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active ownership policy

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Contents

1.	Purpose.....	2
2.	Scope	2
3.	Policy Context.....	2
4.	Definitions	2
5.	Active Ownership Policy Principles.....	3
6.	Active Ownership Policy Framework	4
7.	HESTA’s Active Ownership Program	4
8.	Active Ownership Implementation	7
9.	Monitoring and Reporting on Active Ownership Policy Implementation.....	9
10.	Communication of the Policy	10
11.	Responsibility for the Active Ownership Policy	10
12.	Review	10

1. Purpose

The purpose of this policy is to formally outline HESTA's principles and commitments to being an active owner and incorporating Environmental, Social and Governance (ESG) issues into our ownership policies and practices including share voting, company engagement and advocacy activities.

2. Scope

The Active Ownership Policy applies to all of HESTA's investments including:

- all types, including direct and mandated. It does not apply in full to shares held in pooled investment vehicles
- all styles, including active and passive
- all asset classes, but is specifically relevant to Australian and international shares
- all geographic locations
- HESTA's approach to active ownership and the incorporation of ESG issues into our ownership practices will differ depending on these investment characteristics.

3. Policy Context

HESTA's Active Ownership Policy will be consistent with other HESTA investment, strategic or operational policies and processes, including HESTA's Investment Policy.

This policy should be read in conjunction with the HESTA Responsible Investment Policy and the HESTA Climate Change Policy.

4. Definitions

- **Active owner:** refers to an owner of all or part of an entity that exerts influence or seeks to exert influence on the governance, policies, practices and management of that entity.
- **Advocacy:** refers to action by an individual or group which seeks to influence laws, regulations, standards or guidelines established by government, regulators, industry or other rule making bodies to protect or increase the long-term economic value of individual assets or the market as a whole.
- **ESG:** refers to Environmental, Social and Governance. The issues captured by the term ESG are not necessarily static but may change over time as issues become more important or community values or sentiment changes.
- **Environmental:** refers to issues affecting the natural environment including climate change, resource and water scarcity, habitat and biodiversity loss, emissions to land, water and the atmosphere and waste generation.
- **Social:** refers to issues affecting individuals whether they are employees, customers, suppliers or members of the local or broader community including human and labour rights, human capital management, workplace health and safety, supply chain management, and community relations.

- **Governance:** refers to issues regarding how companies or assets are run or 'governed' and in particular the alignment of a company's board and management with the ultimate owners of the company, its shareholders. Governance issues include board composition and skills, executive remuneration, accounting and audit practices.

5. Active Ownership Policy Principles

This policy is grounded in our key investment objective which is to maximise HESTA members' investment returns while minimising risk. HESTA believes that ESG issues have the potential to impact investment risks and returns and that being an active owner and considering these issues alongside traditional financial and business risk factors in our ownership practices can improve long-term risk-adjusted returns to our members.

As such, HESTA sees active ownership and the incorporation of ESG issues into ownership practices as entirely consistent with HESTA's fiduciary duty to act in the best interests of our members. In fact, across all ESG issues HESTA believes that good performance will deliver superior returns over the long-term and that poor performance constitutes a risk that must be taken into account in investment decisions.

As a long-term investor (please see HESTA's Responsible Investment Policy for definitions) where we expect to own a stake in an asset for a number of years, active ownership is especially important in serving the interests of our members. HESTA believes that this approach will have the ancillary benefit of contributing to improved environmental and social outcomes, which will in turn:

- contribute to a stronger economy, which is a prerequisite for delivering the best risk-adjusted returns for members
- improve the overall retirement outcome for members, as their retirement outcome will not only be affected by the financial returns received, but by the state of the environment and the society into which they retire
- a further benefit of incorporating ESG issues into investment processes and decision-making is the increased alignment with HESTA member interests.

Generally, HESTA does not seek to divest companies in response to ESG issues, considering that it may be more effective to use the tools available to active owners, including engagement and voting, to influence a company to appropriately and adequately address ESG issues. Where this is the case active ownership may lead not only to improved performance at the asset level, but has the potential to result in improved performance across the market.

However, in some cases, HESTA has determined that divestment on ESG grounds may be appropriate. These cases include where a company is involved in an activity where the associated ESG issues are such that any investment in the company is inconsistent with HESTA's strategy or policy, or is assessed to be unsuitable from a financial or reputational perspective.

6. Active Ownership Policy Framework

HESTA is a signatory to, and an active participant in, the United Nations-backed Principles for Responsible Investment (PRI). We regard the PRI as the key framework for integrating ESG considerations into our investment processes and decision-making.

In particular, this Policy represents HESTA's commitment to PRI Principle 2 'we will be active owners and incorporate ESG issues into our ownership policies and practices'.

7. HESTA's Active Ownership Program

HESTA will be an active owner and incorporate ESG issues into our ownership policies and practices including engagement with companies, share voting and advocacy.

Company engagement

Company engagement means to have discussions with a company, usually at Board or at least senior management level within the company, on ESG issues. The aim of the engagement is to improve the ESG policies, practices and performance of the company and thereby protect or increase its economic value. This will generally occur when HESTA or its agents have identified that the company's ESG policies, practices or performance are deficient relative to standards established by government, regulators, industry, peers or society at large, or that the company's conduct threatens its reputation and value. In general these discussions will be conducted on a confidential basis to encourage trust and openness thereby increasing the likelihood of achieving the aim.

Voting shares at company meetings

Executing the voting rights attached to shares HESTA holds in listed companies is something we regard as being an integral element of active ownership. Share voting is an important tool for engaging with companies. A vote is a visible and concrete expression of what may have been expressed in private discussion with the company's Chair or Board, particularly in relation to a range of governance issues including board composition and executive remuneration. Voting is an effective way for HESTA and other investors to publicly express our views on what a company is doing right, and what a company needs to improve.

HESTA will seek to vote 'for' or 'against' all resolutions on the meeting agenda in order to send a clear signal to the company. Very occasionally HESTA 'abstains' from voting on a particular resolution as part of our engagement process. For example, HESTA may 'abstain' from voting on a particular resolution while informing the company's Board that if improvement is not achieved future votes on the resolution may be 'against' rather than 'abstain'. There may be other occasions where HESTA may 'abstain' from voting, or 'take no action', on a particular resolution due to regulatory requirements, for example, in circumstances where there has been a share issuance and our external investment manager has participated in that issuance.

While HESTA's objective is to execute the voting rights attached to all shares HESTA holds in public companies there are some circumstances where this may not be possible:

- Pooled vehicles: HESTA has very limited investments in pooled vehicles that hold listed equities where the external investment manager, not HESTA, owns the voting right attached to the shares

in the pooled vehicle. In these cases HESTA accepts that it cannot vote these shares. Instead HESTA will monitor and, where relevant, seek to influence voting by our external investment manager.

- Shares on loan: HESTA is unable to execute the voting rights on shares that are 'on loan' as part of HESTA's share lending program, unless the shares are recalled. For companies held by Australian equities managers, HESTA will recall shares when the company releases its notice of meeting. HESTA does not recall share for companies held by international equities managers. .
- Share blocking markets: HESTA may not vote on company meetings in countries where there is 'share blocking' i.e. regulatory restriction on the sale of shares for a given period where the voting rights attached to the shares are executed. Share blocking limits the trading possibilities of the external investment manager and may, therefore, harm the performance of the investment portfolio. Share blocking also limits the possibilities of lending the shares to a third party, which may reduce the lending revenues. In countries where there is share blocking our external investment manager will determine whether the votes attached to HESTA shares should be executed, based on an assessment of the possible negative impact on the performance and lending revenues against the long-term benefits of voting.
- Power of Attorney (PoA) markets: In some countries voting can only be carried out by an individual actually attending a company meeting. In these countries HESTA can appoint an individual, usually a representative from our custodian or subcustodian, to attend the company meetings and vote on our behalf through a Power of Attorney (PoA). This individual will then vote in accordance with HESTA's instructions or those of our proxy voting advisor. However, establishing a PoA can be costly both in terms of financial and human resources. In line with our fiduciary duty, HESTA will only undertake voting in a country requiring a PoA where the benefits of voting outweigh the costs of putting a PoA in place. HESTA has determined that the benefits are likely to outweigh the costs where we have a material investment in a country. We have defined material in this context to be an investment amounting to more than 0.25% of our international equities investments (excluding trusts).

As a result HESTA, if required, will put a PoA in place in any country where we have an investment amounting to more than 0.25% of our international equities investments (excluding trusts.) This implies that there may be some countries in which HESTA has a small investment where we will not vote.

HESTA advises companies of its voting decisions where it abstains or votes against management recommendations in the following circumstances:

- Through our engagement service providers, both before and after voting.
- In an ad-hoc manner via our external investment managers following voting.

Advocacy

As with all active ownership practices, HESTA undertakes advocacy with the aim of improving the long-term risk-adjusted returns delivered to members.

Advocacy undertaken by or on behalf of HESTA focuses on laws, regulations, standards or guidelines that will improve performance or reduce failures of the market. For example, rules that will improve market

efficiency, ensure adequate protection of non-economic agents such as society or the environment, require acceptable governance, or deliver appropriate and consistent disclosure.

Such laws, regulations, standards and guidelines may be established at a global level, for example, accounting standards, a country level or a local level.

Companies must observe these laws, regulations, standards and guidelines to comply with the law or best practice. There are specific rules that must be observed in order for companies to legally operate or have their shares publicly traded in a particular country, for example, rules governing the disclosure of financial information to shareholders, company law governing the meetings of the company and the election of directors. It is these laws, rules, and regulations that set the minimum rules for corporate behaviour and transparency.

Advocacy can include many activities that an individual investor or group of investors undertakes including engagement with and submissions to government, regulators or other rule making bodies, commissioning and publishing research and industry and media campaigns.

Class Actions

Class actions allow shareholders, as a collective group, to claim for losses against a company where a reasonable case can be made that the loss occurred due to breaches of corporate laws or regulations.

As part of its fiduciary duty HESTA participates in class actions to ensure that financial losses suffered by HESTA members as a result of 'legally actionable deficiencies' in corporate behaviour are, to the extent possible, recovered. HESTA also participates in class actions as a means of encouraging better standards of corporate governance and improved accountability by companies, directors and corporate advisors to their shareholders.

To be eligible to participate in a class action HESTA must have traded shares in the company within the specified time period affected by the 'legally actionable deficiency'. Where HESTA is eligible to participate, it is our fiduciary duty to do so when the estimate of HESTA's financial loss that is likely to be recovered through participating in the class action is greater than the estimate of costs and any potential risks associated with participating in the class action. As such, a number of factors influence whether HESTA participates in a class action, including the estimate of HESTA's financial loss that is likely to be recovered, and an estimate of the costs and any potential risks associated with the class action.

HESTA may take either an active or passive role in a class action. In general, HESTA takes a passive role. Only in rare instances would HESTA take on an active role. These instances would be determined on a case by case basis.

8. Active Ownership Implementation

HESTA's Active Ownership program, including company engagement, share voting and advocacy, requires significant resources to implement.

HESTA evaluates how each element of the Active Ownership program will best be implemented to maximise the benefit to members.

For this reason, we have chosen to implement the Active Ownership program differently in Australia and internationally (as outlined below) and to collaborate with others in its implementation.

Australia – Listed Company Engagement and Advocacy

HESTA principally collaborates with the Australian Council of Superannuation Investors (ACSI) and Regnan Governance Research and Engagement (Regnan) to undertake company engagement and advocacy in Australia.

HESTA is a foundation member of the Australian Council of Superannuation Investors (ACSI) and a founding member of Regnan.

Both ACSI and Regnan engage on HESTA's behalf with companies held by HESTA's Australian equities managers, with the aim of improving their ESG policies, practices or performance and thereby protect or enhance their economic value. Both ACSI and Regnan also engage with government, regulators, other rule making bodies and the investment community to promote best practice ESG standards.

Whilst both organisations seek improved ESG performance across a range of issues, HESTA recognises that both organisations have their own program to achieve this shared objective.

Important aspects of our engagement program are also conducted through other collaborations such as the Investor Group on Climate Change (IGCC). The IGCC plays a prominent role in the Australian market encouraging companies to disclose their climate change risks and opportunities and their strategy for transitioning to a low carbon future. IGCC is also highly influential in public policy regarding climate change and carbon issues.

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

Australia – Listed Company Share Voting

HESTA seeks to execute the voting rights attached to all shares held in Australian listed companies subject to the restrictions outlined above. HESTA will generally hold shares in more than 400 Australian companies at any one time. The decision on how to vote for Australian companies is made by HESTA with the voting authority held by HESTA's Investment Manager – ESG (IM-ESG).

Process and Voting Authority

For Australian equities the process is as follows for each company in which HESTA holds shares:

- After a company releases a notice of meeting, our proxy advisor will review the resolutions on the agenda and issue a report containing recommendations to support company management (generally a vote 'for'), to oppose management (generally 'against') or in a small number of cases, a recommendation to 'abstain' or a 'take no action' on a resolution. The proxy voting advisor makes these recommendations in accordance with the relevant guidelines (listed below).

- Where there is a recommendation to vote in opposition to management HESTA will request each of our external investment managers holding the shares in the company to provide their views on the resolution. HESTA regards this advice as critical as our external investment managers have a detailed understanding of both the governance and operations of their investee companies. It is also part of our process of encouraging fund managers to take a closer interest in ESG matters.
- In determining how HESTA will vote the IM-ESG will consider the information provided by the proxy voting advisor and the relevant fund managers, having regard to the relevant guidelines (listed below). The voting decision will ultimately be based on what is in the long-term interests of HESTA members.

This process is resource intensive as voting is undertaken on all of HESTA's Australian share holdings and involves obtaining and actively considering advice from a number of sources (there may be more than 10 external investment managers holding shares in a particular company).

Guidelines

Guidelines from the following organisations may be referenced by the various parties in determining their voting intentions:

- ACSI Governance Guidelines,
- Australian Stock Exchange Corporate Governance Principles,

International – Listed Company Engagement and Advocacy

HESTA has engaged Hermes Equity Ownership Service (EOS) as our main partner for company engagement and advocacy activities outside Australia.

Hermes EOS will engage on HESTA's behalf with non-Australian companies held by our international equities managers on ESG issues. From time to time, HESTA will also collaborate with other organisations, such as ACSI or other institutional investors, by such means as the PRI Clearinghouse, on engagement with non-Australian companies.

Hermes EOS, will undertake advocacy on behalf of HESTA to promote best practice ESG standards with government, regulators, other rule making bodies and the investment community. HESTA also actively participates in and is a member of a range of international bodies such as the PRI, the International Corporate Governance Network and the Asian Corporate Governance Network.

International – Listed Company Share Voting

HESTA seeks to execute the voting rights attached to all shares held in listed companies held on HESTA's behalf by our external international fund managers, subject to the restrictions outlined earlier. However, due to the very large number of companies held by HESTA's international equities managers (over 2000 at any one time) HESTA have determined, based on an assessment of the costs and benefits, that it is more efficient and effective and will result in better voting decisions to use a slightly different voting process for international shares.

In particular, HESTA has appointed Hermes EOS to execute voting rights attached to all shares held on HESTA's behalf by our external international equities managers, the same organisation that provides non-Australian company engagement services. We believe there are significant benefits in the one organisation performing these two functions.

Process and Voting Authority

For non-Australian companies held on HESTA's behalf by our international equities managers the process is as follows for each company in which HESTA holds shares:

- After a company releases a notice of meeting, Hermes EOS will review the resolutions on the agenda and issue a report to each of HESTA's external investment managers that hold the company, containing recommendations to support company management (generally a vote 'for'), to oppose management (generally 'against') or in a small number of cases a recommendation to 'abstain' or a 'take no action' on a resolution. Hermes EOS makes these recommendations in accordance with the relevant guidelines (listed below).
- When HESTA's external investment managers do not agree with Hermes EOS' recommendations, it is expected that the external fund manager will engage with Hermes EOS to provide their views on the resolution. As mentioned above, HESTA regards the advice from external investment managers as critical as our external investment managers have a detailed understanding of both the governance and operations of their investee companies. It is also part of our process of encouraging fund managers to take a closer interest in ESG matters
- Where Hermes EOS does not receive notice from any HESTA external investment manager that they do not agree with Hermes EOS' recommendations, Hermes EOS will execute the vote in line with their recommendation on behalf of HESTA.
- Where Hermes EOS receives notice from an external investment manager that the manager does not agree with Hermes EOS recommendations, they discuss the issues with the manager seeking to reach agreement.
- If agreement cannot be reached the issue is referred to HESTA for HESTA to make the final decision on the vote. In determining how HESTA will vote the IM-ESG will consider the information provided by Hermes EOS and any external investment manager. The voting decision will ultimately be based what will be in the best long-term interests of our members.

Guidelines

- Hermes EOS Global Corporate Governance Principles
- Hermes EOS country specific Governance Guidelines where available.

9. Monitoring and Reporting on Active Ownership Policy Implementation

HESTA will monitor and review implementation of the Active Ownership Policy.

HESTA will report on a regular basis to the HESTA Board on the implementation of the Active Ownership Policy including:

- objectives and priorities
- activities and initiatives including a report on voting undertaken by HESTA for companies held by our Australian managers and voting undertaken by Hermes EOS on behalf of HESTA for companies held by our international managers.

HESTA will report publically on voting undertaken by HESTA for companies held by our Australian equities managers and voting undertaken by Hermes EOS on behalf of HESTA for companies held by our international equities managers through the HESTA website every six months.

HESTA will report publically on company engagement and advocacy activities undertaken by ACSI, Regnan, Hermes EOS or any other collaboration, where these reports are available, through the HESTA website every six months.

HESTA will also meet any external reporting requirements that arise through involvement in collaborative initiatives. In particular, HESTA will report on the implementation of the PRI through the annual PRI Reporting and Assessment Tool and make our report publically available on our website.

10. Communication of the Policy

This Active Ownership Policy and any related policies and guidelines will be communicated to all HESTA employees and service providers.

The policy will be made available to HESTA members and the wider community on the HESTA website.

11. Responsibility for the Active Ownership Policy

The Trustee has delegated responsibility for Active Ownership matters to Investment Execution. Approval and regular review of the Active Ownership Policy is the responsibility of the Investment Committee. The members of the Investment Execution and Investment Management teams have responsibility for oversight and implementation of active ownership matters.

12. Review

This policy will be reviewed every three years in line with HESTA's strategic review process. This review will include an analysis of HESTA investments in international markets requiring a PoA, to ensure that any of these markets with investments amounting to more than 0.25% of HESTA's total equities investments (excluding trusts) have a PoA in place.

In addition, this policy is required to be updated as necessary to reflect changes in:

- the legal or regulatory environment as it relates to ESG
- the asset classes in which HESTA invests
- the investment processes including asset allocation, portfolio structuring and diversification, asset consultant and investment manager selection and management and investment analysis
- strategic or operational changes to HESTA
- member or community expectations.