the footprint across other asset classes.

With carbon risk front of mind, HESTA collaborated with an investment manager to develop an innovative approach to creating a bespoke international passive low carbon shares portfolio during the year. This portfolio has an objective of a carbon footprint at or below 50% of the MSCI All Country Weighted Index ex Australia index while delivering index-like returns over rolling 3-year periods

We also increased our low carbon investments in unlisted assets with new investments in wind and solar energy companies and in timber and we continue to support climate change technology development through our venture capital investments. In the Property asset class, the proportion of 'low carbon' properties in HESTA's Australian office portfolio grew to 63%. As at 30 June 2016, the total value of all these low carbon investments was close to \$2 billion.

Active ownership

As a long-term institutional investor and a universal owner*, we regard active ownership as being critical in protecting or enhancing the value of our investments.

We are active in supporting good corporate governance in companies and other assets we own, and seeking to achieve change where we think that governance is poor or less than ideal. Through active ownership we seek to achieve good corporate governance including:

- boards which are independent and diverse
- executive remuneration which aligns with the interests of long-term shareholders
- corporate strategy, including takeovers and acquisitions, which considers ESG issues and creates long term sustainable shareholder value.

HESTA's Active Ownership Policy outlines our principles and commitments to being an active owner and fundamentally involves:

- voting all our shares to the extent possible, and
- engagement with companies, regulators and governments.

Share voting

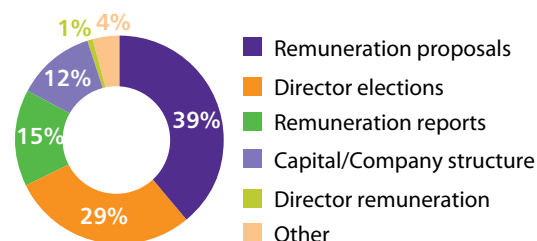
We seek to vote all the shares we own on behalf of members (although in some instances this isn't possible due to legal impediments). We seek to send an unequivocal message to companies regarding the importance of good governance and therefore do not generally abstain from voting.

Australian Shares

We vote on the shares held by our Australian shares managers. When contentious issues arise, in determining our vote, we take into account the advice of our investment managers and also our voting adviser. For larger Australian companies, our voting adviser is the Australian Council of Superannuation Investors (ACSI) and for smaller companies our adviser is International Shareholder Services (ISS).

During 2015/16 we voted on a total of 2,007 resolutions at 402 company meetings. We voted against management on 217, or approximately 11%, of these resolutions.

We voted against management on a range of issues including the structure and quantum of executive remuneration, board composition and independence of directors and changes to the company's capital structure.

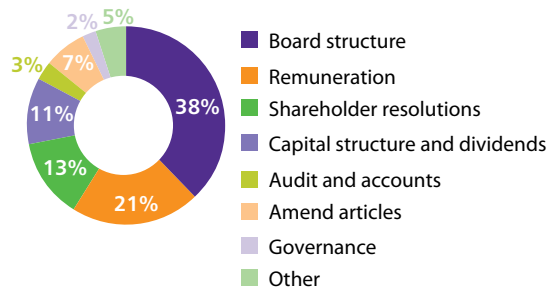


International shares

We vote the shares held by our international shares managers differently. Due to the distant and dispersed nature of the overseas markets and the large number of companies held (over 2,500) we use a dedicated international proxy voting service provider to vote these shares on our behalf. For this purpose, we have appointed London-based Hermes Equity Ownership Services (Hermes EOS) to vote these shares on our behalf, with advice from their proxy advisor, ISS, and our manager(s), as required. HESTA also reserve the right to override any voting decision made by Hermes EOS.

During 2015/16, Hermes EOS voted on our behalf on 28,094 resolutions at 2,294 meetings. Hermes EOS voted against management on 2,150, or approximately 9%, of resolutions and abstained on less than 1%.

Hermes EOS voted against management on a range of issues including board composition and independence of directors, executive remuneration, shareholder resolutions, capital structure and dividends, audit and accounts.



We publish our Australian and international share voting and statistical analysis every six months on our website. For more detailed reports visit hesta.com.au/active-ownership

* Asset owners whose size and long-term investment horizon mean they're constantly exposed to all facets of the global economy and financial markets.

Company engagement

We believe it is important to protect and enhance the value of the companies we are invested in, by engaging with these companies to improve their policies, practices, performance and/or disclosure in relation to material ESG issues.

We have a comprehensive engagement program, both in Australia and internationally. For Australian companies, our engagement activities are undertaken by ACSI and Regnan Governance Research and Engagement (Regnan), and for overseas companies, they are undertaken by Hermes EOS.

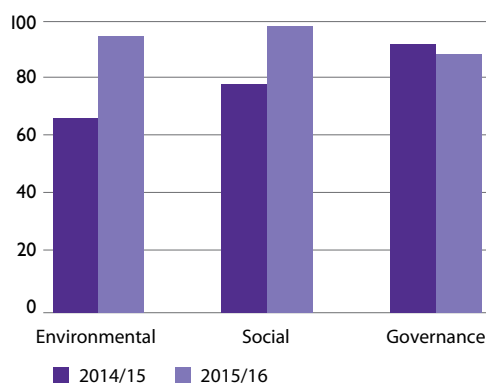
These engagement specialists identify priority companies for engagement by focusing on specific ESG themes, or identifying where a company's ESG policies, practices, performance, and/or disclosure is deficient relative to established regulatory, industry or broader social standards, or where its conduct manifestly threatens the companies' value or reputation.

Australia

During 2015/16, ACSI and Regnan engaged with 188 Australian companies in our portfolio on our behalf. For almost all companies, the engagement covered a mix of environmental, social and governance issues, with the engagement covering at least one governance issue for 89% of companies, at least one social issue for 99% of companies and at least one environmental issue for 95% of companies. The companies engaged represented 81% of the total market value of our Australian Shares portfolio as at 30 June 2016.

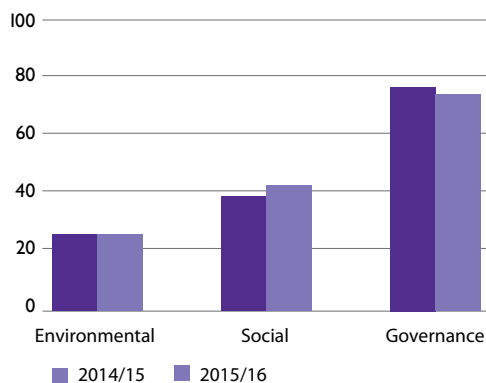
Of the companies in our portfolio engaged with by ACSI and Regnan this year, 58% demonstrated progress on at least one issue during the period.

Of the companies in our portfolio engaged with by ACSI and Regnan this year, 58% demonstrated progress on at least one issue during the period. Of those that showed no progress, a number showed no progress due to the engagement being very recent, a number showed no progress but have indicated that progress is imminent, and some showed no progress with little likelihood of progress in future. It is this latter category that we will be focusing on in the coming year.

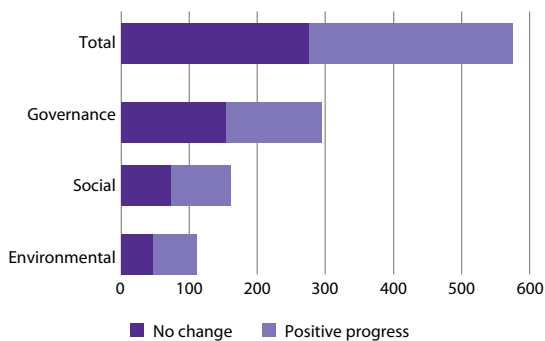


International

During 2015/16, through Hermes EOS, we engaged with 354 internationally-listed companies we invest in. For 75% of companies, the engagement covered at least one governance issue, for 43% it covered at least one social issue and for 27% it covered one or more environmental issues. Overall, for 38% of companies, the engagement covered a mix of environmental, social and/or governance issues. The companies engaged represented 41% of the total market value of our international shares portfolio, as at 30 June 2016.



Hermes EOS made solid progress on the milestones set for achieving each engagement objective. Overall, progress was made on 53% of engagement objectives including 60% of environmental engagements, 56% of social engagements and just fewer than 50% of governance engagements.



2015/16 engagement issues highlights

Labour and human rights in the supply chain: engaged with services and consumer retail product companies on poor labour and human rights practices within their supply chain.

Board diversity: engagement promoted the need for diversity of thought, culture, gender and skill. There was specific focus on companies requiring greater female representation on their boards, with the aim of achieving at least 30% female board members by 2017, and those requiring more diverse skills to assist in business transformation, including culture and human capital.

Climate change: engagement focused on large resource and energy companies and their management of climate change risks and opportunities in line with the Paris agreement (including regulatory, physical, technological impacts); banks factoring climate change considerations into lending decisions; and other exposed stocks on building resilience to the anticipated effects of climate change.

Social and community: engaged companies on human rights, indigenous and local community relations associated with their operations, particularly in developing countries, and problem gambling.

Strategic human capital and culture change: engagement focused on more active board oversight of the elements of corporate culture and human capital central to the delivery of business strategy and intangible value creation.

Conduct culture: engagement focused on the responsibility of the board to act as stewards of corporate culture and the indicators of a culture going bad, where deviant and value-destructive behaviour becomes normalised, and where countervailing influences are silenced.

Corporate governance practices: engaged companies the independence of directors and improved board composition, succession planning, alignment of executive remuneration with company strategy and restraint in overall quantum, improved capital-raising practices, tax policies and governance of tax matters.

Government and industry advocacy

Advocacy seeks to influence laws, regulations, standards or guidelines established by government, regulators, industry or other rule-making bodies, with the aim of protecting or enhancing the long-term value of individual assets or the market as a whole.

We undertake advocacy primarily through ACSI and Regnan in Australia, and through Hermes EOS internationally. However, other organisations of which we're a member, such as the Investor Group on Climate Change (IGCC), actively advocate on our behalf on specific ESG issues.

2015/16 advocacy issues

Stewardship: contributed to global frameworks produced by the PRI and ICGN to promote stewardship and active ownership.

Corporate governance: provided submissions to international and Australian Government policy and regulation related to corporate governance, including minority investors' interests in capital-raising and merger transactions (proxy voting rules and administration).

Climate change: advocating for consideration of climate risks beyond carbon intensity and for the promulgation of scenario analysis, including guidance on how such analysis might best be undertaken.

Unconventional oil and gas: finalised UOG best practice ESG risk management principles. These formed the basis of submissions to federal and state government inquiries into unconventional gas.

Conduct culture: provided expert media commentary on the critical role of boards in engendering appropriate cultural settings, aligning incentive structures to create long term value, and being attuned to indicators that a company culture may enable the normalisation of deviant behaviour.

Investing with impact

HESTA has an annual allocation dedicated to investments with the purpose to deliver a measurable social and/or environmental impact along with a competitive financial return. Our first impact investment was in Leapfrog Investments. The Leapfrog fund focuses on financial inclusion and aims to provide health and life insurance to 50 million low income or financially excluded people in Africa and South East Asia.

2015/16 impact investing highlights

Social Ventures Australia – Horizon Housing

This year HESTA established a \$30 million investment mandate with Social Ventures Australia to build a pipeline of investments and grow Australia's impact investment market by attracting other institutional investors. The mandate is one of Australia's largest impact investment funds and represents the biggest single commitment by an Australian superannuation fund to the local impact investing market. The first investment under the mandate is a \$6.7 million investment in Horizon Housing, a community housing provider operating in Queensland, which is focused on increasing the supply of social and affordable housing by developing 60-70 properties, thereby helping low income earners achieve home ownership in targeted areas.

Respect

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Our commitment

HESTA's commitment to continuous improvement is underpinned by our focus on enhancing the wellbeing of members, employees, society and the environment.

Our people

HESTA is a strong values driven workplace, recognising that employees are key to business success.

At June 30 2016, HESTA employed 121 full-time equivalent employees, comprised of 100 full-time and 28 part-time employees.

Diversity and equal opportunity

HESTA is committed to workplace diversity and inclusion through fostering a respectful environment for our employees that values the differences that a diverse workforce brings to achieving HESTA's strategic objectives. All HESTA employees participated in diversity training this year, which focused on valuing differences and awareness of unconscious bias.

This year we developed a three year Workplace Diversity and Inclusion strategy which is underpinned by three guiding principles:

- Workplace diversity is everyone's responsibility
- Diversity is our way of thinking
- Diversity is a part of who we are at HESTA

HESTA has also applied to be a Employer of Choice for Gender Equality.

Learning, training and development

At HESTA we are committed to supporting the career development of our employees through continuous learning.

Our Learning and Development Framework embraces 70:20:10 learning principles, providing opportunities for employees to develop and enhance their capability through a range of learning options and experiences.

Employees are supported both financially and with professional development leave to attend in-house and external training programs. These are aimed at improving skills and capabilities related to employee roles and responsibilities.

Environmental performance

HESTA's environmental targets are reviewed and reported to the Board, on an annual basis. In particular, our reporting focuses on the following areas:

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

Carbon footprint

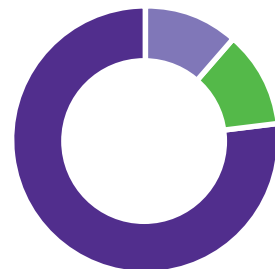
HESTA's carbon footprint for 2015/16 was 1,068 tonnes of CO₂, an 11% decrease on the previous year.

This reduction is a direct result of the refurbishment works at the National Office that occurred in 2014/15.

Green House Gas (GHG) emissions are categorised as:

- **Scope 1:** Direct emissions from sources owned or controlled by HESTA, such as petrol used in fleet cars
- **Scope 2:** Indirect emissions associated with electricity use such as emissions from burning of fossil fuels at power stations
- **Scope 3:** Other indirect emissions that are a consequence of HESTA's activities, but are not directly controlled by HESTA.

2015/16 emissions by scope – tCO₂



■ Scope 1 ■ Scope 2 ■ Scope 3

Electricity

Overall, electricity use amounts to almost 30% of total carbon emissions. This is represented by tenancy electricity (11.3%) and base building electricity (18%).

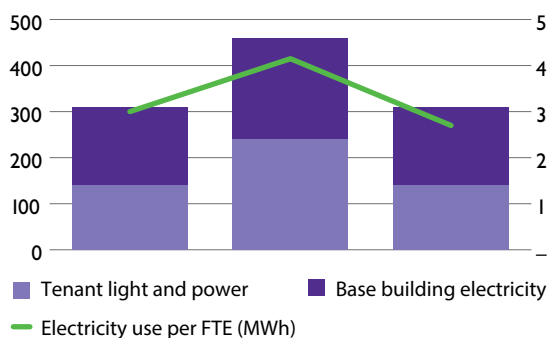
Tenancy electricity was reduced by 44% this year. This is due to a spike in 2014/15 resulting from refurbishment activity at the national office.

Reductions in space occupied in NT and ACT has also contributed to the decrease.

The portion of base building electricity, that HESTA has the least control over – including lifts, air-conditioning and lights – decreased by approximately 2% compared with 2014/15. This is reflective of the efforts being undertaken by HESTA in influencing building owners and managers to reduce their consumption of electricity.

In a continued effort to be sustainable, this year HESTA purchased 6,212 kWh of green power across our Victorian and national offices.

HESTA's electricity profile (MWh)



Paper

In 2015/16 HESTA reduced consumption of printed paper per employer/member by >10%.

Paper contributes a significant volume of carbon emissions to HESTA's carbon footprint. It accounted for 17.8% of emissions and was the third largest generator of GHG emissions in 2015/16.

We also reviewed the procurement and operational processes of our major supplier for externally printed materials.

HESTA regularly reports on paper usage and provides tips on reduction methods. As a result, the total paper use was down by 10.6% compared with 2014/15.

Office paper

At HESTA, office paper is defined as paper used within the office environment, for internal consumption and in printers.

In 2015/16 office paper use decreased by 17.7% from 1,981 kg to 1,680 kg compared with 2014/15.

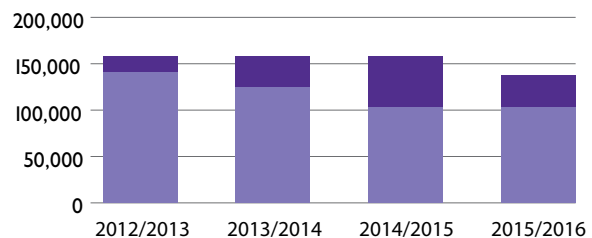
Print paper

Print paper is defined as printed documents for public distribution, including marketing collateral and communications to members and employees.

In 2015/16 print paper use decreased by 10% from 156,410kg to 140,021kg compared with 2014/15. This was despite a growth in both members and employees.

Recycled paper accounted for 23% of total print paper consumed, compared to 32% in 2014/15.

Print paper year-on-year profile

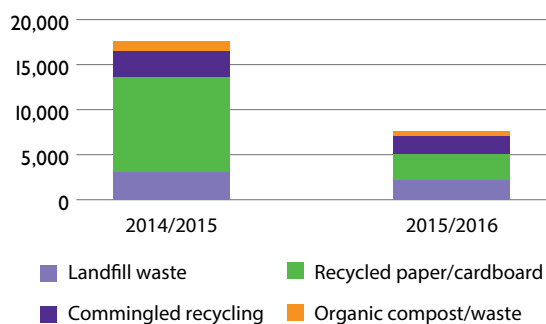


Waste

Overall, waste generation by HESTA reduced by 57% in 2015/16.

The most dramatic decrease occurred in the national office. Again, this is a result of the spike seen due to refurbishments in 2014/15 and a large scale cleanout. This saw high volumes of waste generated in that period.

HESTA's waste profile



Sustainability Committee

HESTA's Sustainability Committee works to embed sustainability and corporate social responsibility within HESTA's broader business strategy and day-to-day operations. The role of the Committee is to formulate and implement the sustainability plan and provide guidance, support and feedback to HESTA in achieving the objectives, actions and outcomes set out under the sustainability plan.

This year the Committee implemented regular reporting across the business for flights, paper, waste and electricity. These initiatives raise awareness among employees and encourage engagement with the company's sustainability performance.

HESTA has also implemented steps to improve the collection of environmental data, enabling us to better analyse our performance data.

The Sustainability Committee has been working to review the processes associated with data collection so they meet the following criteria:

1. Data is collected either monthly or quarterly
2. Data is stored in a central location on HESTA's intranet, and
3. Data is entered into Eden Suite (a web-hosted environmental data management service) and the carbon accounting spreadsheet on a timely basis.

We recognise our impact on the environment, and partnered with QANTAS to offset our footprint via an Indigenous Carbon Farming project, aligned with our Reconciliation Action Plan.

Finance and other information

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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 2016. Call 1800 813 327 to request a copy of the full financial statements.

Statement of Financial Position as at 30 June 2016

	30 June 2016 \$'000	30 June 2015 \$'000
Assets		
Investments		
Cash and Short Term Deposits	2,579,545	2,523,904
Other Interest Bearing Securities	4,443,741	3,303,806
Australian Equities	9,260,363	8,835,278
International Equities	7,638,497	7,810,417
Unlisted Unit Trusts	7,656,280	7,042,513
Unlisted Pooled Funds	530,416	555,885
Pooled Superannuation Trusts	2,192,813	2,097,447
Private Equity	1,056,513	876,653
Derivative Assets	353,714	92,811
Total Investments	35,711,882	33,138,714
Other Assets		
Cash and Cash Equivalents	40,770	36,343
Fixed Assets	4,224	4,370
Other Assets	936	981
Deferred Tax Assets	2,631	13,894
Total Other Assets	48,561	55,588
Total Assets	35,760,443	33,194,302
Liabilities		
Payables	44,473	45,437
Provision for Employee Benefits	2,601	2,343
Income Tax Payable	62,497	20,594
Derivative Liabilities	186,230	160,912
Deferred Tax Liabilities	485,870	550,200
Total Liabilities	781,671	779,486
NET ASSETS AVAILABLE TO PAY BENEFITS	34,978,772	32,414,816
<i>Represented by:</i>		
Liability for Accrued Benefits		
Allocated to Members' Accounts	34,805,990	32,284,364
Not Yet Allocated to Members' Accounts	12,224	10,179
Reserves	160,558	120,273
Total Liability for Accrued Benefits	34,978,772	32,414,816

Operating Statement for the year ended 30 June 2016

	30 June 2016 \$'000	30 June 2015 \$'000
Investment Revenue		
Dividends	544,212	496,930
Trust Distributions	990,334	690,727
Interest	122,338	139,404
Other Investment Income	13,306	11,915
Change in Net Market Value of Investments	(479,983)	1,696,179
Direct Investment Expenses	(101,475)	(95,876)
Total Net Investment Revenue	1,088,732	2,939,279
Contribution Revenue		
Employer Contributions	2,781,609	2,584,762
Member Contributions	502,359	565,251
Transfers from Other Superannuation Funds	818,564	755,128
Total Contribution Revenue	4,102,532	3,905,141
Other Revenue		
Group Life Insurance Proceeds	69,456	69,032
Other Income	233	132
Total Other Revenue	69,689	69,164
Total Revenue	5,260,953	6,913,584
General Administration Expenses		
Group Life Insurance Premiums	240,969	184,440
Administrator Expenses	44,299	46,407
Trustee Office Operating Costs	45,549	44,403
Total General Administration Expenses	330,817	275,250
Benefits Accrued as a result of Operations before Income Tax	4,930,136	6,638,334
Income Tax Expense	349,891	517,888
Benefits Accrued as a result of Operations after Income Tax	4,580,245	6,120,446

Reserves Policy

Operational Risk Reserve (ORR)

Following the introduction of Superannuation Prudential Standard SPS 114, the Trustee is required to maintain an Operational Risk Reserve (ORR). The ORR is required to have adequate financial resources to address losses arising from operational risks.

The target amount of the ORR is 0.25% of net assets of the Fund. The ORR is maintained in a distinct segregated portfolio by our Custodian and is managed to the same strategic asset allocation as HESTA's lower-risk diversified portfolio investment option, the Conservative Pool. The Trustee maintains a policy to deal with the use of the ORR including management of any shortfalls or surpluses from the target amount. The balance of the ORR at the end of each financial year since the introduction of SPS 114 on 1 July 2013 is:

Operational Risk Reserve

30 June 2016	\$84.60 million (audited)
30 June 2015	\$75.13 million (audited)
30 June 2014	\$64.66 million (audited)

Fund Development Reserve (FDR)

The Fund Development Reserve (FDR) is primarily used to fund the operations of the Fund, including planning for significant projects that are not business as usual or to respond to any initiatives that arise that will benefit the members of HESTA.

The FDR is maintained in a distinct segregated portfolio by our Custodian and is largely managed to the same strategic asset allocation as HESTA's lower-risk diversified portfolio option, the Conservative Pool. Analysis of revenue and expenditure of the Fund against budget is performed on a monthly basis, allowing the Trustee to manage any surplus or deficit to the FDR. The balance of the FDR at the end of the last three financial years was:

Fund Development Reserve

30 June 2016	\$40.16 million (audited)
30 June 2015	\$35.07 million (audited)
30 June 2014	\$30.43 million (audited)

Investment Clearing Account and Investment Reserve

Up to 30 June 2013, HESTA maintained an Investment Reserve which targeted a minimum of 0.2% of net assets of the Fund. On 1 July 2013, the Investment Reserve was used to fund the Operational Risk Reserve and HESTA ceased maintaining an Investment Reserve. From 1 July 2013, an Investment Clearing Account is maintained for the purpose of accumulating the investment earnings of the Fund's assets prior to allocation to member accounts. The balance of the Investment Clearing Account at the end of the last three financial years was:

Investment Clearing Account

30 June 2016	\$35.79 million (audited)
30 June 2015	\$10.07 million (audited)
30 June 2014	\$40.37 million (audited)

Related Parties

Related Party Investments and Transactions

At 30 June 2016 the Fund (Health Employees Superannuation Trust Australia) had:

- A 31% (2015: 31%) shareholding of ordinary shares valued at \$1,380,100 (2015: \$1,380,100) in Frontier Advisors Pty Ltd.

Frontier receives fees from the Fund for investment consulting services. These fees were \$2,971,777 (2015: \$2,737,150).

Ms A.C. Emslie (as nominee of H.E.S.T. Australia Ltd) is a Director of Frontier Advisors Pty Ltd and received fees of \$13,883 (2015: \$13,479).

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 (2015: \$nil).

Other Shareholdings and Transactions

As at 30 June 2016 the Fund had:

- A 15.9% (2015: 15.9%) shareholding in Industry Super Holdings Pty Ltd (ISH) valued at \$85,909,969 (2015: \$70,369,092).

Key advisers and service providers

Industry Funds Management Pty Ltd (IFM) is a subsidiary of ISH and manages investments totalling \$6,415,625,712 (2015: \$4,972,340,059) on behalf of the Fund.

ISH has other subsidiaries with which the Fund transacts. Industry Fund Services Pty Ltd provides financial planning and debt collection services to the Fund. IFS Insurance Solutions Pty Ltd provides insurance services to the Fund. Industry Super Australia Pty Ltd (ISA) provides marketing, advocacy, policy development and research services to the Fund.

Ms A.C. Emslie's partner, Mr G. Weaven, is a Director of ISA and Members Equity Bank Ltd **ME** (bank) and Chair of ISH and IFM.

Ms D.J. Blakey, as a nominee of H.E.S.T. Australia Ltd, is a Director of ISA.

- A 16.6% (2015: 15.9%) shareholding in **ME** (bank) valued at \$165,441,636 (2015: \$167,329,253). **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 \$59,362,299 (2015: \$71,592,472). The Fund also had \$429,951,236 (2015: \$476,087,426) invested in cash and term deposits with **ME** (bank) at year end and investments in subordinated notes totalling \$15,136,004 (2015: \$15,408,512).
- A 3.8% (2015: 3.8%) shareholding in ISPT Pty Ltd valued at \$1 (2015: \$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 IGPT 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 \$1,645,593,650 (2015: \$1,404,587,904) 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 IGPT 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.

We use a number of external service providers to help us administer members' accounts and invest members' money.

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

Australian Administration Services Pty Limited (ABN 62 003 429 114) part of LINK Group provides administrative services for the Fund, including operating the Fund's service centre, insurance administration, contribution and benefit processing and other general Fund administration.

Other key advisers and providers as at 30 June 2016 include:

Custodian: JP Morgan Chase Bank

Insurer: CommInsure

Solicitors: Holding Redlich, Mills Oakley Lawyers, Dwyer Bruce Legal Pty Ltd

Internal auditors: KPMG

External auditors: PricewaterhouseCoopers

Taxation advisers: 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 members' retirement savings, while at the same time using our size to achieve economies of scale that keep costs low.

Superannuation surcharge

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

When members have a concern, we listen

We have a process to address concerns fairly and efficiently. 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 Locked Bag 5136 Parramatta NSW 2124</p> <p>Email: HESTA Super accounts: hesta@hesta.com.au</p> <p>HESTA Income Stream accounts: hestais@hesta.com.au</p>	<p>We'll investigate your complaint and try to resolve it in 10 business days.</p> <p>If we can't respond fully in that time, we will 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 insurance and income stream	Non-superannuation complaints (e.g. general or personal financial advice)
<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. Before making a decision about HESTA products you should read the relevant Product Disclosure Statement (call 1800 813 327 or visit hesta.com.au for a copy), and consider any relevant risks (hesta.com.au/understandingrisk).

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

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