

# Decent Work Statement

This statement details how we consider decent work issues in our investment decision-making. It explains how our approach can improve long-term investment returns for members' retirement outcomes, as well as positively impact the world in which they live, work and retire into.

The Decent Work Statement has been developed by H.E.S.T Australia Limited ("the Trustee" or "HESTA") and should be read in conjunction with the HESTA Responsible Investment Policy. This Statement is aligned with the Trustee's duty to comply with the 'sole purpose test' set out in the *Superannuation Industry (Supervision) Act 1993*.

We recognise that delivering long-term returns for members relies on equal opportunity for prosperity for all in society. Companies that respect workers' rights to job security, freedom from discrimination and fair and equal wages perform better over the long term and therefore support our purpose. Companies that positively engage employees can increase productivity and innovation, contributing to economic prosperity.

HESTA members and their families are or have been workers, therefore we use our voice as investors to advocate for policies and practices that lead to decent and fulfilling working conditions.

We acknowledge that while in countries like Australia, workers' rights are protected by strong legal frameworks, there are jurisdictions where this is not the case. Businesses in those jurisdictions with less legal protection for workers have a responsibility to ensure basic rights and decent working conditions are applied in accordance with the UN Guiding Principles for Business and Human rights<sup>1</sup> and the International Labour Organisation (ILO) Principles<sup>2</sup>.

As a "Universal Owner" – a large, globally diversified, long-term investor – we endorse the ambitions of the United Nations Sustainable Development Goals ("SDGs")<sup>3</sup> as a way of delivering a healthy economy, environment and society. HESTA has identified seven SDGs to focus our impact. One of those goals is:

**SDG 8 – Decent Work and Economic Growth** - *Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*

## HESTA Decent Work Principles

### 1. Respecting basic rights should be at the core of business operations

Respect for human rights and workers' rights should be the foundation on which businesses are established. In particular, businesses must ensure workers' health and safety are a priority, and that they are not enabling or perpetrating illegal or inhumane workplace standards and practices. Consideration of these basic rights should apply across all stakeholder groups including supply chains and the communities in which businesses operate.

<sup>1</sup> <https://www.business-humanrights.org/en/un-guiding-principles>

<sup>2</sup> <https://www.ilo.org/declaration/lang--en/index.htm>

<sup>3</sup> <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

Businesses must also ensure workers have freedom of association and the effective recognition of the right to collective bargaining through adequate policies and practices.

Businesses that do not respect basic human and workers' rights expose themselves to financial, legal, reputational and stakeholder relations risks. These risks can have financial and social license implications in the short and long term.

## **2. Business models that rely on low wages present a risk to investors**

The hardship that low wages cause for workers and their families is not without cost to business and investors. Inadequate remuneration represents risks at the individual company level and at the systemic level. At the company level inadequate wages can result in high labour turnover, restricted skills development and even disruption and reputational damage due to labour unrest. Falling wages are also a leading cause for income inequality and pose a significant risk to shared and sustained prosperity, which are preconditions for a healthy economy and society.

The ILO believes that well-designed and effective minimum wages can help to ensure "a just and equitable share of the fruits of progress to all".<sup>4</sup>

We expect businesses in our investment value chain to have sustainable business models that pay workers a genuine 'living wage' and not poorly designed minimum wages, which can simply entrench poverty and inequality.

We expect Boards to consider the negative impact of excessive executive pay on social inequality within the wider community. We encourage the disclosure of metrics such as CEO pay ratio and pay gap analysis, that provide an indication of whether appropriate pay structures are aligned to sustainable long-term outcomes.

## **3. Strategic human capital management can lead to better performance**

Risks presented by rapid technological change and intensifying competition in a globalised economy can be better managed through a strategic approach to human capital. Businesses that invest strategically in maintaining employee engagement and development of their capabilities, and that see culture as a key component of success are more likely to have a resilient and productive workforce and improve their ability to innovate and compete. When businesses apply the same principles to their supply chains, they are more likely to avoid disruptions.

## **4. Economies rely on decent work practices and workers' prosperity to minimise systemic risk**

Workers' ability to maintain and perform their work in a fruitful and rewarding manner is fundamental to global economies, particularly when it comes to essential service industries that underpin a well-functioning and healthy economy and society.

Sectors of the economy are constantly changing and evolving; however, disorderly transitions can negatively impact groups of workers. These transitions may occur as a result of societal, economic, environmental, or technological changes and can impact labour through job losses at the industry level, loss of bargaining power or other forms of displacement. These situations can

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<sup>4</sup> ILO - Minimum wages: an introduction - [https://www.ilo.org/global/topics/wages/minimum-wages/WCMS\\_458660/lang--en/index.htm#1](https://www.ilo.org/global/topics/wages/minimum-wages/WCMS_458660/lang--en/index.htm#1)

have social and economic consequences across entire sectors and communities and represent systemic risks. Businesses, governments and civil society groups such as unions must play a role in helping to manage these “just transition” risks.

Initiatives can include managing the deployment and re-skilling of workers from industries that are becoming obsolete, development of policies that protect workers’ rights against ‘over’ casualisation and ensuring that new industries and employment opportunities are supported.

## **5. Disclosure and transparency**

Protection of workers’ rights and management of human capital are material issues for investors and therefore we expect organisations in our investment value chain to make appropriate disclosures according to their most material exposures.

### **Implementation of HESTA Decent Work Principles**

The implementation of these principles and the pursuit of the Decent Work Agenda<sup>5</sup> is integrated across HESTA’s responsible investment strategy, particularly our active ownership activities.

We engage with companies to ensure they respect workers’ rights and human rights in their operations, supply chains and in the communities in which they operate. We also engage with companies on how they manage their human capital to ensure they deliver better returns for investors.

We expect companies to have policies and processes in place to manage risks, including clear Board oversight, strategic management attention including alignment of management bonuses with workforce rights and human capital outcomes, as well as transparent performance disclosure.

We assess company performance through key workforce indicators for employees and contractors that are relevant to the company. This can include diversity, wage levels, employee turnover and engagement, OH&S statistics, instances of discrimination and whistleblowing, and any controversies.

HESTA takes a risk-based assessment to understand where there is likely to be the greatest risks of modern slavery in our portfolio in order to assess and prioritise our efforts. This is part of how we comply with the Australian Modern Slavery Act.

Finally, we also support organisations that seek to improve disclosures and practices in the companies we invest in to provide investors with more visibility. For example, HESTA supports the Workforce Disclosure Initiative<sup>6</sup> (WDI), an investor-backed project that aims to improve listed companies’ transparency on how they manage workers in their direct operations and supply chains and to understand the policies and practices that govern working lives and business success.

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<sup>5</sup> <https://www.ilo.org/global/topics/decent-work/lang--en/index.htm>

<sup>6</sup> <https://shareaction.org/wdi/>