

# HESTA Annual Report

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Issued 15 October 2018

**driving  
meaningful  
change**

## About this report

With the world around us changing faster than at any time in recorded history, it has never been more important to ensure our members can see clearly how HESTA is supporting a better future for them.

This is why we have used the International Integrated Reporting <IR> Framework as a guide to producing this year's Annual Report.

The framework enables us to set every aspect of our work within the context of the value it creates for our members, employers, unions, partners, employees and community.

'Value' in the <IR> Framework is defined as a set of 'capitals' that increase, decrease or transform through the activities and outputs of an organisation. These include financial, intellectual, natural, human, and social and relationship capitals.

## The way HESTA thinks of the capitals reflects our strategic promise, purpose and ambition.

### Our promise (who we will be)

The gutsy advocate driving meaningful change for generations to come.

### Our purpose (why we exist)

Make a real difference to the financial future of every member.

### Our ambition (what we strive to achieve)

To become the super fund for life for all those who work in health and community services in Australia.

<IR> capital	What this looks like at HESTA	Value created
<b>Financial</b>	The money we invest and manage to help fund our members' retirement and the money we spend to carry out that work	<b>A secure and confident financial future for our members</b>
<b>Intellectual</b>	The research, data and insights we capture, produce and share as a result of our work, and the governance, risk, compliance, engagement and advocacy that inform and support our work	
<b>Natural</b>	How we factor environmental impacts into our investments and our operations	<b>A healthy economy, society and environment</b>
<b>Human</b>	Our people's contributions to our work and the way we support them to carry it out	
<b>Social and relationship</b>	The partnerships we form to support our work and the benefits that flow from these to our members, the sector we support and our society	<b>A stronger, better appreciated HACS sector</b>

Because sustainability is essential to creating long-term value for our members, HESTA shares the global ambitions for the advancement of the 17 United Nations Sustainable Development Goals (SDGs). We realise the important role super funds can play in achieving these ambitions, making a better world for our members to live, work and retire into. Throughout this report we reference the SDGs and specifically the seven SDGs we believe are most appropriate for our members in Australia.

This report covers the operations of HESTA from 1 July 2017 to 30 June 2018. We also discuss risks, opportunities and outcomes of our partners and the companies we invest in, where they are relevant to our own performance.

# our profile

As at 30 June 2018

**We are the largest fund dedicated to Australia's health and community services sector. More than half of the people working in the sector nationally invest their super with us.**

**\$46 billion  
assets invested globally**



**850,000+  
total members**

**10.55%\*  
return**

**award-winning fund**



**80,000+ employers**

**31 years working for our members**

\* Core Pool (default option for HESTA super) 1 year return. Core Pool commenced 1 August 1987 and its return since inception is 8.83% p.a. (annualised return). Investments may go up or down. Past performance is not a reliable indicator of future performance. The returns shown are net of indirect costs and taxes.



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# who we are

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# welcome

**An industry-leading super fund that continues to sustainably create long-term value for our members and the health and community services sector**

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Chair Angela Emslie and CEO Debby Blakey

## **We are proud to present our 2017/18 Annual Report.**

Remaining an industry-leading super fund that continues to sustainably create long-term value for you and the health and community services sector, has been our unwavering focus over the past 12 months.

We believe your retirement should reflect your invaluable contribution to our community. As an industry fund set up only to benefit you, our culture is underpinned by our purpose: to make a positive difference to every member's financial future. To continue realising that purpose now and in the years to come, we're implementing a wide range of initiatives aimed at setting HESTA up for long-term success.

## Investing in our members' future

This year, HESTA has again achieved strong, competitive investment performance. Core Pool, our default MySuper investment option, posted its fourth double digit return in the past five years. HESTA Income Stream's Balanced strategy also enjoyed solid returns this year. This is an outstanding result against a backdrop of growing market volatility, and a testament to our investment team's expertise and the deep partnerships we've fostered over many years.

However, we expect investment conditions to be more challenging in the years ahead. That's why we continue to build our investment capacity and capability so we can keep delivering strong, long-term performance for you in an increasingly complex investment environment.

While it's critical to deliver strong performance, we can't focus on this goal in isolation. Our role as responsible stewards of your savings requires us to think holistically about how we can also contribute to a better world for you to retire into. This year we have refined our longstanding focus on supporting a healthy economy, environment and society through the lens of the HESTA Impact program, which aims to amplify our ability to drive positive, meaningful change for generations to come.

And we want to continue to be here for you throughout your life, supporting your retirement years through the HESTA Income Stream. This year we welcomed many new income stream members after winning a competitive tender to become the successor fund for IRIS. This growth will benefit all income stream members through even stronger economies of scale.



Debby Blakey  
Chief Executive Officer



Angela Emslie  
Chair

## A focus on value, experience, growth

We're pleased to provide details of our new three-year Strategic Plan. The plan lays out how we will keep enhancing the value and experience we offer members and employers: from a market-leading investment approach to member-led financial help and advice tailored to every life stage. It also maps out how we will continue to achieve industry-leading growth that's delivering benefits of scale to every member. Our close partnership with employers, unions and other partners continues to be critical to achieving this vision.

Your work, and your stories, truly are our inspiration. We count ourselves enormously privileged to partner with you in building the future you want to see.

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## our values



Ownership



Passion



Leadership



Respect



Partnership

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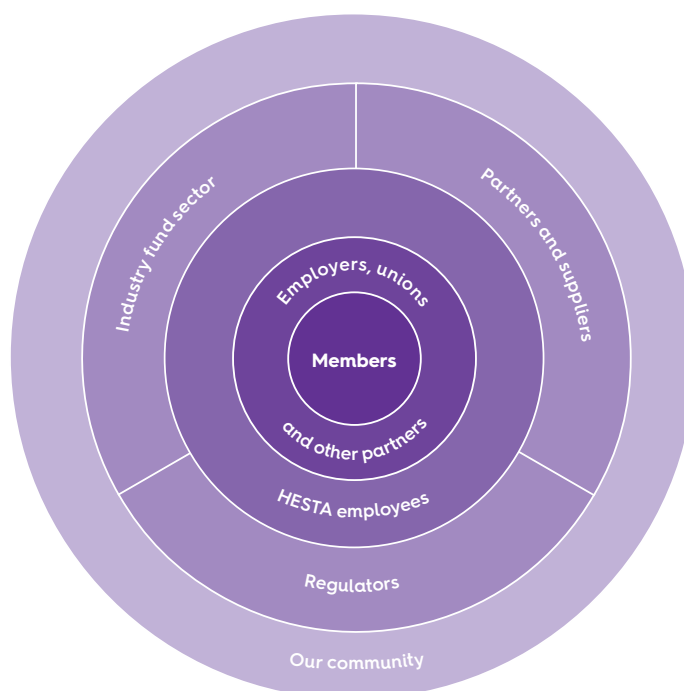
# our context

**HESTA works with the health and community services sector, our partners and our community to create value for our members**

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## Our stakeholders

Our members are at the centre of everything we do. And because 80% of them are women, we have a special focus on issues that affect them.



## Our operating environment

### Economic environment

It has been a good environment for global economic growth throughout the year. Share markets produced strong earnings, and interest rates remained low, providing ongoing support. HESTA has again outperformed the investment return targets for our Core Pool and Income Stream Balanced options for the 30 June 2018 financial year.

Despite these strong returns, our forward return expectations are reducing. This led us to reconsider and reduce a number of our long-term investment objectives, to help guide members as they plan for their retirement.

### Strategic environment

We are also keenly aware of our fast-changing commercial environment. Rising customer expectations driven by data and technology, and new and existing competition, mean we need to continue evolving to keep delivering for our members.

📍 **We invest responsibly page 33 and Our research and Insights page 29 for more on how we do this.**



## Regulatory environment

This year financial services is facing significant scrutiny and regulatory change. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Productivity Commission and a raft of new legislation have highlighted both weaknesses and strengths across our industry.

We see this focus on financial services as a vital opportunity for us to listen carefully to new ways to better protect and enhance our members' financial wellbeing.

Our more than 850,000 members can trust that as a profit-to-member fund, our products and services are, and always have been, motivated by only one thing: building a better, more secure financial future for them. Our governance structure and strong member-focused culture ensure every aspect of how we are run supports that vision.

📍 [Our governance page 13 for more on how we do this](#)

## Sustainability

As the world begins to face the reality of climate change and its effects, our members and our community are becoming more and more conscious of sustainability as the key to protecting our people and planet.

HESTA aims not only to create a better financial future for our members, but also to contribute to a stronger health and community services sector and a more sustainable world. As a responsible investor and active owner, we use our scale, investments and engagement program to support a healthier economy, environment and society.

We also advocate for changes that will help create a sustainable future for our members, women and the broader community.

And we aim to operate sustainably, mindful of the resources we share and the footprint we create in carrying out our work.

## HESTA and the Sustainable Development Goals

This is why we have begun to use the United Nations' Sustainable Development Goals (SDGs) to inform our investments, advocacy and operations. Launched by the UN in 2015, the SDGs summarise the world's most important challenges in 17 goals with 169 associated targets. The goals call for worldwide action to end poverty and promote dignity and opportunity for all, within a sustainability framework.

We use the SDGs to connect our business strategy with global sustainability priorities. As a universal owner with a focus on delivering strong financial returns, and understanding that the interconnected nature of the world impacts members, we endorse the ambitions of the 17 SDGs at a global level as a way of delivering a healthy economy, environment and society.

In 2017 HESTA identified seven SDGs (shown at left) aligned with the fund's strategy and members' interests right now.

By meaningfully contributing towards these seven strategic areas of impact, we aim to support our members and their working lives in health and community services.



**our value creation story  
starts and ends with members;  
member contributions make  
HESTA possible, and member  
outcomes are our constant focus.**

## **who we are & how we work...**

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### **Our people and culture**

We attract and keep the best people.  
We up-skill and engage them.  
We live our values and fulfil our  
brand promise.

### **Our governance, risk and compliance**

We use a representative Trustee  
model; we embed a focus on a  
financially sustainable fund.

### **Our business partners**

We select and work with our partners  
to enact our values and strategy.

### **Our research and insights**

We believe data-led decision making  
enables us to work effectively for  
our members.

### **Our scale**

The size of our membership and  
our fund gives us both power and  
responsibility.

## **what we do...**

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### **We invest responsibly**

We invest for long-term performance  
and impact. We use our scale to influence  
others and to keep our costs down.  
We protect our members' capital.

### **We stand up for what's right**

We raise our voices on issues that matter.  
We stand up for women. We work to close  
the gap. We fight for financial equality.  
We keep companies responsible.

### **We understand our members**

We ask our members what they need.  
We invest in technology that makes things  
easier. We design products and services  
that connect members to their money.

### **We partner with purpose**

We choose to work with like-minded  
partners for the benefit of our members  
and the industry we support.

# what we deliver...



A model of sustainable, responsible financial growth

Strong financial returns in line with members' interests



Meaningful, lasting change in opinion, policy and culture



Members who understand and are engaged with their super



Support where it's needed most for people who work in health and community services

Strong partnerships aligned with our values and our members' interests



Highly skilled and engaged employees who strive to deliver for our members

# the value we help create...

**A secure & confident financial future for our members**

**A more resilient economy, society and environment**

**A stronger, better appreciated health and community services sector**

**All profits go to our members.**

# our strategy

**At HESTA, we keep our focus on delivering value to members with a three-year strategy developed by our executive team, in partnership with our Board.**

Our 2021 strategy will position us to create value for our members, employers, partners and our community now and into the future. It centres on three key goals: delivering the best possible value, experience and growth for our members.

The strategy shapes our business plan, which is refined each year to keep us on track with our longer-term goals. Key objectives and milestones are outlined in the plan and our employees take on responsibility for delivering against each item.

## our goals and objectives

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1

### value

#### differentiated | value | propositions

##### 1.1 Deliver sustainable, ambitious, net long-term returns

We will continue implementing the recommendations from our Investment Strategy Review, with a focus on adding greater value at each step of the investment value chain. The review aims to impact net returns, reduce base investment fees and outperform peers.

**Value to members:** the fund is positioned to deliver strong, sustainable long-term investment performance.

##### 1.2 Enhance and differentiate value for members

We will work with members to improve our products and services so they engage with their super and take actions that will improve their 'retirement readiness'.

**Value to members:** more and better support to achieve the financial future they want.

##### 1.3 Enhance and differentiate value for employers and other partners

We aim to improve employer and partner satisfaction by working with them to enhance our services, support and ease of use. We also aim to provide the best possible workplace support for our members, who are also their employees.

**Value to members:** the full benefit of their super entitlements and opportunities to learn more about their super in their own workplace.



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## 2

## experience

### connected | brand | experience

#### 2.1 Provide personalised, seamless experiences

We will design and deliver outstanding and continually improving experiences that meet members' growing expectations. We will help members take actions to improve their retirement readiness. This will help us satisfy and retain members, and drive advocacy to help attract new members.

**Value to members:** 24/7 support to improve their financial future, anytime and anywhere that suits them.

#### 2.2 Have engaged, talented and adaptable people

We will help our employees develop the mindsets, capability and culture to deliver the fund's strategy. Our people and culture are assets that must be supported and enhanced in an increasingly competitive market for talent.

**Value to members:** their super is managed by skilled people committed to achieving great outcomes for them.

#### 2.3 Accelerate and deliver HESTA Impact

We will develop a whole-of-fund approach to expand and promote the outcomes of the HESTA Impact program (see page 58). This involves growing members' confidence that HESTA invests their money in a socially and environmentally responsible way.

**Value to members:** their fund is working for positive outcomes not only for their financial future, but for the world into which they will retire.

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## 3

## growth

### strong | business | performance

#### 3.1 Acquire members and funds under management

We will work to improve net new member growth by expanding relationships with our largest employers and developing a more effective channel to reach potential members directly.

**Value to members:** more of the benefits that flow from scale, such as a bigger investment pool and controlled costs.

#### 3.2 Retain members for life

We will reposition HESTA as the fund for life and work with members to simplify the experience of transitioning from accumulation to retirement. This will improve retention rates and net cash flows.

**Value to members:** the ease and confidence of staying with a fund they trust throughout their lives, as well as the benefits of our growing scale.

#### 3.3 Maintain a competitive business model

We will continue to evolve and improve our business model so that it remains competitive in a market likely to be disrupted by new technologies and rapidly changing economics. As a profit-to-member fund, we need to develop a flexible and cost-effective infrastructure that allows us to compete while retaining our lean, low-cost operating model.

**Value to members:** knowing they're with a sustainable fund that can deliver value for them now and into the future.



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# our governance

## Why this matters to us

Good governance is the key to operating as a responsible and sustainable fund for our members.

It lays the foundation of every aspect of our operations, ensuring we act ethically, prudently, and in the best interests of our members and other stakeholders.

Our governance framework ensures the responsibilities and accountabilities of both the Trustee Board and the Trustee Executive Team are clear.

## How we create value

HESTA stands for Health Employees Superannuation Trust Australia – the fund that is made up of all of our members' retirement savings. HESTA is managed and overseen by H.E.S.T. Australia Limited, a not-for-profit public company limited by guarantee and regulated by legislative, regulatory and prudential obligations.

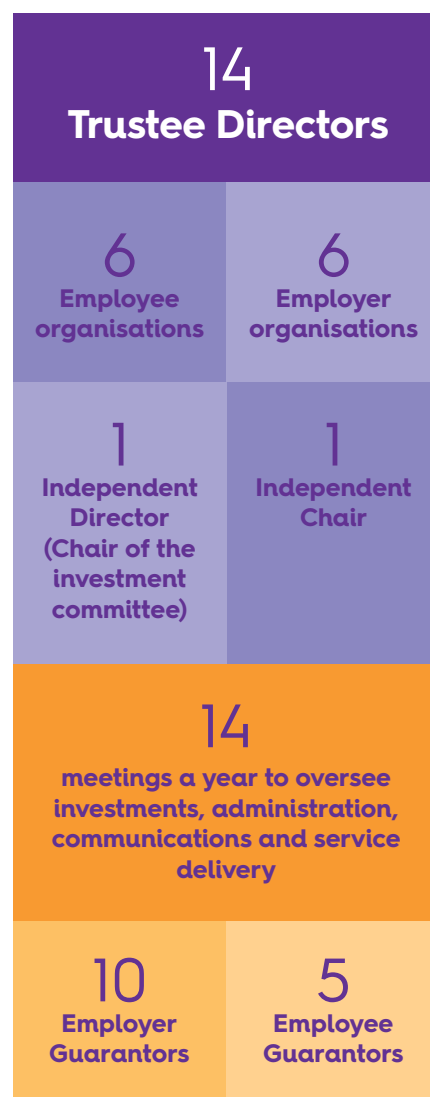
H.E.S.T. Australia Limited is an APRA and ASIC licensed trustee company with Guarantors (who don't receive dividends). Guarantors represent employee and employer organisations and some are eligible to nominate Directors to the Board. We currently have 10 Employer Guarantors and five Employee Guarantors from health and community services.

The Trustee is structured under the equal representation trustee model. This means we are governed by 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, six representing the Employer Guarantors, and two Independent Directors appointed by the Board.

Our Board structure ensures the voices of both employers and members are heard at every level of the fund, so that their views can be part of the decisions we make on our members' behalf.

The Board decides our strategic direction and monitors our operations. This ensures the fund is run in accordance with the Trust Deed, relevant legislation and regulations.

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



## Like to know more about the governing rules of the Fund?

You can receive a full copy of the HESTA Trust Deed, the H.E.S.T. Australia Limited Constitution and Governance Disclosures at [hesta.com.au/disclosure](https://hesta.com.au/disclosure)

You can receive a copy of the rules governing the appointment of Trustee Directors by contacting us at [hesta.com.au](https://hesta.com.au) or on 1800 813 327.

## our board



### **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.

### **Mark Burgess** ***Independent Director and Chair of Investment Committee***

Mark was appointed to the Board in 2017 as an Independent Director and Chair of the Investment Committee. Mark has had an extensive global career leading asset managers and owners. He is a senior adviser to the industry and holds several Non-Executive Director positions.

1st row: Angela Emslie, Klaus Zimmermann, Lloyd Williams  
2nd row: Mark Burgess, Gary Humphrys  
3rd row: Daniel Sims, Catherine (Cath) Smith, Saranne Cooke  
4th row: Dr Deborah Cole, Anna Claude, Helen Gibbons,  
5th row: Michael Borowick JP, David Smith, Pip Carew



## Employer organisation appointed Directors (nominated by their organisations)

### **Klaus Zimmermann** *Deputy Chair*

Klaus was appointed to the Board in 2012, nominated by 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, nominated by 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, nominated by the Australian Healthcare and Hospitals Association. Deborah has a long history of working in senior positions in the health and community services sector.

### **Catherine (Cath) Smith** *Director*

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

### **Gary Humphrys** *Director and Chair of Audit and Risk Committee*

Gary was appointed to the Board in 2015, nominated by 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.

### **Saranne Cooke** *Director*

Saranne was appointed to the Board in 2018, nominated by Leading Aged Services Australia. Saranne has held executive roles in finance and accounting, information technology, marketing and strategy disciplines. Currently she is serving on a number of boards across education, health, sport and charities.

## Employee organisation appointed Directors (nominated by their organisations)

### **Lloyd Williams** *Deputy Chair and Chair of Governance and Remuneration Committee*

Lloyd was appointed to the Board in 2012, nominated by 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).

### **Anna Claude** *Director*

Anna was appointed to the Board in 2017, nominated by the Australian Nursing and Midwifery Federation. Anna has extensive experience in both superannuation and industrial relations having worked in various roles focused on improving outcomes for workers in the healthcare sector.

### **Helen Gibbons** *Director*

Helen was appointed to the Board in 2016, nominated by 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.

### **Michael Borowick JP** *Director*

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

### **David Smith** *Director*

David was appointed to the board in 2018, nominated by the Australian Services Union. He is currently National Secretary of the ASU. David has extensive experience in both super and industrial relations working in roles focusing on improving outcomes for members.

### **Pip Carew** *Director (term concluded 30/6/18)*

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

# board committees

As at 30 June 2018

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

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## Audit and Risk Committee

**Chair** Gary Humphrys

**Members** Michael Borowick, Saranne Cooke, Helen Gibbons, Daniel Sims, 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** Lloyd Williams

**Members** Angela Emslie, Pip Carew, Deborah Cole, Catherine Smith

**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.

## Investment Committee

Following a major review of our investment strategy, we created an Investment Committee to support the fund's investment processes and structures into the future. The committee held its inaugural meeting on 19 April 2017.

**Chair** Mark Burgess

**Members** Angela Emslie, Anna Claude, Melda Donnelly, Tim Hughes, Gary Humphrys, David Smith, Klaus Zimmermann

**Role** Responsible for overseeing the Trustee's investment strategy and frameworks, and ensuring the proper governance of the fund's investment practices.

## Directors' attendance at meetings

Directors (during the period of 1 July 2017 to 30 June 2018)	Board meetings attended	Investment Committee meetings attended	Audit and Risk Committee meetings attended	Governance and Remuneration Committee meetings attended
Michael Borowick JP	7 out of 8	–	5 out of 5	–
Mark Burgess	8 out of 8	6 out of 6	–	–
Paula (Pip) Carew	6 out of 8	–	–	5 out of 6
Anna Claude	8 out of 8	6 out of 6	–	–
Deborah Cole	6 out of 8	–	–	5 out of 6
Saranne Cooke (appointed 1/1/2018)	4 out of 4	–	3 out of 3	–
Lisa Darmanin (term expiry 31/12/2017)	3 out of 4	2 out of 3	–	–
Angela Emslie	8 out of 8	5 out of 6	–	6 out of 6
Helen Gibbons	5 out of 8	–	4 out of 5	–
Gary Humphrys	8 out of 8	6 out of 6	4 out of 5	–
Valerie Lyons (term expiry 31/12/2017)	4 out of 4	–	1 out of 2	–
Daniel Sims	7 out of 8	–	5 out of 5	–
Catherine (Cath) Smith	8 out of 8	–	–	6 out of 6
David Smith (appointed 1/1/2018)	3 out of 4	2 out of 3	–	–
Lloyd Williams	8 out of 8	–	–	6 out of 6
Klaus Zimmermann	6 out of 8	5 out of 6	3 out of 5	–

## External investment committee members

Melda Donnelly	–	5 out of 6	–	–
Tim Hughes	–	5 out of 6	–	–

Details of our governance activity are available at [hesta.com.au/disclosure](https://hesta.com.au/disclosure)

## Trust deed amendment

Late last year, the HESTA Trustee brought proceedings in the Supreme Court of South Australia in relation to the HESTA Trust Deed. HESTA members were represented in the proceedings by a representative member, appointed by the Court. The Australian Prudential Regulation Authority also participated in the proceedings. The Court has recently made orders in the proceedings.

### What were the proceedings about?

The Trustee brought the proceedings because it believed that the terms of the Trustee's amending power in the Trust Deed were unclear and needed to be amended. It also wanted the other terms of the existing Trust Deed to be confirmed by the Court, in view of the fact that there were doubts about whether some previous amendments had been made in accordance with the terms of the Trustee's amending power.

It is important for the Trustee and members that the Trustee is able to vary the Trust Deed from time to time to address the changing needs of members and changes to the law. It is important for the amendment power to be clear. The Trustee can only exercise its power of amendment if it considers that an amendment to the Trust Deed is in the best interests of members.

The representative member was independently represented before the Court and substantially agreed with the orders sought by the Trustee. The representative member reviewed all documentation presented to the Court and drew to the Court's attention a number of issues to be considered by the Court prior to making the orders sought.



## The court's orders

The Court made orders varying the Trust Deed on 21/09/18. The Trustee's amending power has been amended so that the Trustee's power to amend and the restrictions on the Trustee's power to amend are more certain. The Trust Deed has also been amended to include new schedules setting out the rules that apply to each of the four groups (or 'Divisions') of members in HESTA:

Division	For members
Division 1 – HESTA MySuper	Invested in the Core Pool option in HESTA and HESTA Personal Super
Division 2 – HESTA Choice	Invested in other investment options in HESTA and HESTA Personal Super
Division 3 – HESTA Transition to Retirement Pension	Invested in HESTA Income Stream who are transitioning to retirement
Division 4 – HESTA Account-based Pension	Invested in HESTA Income Stream who are not transitioning to retirement, or, invested in HESTA Term Allocated Pension

The Trust Deed has also been amended to include additional provisions requiring the Trustee to notify members of significant changes affecting their superannuation accounts. These include amendments to the Trust Deed or a decision to close an investment option or to transfer a member's superannuation account to another Division or fund (although the Trustee is in any case normally required to notify members of these changes).

The Trustee did not ask the Court to determine whether previous amendments to the Trust Deed were validly made but sought orders confirming the terms of the existing Deed going forward, on the basis that it was desirable to ensure certainty about those terms. The Court's orders do not have retrospective effect and do not affect the rights of members prior to the date of the orders.

The terms of the Trust Deed as ordered by the Court are contained in a copy of the Trust Deed available at [hesta.com.au/disclosure](https://hesta.com.au/disclosure).

# our people and culture

**At HESTA, we've long recognised how the strength of our people and culture is linked directly to the value we create for our members.**

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## **Why this matters to us**

By ensuring we have the talent, capacity and passion to deliver the support our members need, we can make a real difference to their financial future.

Our workforce of highly engaged and skilled people believes that going 'above and beyond' within their allocated roles will result in positive outcomes for our members.

## **How we create value**

We focus on finding, developing and retaining employees who are capable, proficient and confident in their roles. We know these people perform at a high level, so they can ultimately deliver better outcomes for HESTA members.

By building our employees' capacity and capability and partnering to extend them when needed, we can maintain our lean, flexible operating model. This helps us control costs while ensuring we have the expertise to deliver on our strategic goals.

By supporting employees' wellbeing and work/life balance, we're keeping our workplace sustainable, productive and compassionate, helping retain our skilled workforce.

And by actively engaging with our community through our corporate social responsibility program, we're connecting directly with the sector we serve and contributing to our social impact.

Our cultural roadmap underpins our approach to our people. The roadmap gives us practical guidance on what living our values looks like. It emphasises our unity, leadership, innovation and resilience and, at its core, our genuine passion for our members.

Our people are also connected to the sector through our national Awards program. They participate in the program by reviewing nominations and attending celebrations that showcase the incredible work being done, enabling a deeper connection to the sector.

## Our performance

In 2018 the HESTA organisational structure changed to better service and support our members. The new structure will enable us to deliver on our three-year strategic plan and respond to changes in our operating environment.

### Recruitment

HESTA has experienced significant workforce growth over the past 12 months. At our annual employee conference in June, more than 50% of our workforce had been employed here less than a year.

Our growth recognises that the world we work in and contribute to is changing rapidly. In an increasingly digital, economically volatile environment we need to ensure we have the skills and capacity to keep delivering value for our members.

In 2017/2018 our recruitment and selection process was assessed externally, as part of our Customer and Employee Experience project. The team received outstanding feedback on the highly connected, supportive experience the process offers candidates and hiring managers. This is helping us recruit exceptional talent, building our organisation's expertise.

### Training and development

In 2017 the learning and development team launched Boost, a learning management system to offer our employees anytime professional education.

Over 100 courses are available within the Boost system. The courses centre on skills enhancement and product and service training, ensuring all employees can deepen their understanding of how we support our members.

### Systems and technology

In 2018 HESTA launched HESTA Heart, an online volunteer platform that links HESTA employees with opportunities offered by hundreds of not-for-profit organisations and charities.

## Leadership

We invested in leadership development across our organisation to ensure our leaders are equipped to lead HESTA effectively.

## Walking the talk

### Family violence employee policy

Our ongoing advocacy for women impacted by family violence is a source of great pride for HESTA employees.

Given the prevalence of family violence in our community, we're well aware our own workforce is not immune. So in 2017 we launched a Family Violence Support policy, offering practical assistance for employees who have experienced, or are experiencing family violence. Support includes counselling services, externally provided safety planning, accommodation and relocation assistance and flexible work arrangements.

 **We stand up for what's right**  
page 58 for more on this.

## Diversity and inclusion

HESTA is strongly committed to cultivating a fair and inclusive work culture. We believe diversity is directly linked to an organisation's performance and sustainability.

We have a minimum of 50% female representation at every level of the organisation, including in leadership roles. Our commitment to gender diversity saw us again recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency, and our CEO Debby Blakey is a WGEA Pay Equity Ambassador.

We are also developing employment strategies to increase the number of employees who identify as Aboriginal or Torres Strait Islander, as a key action in our current Reconciliation Action Plan.

**📍 We stand up for what's right**  
page 58 for more on this.

## Investment Performance Incentive Plan

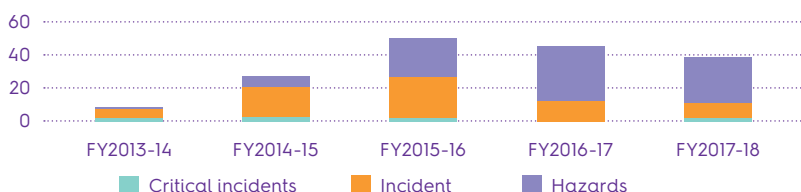
HESTA has an ambitious investment strategy to help drive long-term performance for our members. To deliver it, we launched a plan to retain current investment employees and recruit high-calibre investment specialists.

In FY2018 we introduced an incentive plan for the Chief Investment Officer position. The plan rewards high performance with an incentive linked to the medium and long-term investment outcomes for our members, as well as the CIO's performance against the role's objectives.

The plan aims to retain our already high-performing team, and allow HESTA to continue to attract high quality talent, which will ensure we're well equipped to pursue long-term investment performance for our members.

## Work health safety

Our employees' safety continues to be an area of focus and improvement. In FY18 HESTA increased capacity in the work health safety team, resulting in improving processes and employee training. This has included all offices having access to ergonomics, warden training, and first aid training.



## Looking forward

In FY19, we plan to extend the incentive plan to senior investment management employees. The level of variable remuneration will be balanced with internal factors and external market levels needed to attract and retain high-calibre investment talent.



# our business partners

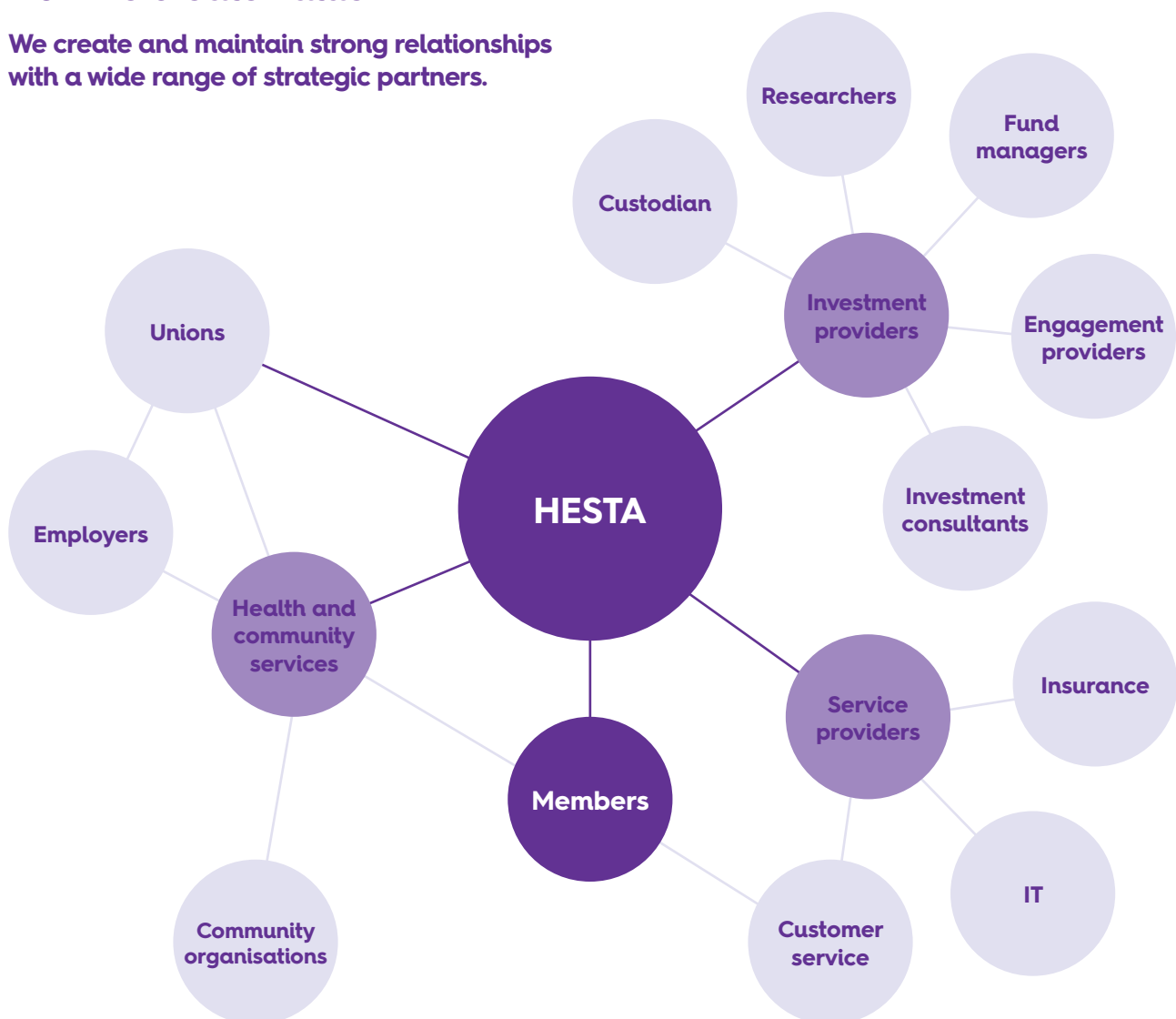
## Why this matters to us

Partnerships have always been fundamental to the HESTA story. Our ability to deliver real value to our members has been driven by strong relationships with member and employer organisations, unions and other industry partners, government, community and business partners who share our commitment to creating a better future for our members.

Partnering with best-in-class providers and systems ensures HESTA can stay lean and responsive, making good choices today while being flexible enough to respond to change.

## How we create value

**We create and maintain strong relationships with a wide range of strategic partners.**



## How we create value

Partnering with	Delivering value to members by
<b>Employers, unions and other partners</b>	Maintaining close and mutually rewarding relationships so that together, we can understand and support our members' unique needs.
<b>Leading administrative, technology, regulatory, investment and engagement services</b>	<p>Harnessing the expertise of other leading organisations to augment our own capacity and capabilities.</p> <p>Offering market-leading, scalable solutions for members, drawing upon expert analysis and best practices to develop technology strategies to better serve their needs.</p> <p>Staying lean and controlling costs.</p> <p>Staying nimble so we can keep delivering value as our operating environment changes.</p>
<b>Community organisations</b>	Promoting equity and inclusion for our members and all Australians.

## How we select and engage with partners

Who we partner with, and how we do it, are shaped by the value we want each partnership to deliver for our members.

How we select partners	How we engage with partners
<p>We partner with employers, unions and other industry partners across health and community services to ensure we understand, support and advocate for our members at every stage of their working lives and throughout their retirement.</p>	<p>We communicate with them regularly in person and through fund updates.</p> <p>We provide services and support to administer employees' super.</p> <p>We deliver workplace education and advice to employees.</p> <p>We support sector events, initiatives and communications.</p> <p>We recognise the sector's contributions through our Awards program.</p>
<p>We partner with administrative, technology, regulatory, investment, insurance, advice, engagement, customer service and other services through a selection process that helps us:</p> <ul style="list-style-type: none"> <li>• find market-leading solutions for members</li> <li>• increase our people's capacity and capability</li> <li>• control costs</li> <li>• ensure our investment strategy and execution are best global practice</li> <li>• meet our regulatory obligations</li> <li>• fulfil our commitments as responsible investors and active owners.</li> </ul>	<p>We share financial, intellectual and human resources by working directly with them.</p> <p>We transmit our values by guiding partners to align their business practices with our expectations around sustainability.</p> <p>We help our partners grow by using their services.</p>
<p>We partner with community organisations that can help drive the systemic changes needed to achieve equality.</p>	<p>We work directly with them to support initiatives such as the Financial Inclusion Action Plan and Reconciliation Action Plan.</p>

📍 We understand our members page 68 and We partner with purpose page 76 for more on how we do this.

# our performance

## Investments

In 2016 we partnered with highly regarded investment consulting firm, Willis Towers Watson, to conduct a major review of our investment strategy. The review aimed to ensure that our investment capability evolved so that it can continue to build on the strong investment performance of the past. Many of its recommendations have been rolled out and will continue to shape our strategy over the coming years.

Our engagement providers ACSI, Regnan and Hermes EOS held meetings with 381 companies on responsible investment issues on our behalf.

📍 [We invest responsibly page 33 for more on how we do this.](#)

## Community

We launched our second Reconciliation Action Plan, building on the work of the first plan to increase our support of financial inclusion for Aboriginal and Torres Strait Islander Peoples.

We continued to deliver on actions set out in our Financial Inclusion Action Plan including helping our members to access the Welfare Rights Centre.

📍 [We stand up for what's right page 58 for more on how we do this.](#)

## Insurance and member services

### Insurance

After a competitive tender process AIA Australia was appointed to provide insurance to HESTA members from 1 March 2018, replacing CommInsure.

HESTA has been an active member across multiple Insurance in Super Committees and working groups, helping to shape the voluntary Insurance in Superannuation Code of Practice for super funds.

📍 [We understand our members page 68 for more on how we do this.](#)

### Member services

We introduced a range of new systems and solutions that help our members more easily manage their super account and entitlements.

📍 [We understand our members page 68 for more on how we do this.](#)

## Employer, union and other industry partners

We have continued to support employers with managing employees' super, by delivering workplace education and advice, and by recognising outstanding work in their sector.

We have worked closely with unions and other industry partners to support events and other initiatives that support our members.

📍 [We understand our members page 68 and We partner with purpose page 76 for more on how we do this.](#)

## Technology

We have expanded our digital capability by integrating the Adobe Experience Cloud across our marketing, investments, advice and operations.

Our financial technology investment in the last year has been significant, building our data integration and connectivity capability.

This is an outcome of our partnership with Gartner, an independent and objective global technology advisory firm that allows HESTA to research and analyse leading technical solutions that help us maintain a competitive edge.

### We're growing our partnerships with:

- data integration platform Dell Boomi that enables a richer and more seamless digital experience for members when using our online services
- Adobe, to support our marketing, communications and operational platforms.

## **Digital partners smooth the member journey**

The digital space is evolving rapidly. We know that to create digital experiences that help members get things done, are straightforward and leave them feeling great, we need to partner with a leading technology provider.

In 2017 we partnered with technology research firms including Gartner and Forrester to find a clear winner: Adobe, the global leader in digital experience management.

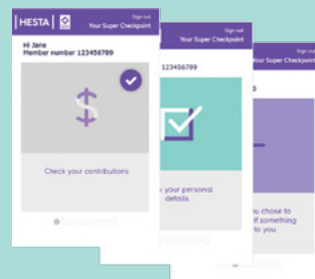
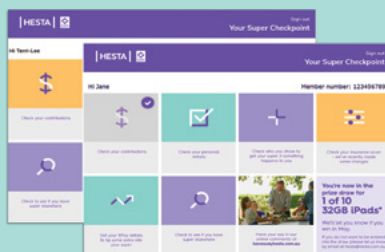
Our expanding partnership with Adobe has delivered an integrated digital platform that helps us create personalised experiences across all our member engagement channels. Members can now take a seamless path through our website to social media, email and mobile. The Adobe platform allows us to test and analyse different experience pathways by drawing together data used to create experiences and data produced by customer interactions.

## Super Checkpoint

In March 2018 we used a brand new digital approach to launch Super Checkpoint, our first interactive member dashboard.

Our objectives were to:

- make it easy for members to check on their super account, especially contributions
- serve members with personalised 'next best actions' based on their previous account activity
- increase Member Online (MOL) account registrations and logins
- improve the quality of our member data.



We sent each member a Super Checkpoint email or letter, and incentivised this with a competition to log in to or register for Member Online to view their Super Checkpoint.



Members could click through from their email to our website via desktop, tablet or mobile device.



Once they had logged in, and clicked on an action to take, the corresponding tile was 'ticked off the list' to show they had completed the task.



528,836  
emails  
delivered



49.25%  
open rate



35.08%  
click throughs  
to check  
contributions



81%  
completed 1-3  
actions



13%  
increase in  
Member Online  
registrations  
(46,138 members)

More  
members are  
now online

Members updated their  
addresses/details, improving  
our data

More members checked their  
transaction history than ever  
before

Value to members: increased engagement with and control of their super

# looking forward

## **HESTA will continue to work closely with our partners to deliver value to members by:**

- expanding our use of technology to personalise each step of our members' journeys to better financial outcomes, including through our Member Online portal
- supporting more of our members with workplace education and ongoing advice
- ensuring member benefits such as insurance meet their specific needs
- refining the way our customer contact centre supports our members, including using segmentation to help them take their 'next best action'
- using leading local and international investment managers and consultants to access global investment opportunities for our members.



# our research and insights

## Why this matters to us

Deepening our understanding of our members' needs, and the best ways to support them now and throughout their lives, means investing heavily in our research and insights capability.

Translating data into personalised experiences based on members' 'next best action' can help them make better decisions about their super. Tailored support can help create lasting value for our members in the form of a better financial future.

And by applying a human-centred approach to continually evaluate and learn what does and doesn't work for our members, we can keep refining how we support them.

We also share our insights with the health and community services sector to help its leaders prepare for the future.

Equally, drawing on the best available data to inform investments and other core operations ensures HESTA is using up-to-date, evidence-based information to make key decisions.

We know insights derived from data will be a key point of competitive advantage for organisations into the future. By becoming a truly customer-obsessed, data-driven organisation we can continue to grow and deliver value for our members.

## How we create value

We combine insights supported by leading research partners with our growing internal capability to inform every decision we make on our members' behalf.

### Understanding our members

We partner with leading research and data firms to gain deep insights into our members' needs and preferences throughout their lives. We apply these insights to developing and delivering products and services that can improve our members' outcomes.

We also invest in building our internal insights and customer experience capability so our people can create effective solutions for our members.

### Shaping our investment approach

We partner with global consultants, managers and research providers to inform how we invest our members' money.

We are also evolving our internal investment data and analytics capability to ensure we stay well positioned to deliver strong long-term performance for our members.

📍 [We invest responsibly page 33 for more on how we do this.](#)

### Refining our member support

We continuously analyse outcomes and feed them back into our data so we can create better solutions.

We use leading external platforms such as Adobe Analytics as well as our internal data and insights platform. This means we're able to understand what members are responding to and quickly share those insights with our people.

### Supporting thought leadership

We share our research insights and data to develop thought leadership outcomes for our employers and partners. This enables them to better support their employees and members, who are also our members, through workforce planning and workplace programs such as super education.

📍 [We partner with purpose page 76 for more on how we do this.](#)

# our performance

This year we combined our partner and internal insights to create our most holistic view yet of our members.

This unprecedented depth of understanding will be crucial in helping us tailor seamless, relevant help for them throughout their lives

## Member segmentation

In 2017 we continued to embed our needs-based member segmentation model, unpacking how our members make decisions and where they are on their financial journey.

By recognising each member is at a different life stage – a factor that transcends age, and even wealth – we can provide realistic, relevant support when members need it most.

## You Are Part of the Story (2018 Customer Experience Program)

In 2018 we launched our end-to-end customer experience program, designed to help our employees provide our members tailored support at every step in their journey towards and throughout retirement.

Run by our insights and customer experience team, the program draws together our insights platform, member segmentation, journey mapping, member feedback program, analytics, and human-centred design to enhance our member support.

## Retirement Readiness Score

This score measures several indicators of how likely a member is to achieve a comfortable retirement as defined by the ASFA Retirement Standard.

By tracking their progress over time, we can ensure every member is getting the support they need to achieve financial wellbeing.

Over the past two years our members' overall Retirement Readiness Score has continued to improve, reflecting how better data is helping us enhance our member support.

## Introducing Ada

To be a truly insights-driven organisation, our data needs to be shared among the people who shape how we support our members.

To meet this challenge we built Ada, an advanced analytics platform that brings together business, customer and market intelligence. The platform enables all employees to create, share and amplify their insights quickly and easily, so we can create better solutions for our members.

As users interact with Ada its inbuilt artificial intelligence feature incorporates their feedback in real time. This means Ada's accuracy is improving with every use.

To date more than 400 queries have been answered by Ada.



## Next Best Conversation

This year we partnered with AAS and Empirics (part of the Link Group) to create Next Best Conversation (NBC). This analytics-driven service empowers our contact centre to better support each member's unique needs.

Using insights drawn from current member data overlaid with our member segmentation, we can map the actions a member might consider taking next to improve their financial outcomes. These actions appear as NBC alerts on member consultants' screens, so they can tailor conversations to each member's needs.

The result is a personalised customer experience that can help our members make more informed decisions about their super.

## Adobe Analytics

Part of the Adobe Experience Cloud which HESTA is integrating into our marketing and communications, the Adobe Analytics platform enables us to gain deeper insights into how our members and potential members are responding to the digital support we deliver.

## HESTA Have a Say Community

All members are invited to join our insights community, a research platform which currently includes over 5000 members. The community enables us to quickly collect and analyse data on member preferences, attitudes and behaviours.


It's also an opportunity to include our members' voices in key decisions we make. This year we explored a diverse range of topics: from which of our TV ads members like best, to financial inclusion, to our proposed new aspiration statement and the influence of online reviews.

## Member and partner satisfaction research

We use leading research firm Forethought to track member and employer satisfaction with our products, services and support.

The annual reports give us a clear picture of where we are doing well and where we could improve.

In the past 12 months we've continued to improve across member and employer measures.

 **We understand our members page 68 and We partner with purpose page 76 for more on how we do this**

# what we do

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# we invest responsibly

## Why this matters

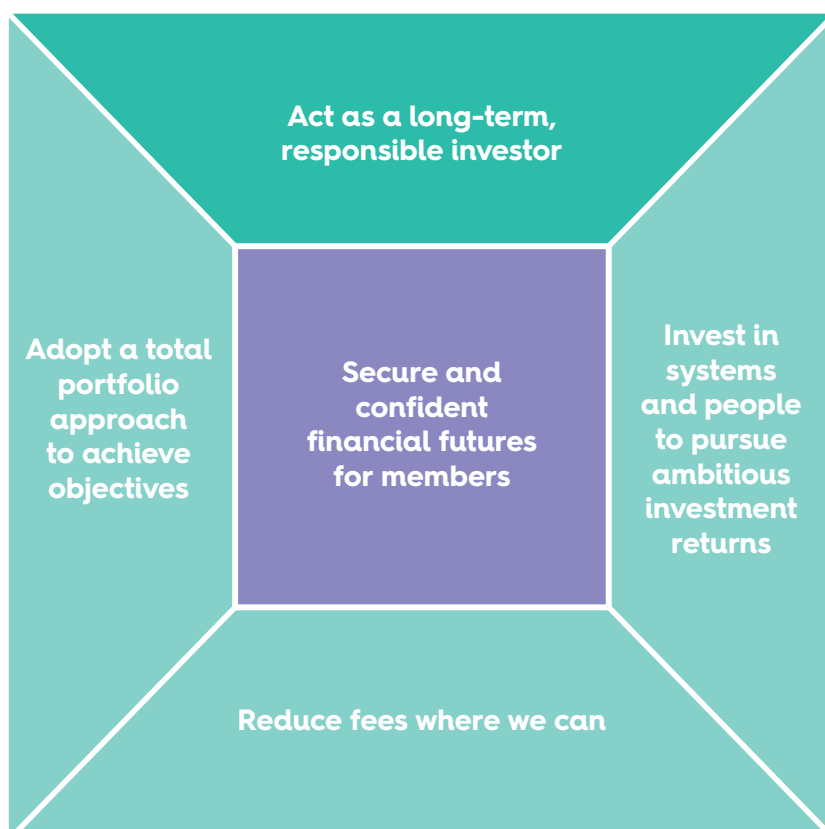
Our members' future, from their financial health to the world into which they will retire, shapes every aspect of our investment strategy. We aim to generate sustainable long-term performance while carefully controlling costs. We put our members' interests at the centre of our decisions, aligning them with their long-term investment needs. And we invest with the aim of supporting a healthy economy, environment and society.

## How we create value

Our investment strategy centres on driving better investment outcomes for our members to support the HESTA promise, purpose and ambition (see page 2).

We invest members' money across a broad range of asset classes, underpinned by our belief in diversification and risk limitation.

As the investment environment becomes more complex, we are committed to evolving and adapting to capture benefits for our members.



# Acting as a long-term responsible investor: the HESTA Impact

**HESTA is committed to creating better futures for our members. One of the ways we do this is through being a responsible investor with a long horizon mindset.**

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We believe our deep understanding of responsible investment for people and planet enriches our investment decision-making. This contributes to sustainable long-term investment performance and positively impacts the broader economy, society and environment.

Responsible investment forms a key part of HESTA Impact.



## Our journey to responsible investing

Our approach to responsible investment is guided by the United Nations-backed Principles for Responsible Investment (PRI).

The PRI require signatories to incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making and practise active ownership of the companies in which we invest.

For many years we've been working to ensure ESG considerations are integrated into every aspect of our investment processes.

We continue to evolve our approach to integrating ESG within our investment decision-making and processes across every asset class. It is just fundamentally part of how we invest.



# Being responsible investors

- Incorporation of ESG across all investment processes (Integration)
- Use influence to encourage improvements (Active Ownership)
- Focus on what we want to invest in (Impact)

There are two broad areas where we have a significant impact opportunity as stewards of our members' money:

**how we engage:** as an active owner we engage directly with the companies we invest in to improve their performance in relation to ESG issues, so they can create sustainable value for our members and our planet.

**how we invest:** to achieve great returns – but at the same time contributing to a more sustainable world.

We believe ESG issues can impact investment risks and returns. Our responsible investment approach, which considers these issues alongside traditional financial and business risks, can improve long-term investment returns for members.

## How we engage

HESTA has an extensive ESG-related engagement program aimed at protecting and increasing the economic value of companies we invest in. We believe engagement is the most effective way to influence a company to improve the way they manage ESG risks and disclosure.

We conduct company engagement via third-party engagement services:

- **in Australia:** through Australian Council of Superannuation Investors (ACSI) and Regnan Governance Research and Engagement (Regnan)
- **internationally:** through Hermes Equity Ownership Service (EOS).

## Share voting

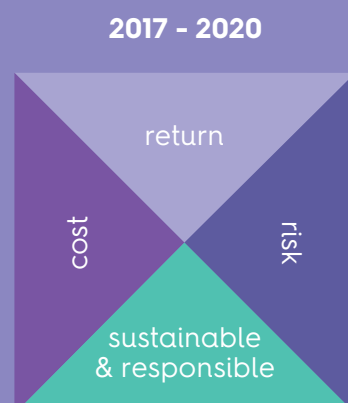
Share voting is another effective way for HESTA to publicly express our views on what a company is doing right, and what it needs to improve. HESTA will seek to vote 'for' or 'against' all resolutions on the meeting agenda to send a clear signal to the company.

You can read our share voting reports at [hesta.com.au/responsible](https://hesta.com.au/responsible) under 'Active ownership'.

## Australian Asset Owner Stewardship Code

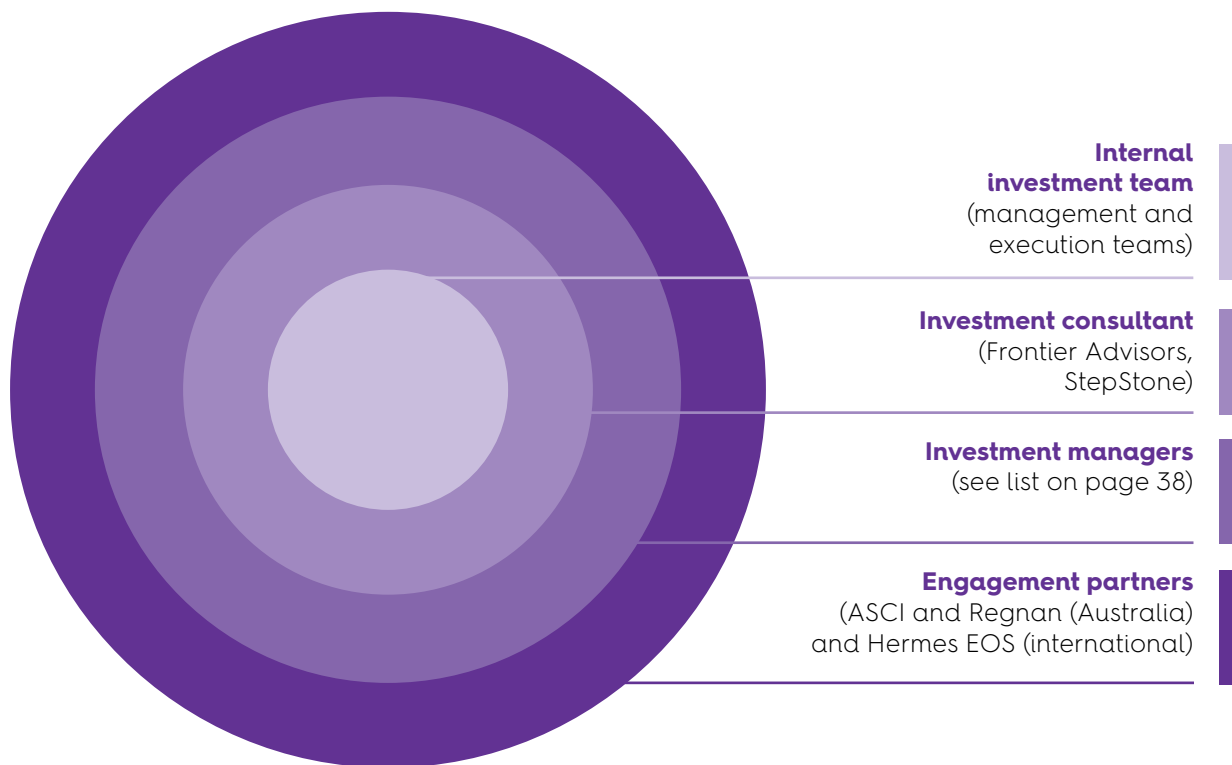
In early 2018 we were proud to be one of the first funds to sign up to the Australian Asset Owner Stewardship Code. The code was created to help asset owners practise transparent stewardship in meeting their obligation to act in the best interests of their beneficiaries.

We were also the first Australian endorser of the International Corporate Governance Network's (ICGN) Global Stewardship Principles that provide a global framework for investors to implement their fiduciary duties to beneficiaries.



# Our investment partners

We use a range of partners to advise us on investment objectives, strategies and investment managers; manage our investments; provide research insights and data; and engage directly with companies in which we have invested on responsible investment issues.



## How we invest

Investing in people and systems		
	What we're doing	Value to members
<b>Capability</b>	We have enhanced our internal investment capability, welcoming 11 new members to the team over the year. We have also introduced a Quantitative Solutions and Risk team to provide improved analytics and systematic inputs into our investment process.	Investments are finely calibrated to maximise returns and minimise risk in response to market changes
<b>Leadership and continuity</b>	To ensure we continue to lead and perform at a high level, and that succession is well managed, we have invested in developing our next generation of leaders.	Expert, stable management of their investment portfolio.
<b>Systems and solutions</b>	We have invested in our systems and data solutions, to ensure that we maintain an operating model that is fit for purpose. Over the next twelve months we will create an internal data warehouse, recognising that quality and timely investment data is a source of competitive advantage and improves investment decision-making.	Investments keep pace with market changes and are positioned to perform well relative to the market.
<b>Investing responsibly</b>	We continue to invest responsibly, and as an active owner we engage with investee companies, exercise votes at company meetings and advocate on investment-related public policy issues to protect our members' interests. We also invest for impact – and during the year were pleased to finalise a second commitment with Social Ventures Australia to pursue 'profit with purpose' opportunities in Australia.	Direct investment in the future of our members' own sector, while contributing to a healthier society and environment
<b>Partnering with purpose</b>	We continue to position as an 'investor of choice' in the market, partnering with purpose to ensure we are able to access the best global investment opportunities for our members. While celebrating the success of our long-term partnerships, this year we also welcomed new partners to help us access new market opportunities and regions.	Exposure to a wide range of investments that can support competitive returns.
<b>Reducing fees where we can</b>	Our members have benefited from our scale, as we have been able to deliver improved fee outcomes linked to our growing funds under management by negotiating with our fund managers.	Maximum return for their investment dollar.

# HESTA investment managers

As at 30 June 2018

Asset Class	Investment Manager	
<b>Cash</b>	AMP Bank Limited Australia and New Zealand Banking Group Bendigo and Adelaide Bank Limited Bank Of Queensland Limited Colonial First State Global Asset Management Commonwealth Bank of Australia IMB Ltd Industry Funds Management Pty 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
<b>Global Credit</b>	Barings BlackRock Asset Management (Australia) Limited Challenger Management Services Limited Industry Funds Management Pty Ltd Members Equity Bank Pty Limited	ME Portfolio Management Limited Pandal Group Limited PIMCO Australia Pty Limited Shenkman Capital Management, Inc. Westbourne Credit Management Limited
<b>Property</b>	AEW Capital Management, L.P. EG Funds Management Pty Ltd Eureka Funds Management Limited Franklin Templeton Investments Australia Limited Heitman Capital Management, LLC Investa Wholesale Funds Management Limited	ISPT Pty Ltd IIPT Pty Ltd MSREF V International-GP, L.L.C. Nuveen Management AIFM Limited QIC Property Management Pty Ltd Scarborough Pacific Group Pty Limited Stride Property Limited
<b>International Shares</b>	Artisan Partners Limited Partnership Baillie Gifford Overseas Limited BlackRock Investment Management (Australia) Limited Citigroup Global Markets Australia Pty Limited Copper Rock Capital Partners LLC Generation Investment Management LLP Hexavest Inc Industry Funds Management Pty Ltd	Lazard Asset Management Pacific Co Martin Currie Investment Management Limited Robeco Hong Kong Limited Russell Investment Management Limited RWC Asset Management LLP Sanders Capital LLC Somerset Capital Management Stewart Investors
<b>Australian Shares</b>	Airlie Funds Management Limited Allan Gray Australia Pty Limited (formerly Orbis) Citigroup Global Markets Australia Pty Limited Cooper Investors Pty Limited Ellerton Capital Limited Greencape Capital Pty Ltd Industry Funds Management Pty Ltd	Maple-Brown Abbott Limited Pandal Group Limited Plato Investment Management Renaissance Smaller Companies Pty Ltd Schroders Investment Management Australia Limited Solaris Investment Management Limited Yarra Funds Management Limited

Asset Class	Investment Manager	
<b>Infrastructure</b>	Industry Funds Management Pty Ltd Kohlberg Kravis Roberts & Co. L.P. Morrison & Co Utilities Management (Australia) Pty Ltd	Pacific Equity Partners Pty Ltd Palisade Investment Partners Limited Stafford Timberland Limited
<b>Private Equity</b>	Advent Partners Pty Ltd Adveq Management AG Allegro Funds Pty Ltd Brandon Capital Partners Pty Ltd Coller 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 Madison-India Management Advisors Private Limited	Newbury Associates LLC Oaktree Capital Management, L.P. PAG Asia Capital Limited Performance Equity Management, LLC Providence Equity Partners LLC Rio Energy Management LLC Roark Capital Management LLC Stafford Fund Nominees Pty Ltd Stafford Private Equity Pty Ltd Stafford Private Equity Inc Social Ventures Australia Limited Siguler Guff Advisers, LLC Stone Point Capital LLC TDR Capital, LLP Vencap Limited
<b>Opportunistic Growth</b>	BlackRock Financial Management, Inc Bridgewater Associates, Inc Healthcare Royalty Management, LLC	Kohlberg Kravis Roberts & Co. L.P. Nephilia Capital Limited Oaktree Capital Management, L.P.
<b>Currency Management</b>	Lee Overlay Partners Limited ME Portfolio Management Limited	Pareto Investment Management Limited
<b>Risk Management Strategies</b>	QIC Limited	

The Trustee retains a discretion to change the HESTA investment managers used. Visit [hesta.com.au](https://hesta.com.au) for updated information.

## Significant holdings with investment managers

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

- Industry Funds Management Pty Ltd (21.34%)
- Blackrock (7.20%)
- PIMCO (5.2%)





## Our policies

Our investment approach is supported by a number of policies spanning responsible investment, governance, active ownership, climate action and stewardship.

You can read our policies at [hesta.com.au/responsible](https://hesta.com.au/responsible)

## Our beliefs

A strong set of beliefs guides every decision we make on behalf of our members. They lay the groundwork for a consistent approach to making a real difference to the financial future of every HESTA member.

### Four themes underpin the beliefs:

- our overall approach (to invest responsibly, limiting risk and keeping a long-term, strategic focus)
- how we make decisions (to make sure we have the right controls and oversights in place)
- market returns (to access different markets in a way that creates value for members)
- active management (the style and vehicles in which we decide to invest and how we make those decisions).

## A snapshot of our beliefs

### OUR APPROACH



Invest responsibly



Carefully manage risk



Keep a long-term focus

### HOW WE MAKE DECISIONS



Have the right controls in place



Use our size to benefit members



Partner with other like-minded investors

### MARKET RETURNS



Generate returns by taking risks we believe will be rewarded



Invest in different markets to help manage risk



Keep an eye out for opportunities to add value or reduce risk as markets change

### ACTIVE RETURNS



Be open to a wide range of investment approaches



Use our experience and research to identify and partner with talented managers



Use the opportunity for active returns to enhance performance across markets

# HESTA investment options

As at 30 June 2018

## Ready-Made investment pools

	Objective	Strategy <sup>^</sup>
<b>Conservative Pool</b>	<p>Medium term (5 years) CPI + 1.5% Long term (10 years) CPI + 3.0%</p> <p>Aims for the lowest year-to-year variation in returns of all 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"> <li>• be the most conservative of HESTA Pools</li> <li>• offer members a low-risk investment</li> <li>• seek greater returns than cash alone.</li> </ul>	<p>Asset allocation includes:</p> <ul style="list-style-type: none"> <li>• more exposure to cash and debt markets than other Ready-Made Pools</li> <li>• approximately 25% of investments in shares.</li> </ul> <p>Shares tend to have a low correlation, or relationship, with cash and debt 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>
<b>Core Pool</b>	<p>Medium term (5 years) CPI + 3.0% Long term (10 years) CPI + 4.0%</p> <p>Aims to optimise returns while only occasionally having a return 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 its investment objective.</p>
<b>Eco Pool</b>	<p>Medium term (5 years) CPI + 3.0% Long term (10 years) CPI + 4.0%</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 superior environmental, social and governance performance as assessed by our managers. Eco Pool has investment exclusions concerning uranium, fossil fuels, tobacco and controversial weapons. Property investments are screened to ensure they meet appropriate environmental requirements. Currently, the Alternative Growth investments are in sustainability-focused private equity strategies.</p>
<b>Shares Plus</b>	<p>Medium term (5 years) CPI + 4.0% 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>

# HESTA investment options (cont.)

As at 30 June 2018

## Your Choice Asset Classes

	Objective	Strategy <sup>^</sup>
<b>Cash</b>	To earn a return after appropriate taxes and investment fee and indirect costs, equivalent to higher than the RBA Cash Rate. Is the most conservative of the Your Choice options. It aims to achieve its investment objective each year.	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.
<b>Global Bonds</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, above:</p> <ul style="list-style-type: none"> <li>• 50% Bloomberg AusBond Composite 0+ Year Index</li> <li>• 50% Barclays Capital Global Aggregate Hedged to \$A.</li> </ul> <p>Aims to achieve its investment objective over the long term (10 years).</p> <p>Global Bonds:</p> <ul style="list-style-type: none"> <li>• is less conservative than Your Choice – Cash</li> <li>• may produce a negative return, but</li> <li>• is more conservative than other Your Choice options.</li> </ul>	Is 100% invested in bonds and other debt products. The underlying investments are similar for this asset class in Core Pool, being a range of global debt products but excluding some unlisted debt that is considered higher risk. All currency exposures in international debt are fully hedged.
<b>Property</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, equivalent to or higher than CPI + 3.5%.</p> <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>	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.
<b>Infrastructure</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, equivalent to or higher than CPI + 3.5%.</p> <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>	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.

For more information go to [hesta.com.au/pds](https://hesta.com.au/pds) and read *Investment choices*.

<sup>^</sup> Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit [hesta.com.au](https://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.

	Objective	Strategy <sup>^</sup>
<b>International Shares</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, above:</p> <ul style="list-style-type: none"> <li>· 50% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Unhedged</li> <li>· 50% MSCI All Country World ex Australia Index in \$A Net Dividends Reinvested Hedged.</li> </ul> <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</p> <ul style="list-style-type: none"> <li>– International Shares are similar for this asset class in Core Pool. The currency exposures in international shares are managed under our active currency overlay program policy. It may include managers who also short sell shares.</li> </ul>
<b>Australian Shares</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, above S&amp;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</p> <ul style="list-style-type: none"> <li>– Australian Shares are similar for this asset class in Core Pool. Your Choice</li> <li>– 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.</li> </ul>
<b>Private Equity</b>	<p>To earn a return after appropriate taxes and after investment fee and indirect costs, 3% or more above:</p> <ul style="list-style-type: none"> <li>· 13.5% S&amp;P/ASX 300 Accumulation Index</li> <li>· 76.5% MSCI World ex-Australia in \$A Net Dividends Reinvested Hedged</li> <li>· 10% RBA Cash Rate.</li> </ul> <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>

<sup>^</sup> Changes may be made to investment options at any time. The investment options available may also change. For updated information, visit [hesta.com.au](https://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

As at 30 June 2018

	Ready-Made Investment Pools				Your Choice Asset Classes						
	Strategic Asset Allocation*				Strategic Asset Allocation*						
	Conservative Pool (%)	Core Pool (%)	Shares Plus (%)	Eco Pool (%)	Cash (%)	Global Bonds (%)	Property (%)	Infrastructure (%)	International Shares (%)	Australian Shares (%)	Private Equity (%)
Cash	22.0	2.0	2.0	8.0	100.0	0.0	10.0	10.0	0.0	0.0	10.0
Global Debt	34.2	15.0	0.0	16.0	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Property	9.5	11.5	8.0	8.0	0.0	0.0	90.0	0.0	0.0	0.0	0.0
Infrastructure	10.3	12.5	8.7	0.0	0.0	0.0	0.0	90.0	0.0	0.0	0.0
Alternative Growth	0.0	7.0	10.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	90.0
Australian Shares	13.7	29.0	39.7	35.2	0.0	0.0	0.0	0.0	0.0	100.0	0.0
International Shares	10.3	23.0	31.6	28.8	0.0	0.0	0.0	0.0	100.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Strategic asset allocations may change during the year within their bands without prior notice. Visit [hesta.com.au/pds](https://hesta.com.au/pds) and read *Investment Choices* for more information.



# HESTA Income Stream investment options

As at 30 June 2018

	Objective	Strategy <sup>^</sup>
<b>Balanced</b>	<p>Medium term (5 years) RIS: CPI + 2.75%, TTR: CPI + 2.0% Long term (10 years) RIS: CPI + 4.0%, TTR: CPI + 3.25%</p> <p>Balanced aims to produce a return of 4.0% (TTR: 3.25%) 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 63.0% invested in growth style assets, including listed shares and the remainder invested in defensive style assets, like cash, defensive property and global debt. 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>
<b>Defensive</b>	<p>Medium term (5 years) RIS: CPI + 1.0%, TTR: CPI + 0.5% Long term (10 years) RIS: CPI + 2.0%, TTR: CPI + 1.25%</p> <p>Defensive aims to produce a return of 2.0% (TTR: 1.25%) above CPI over the long term. Negative returns can occur, but generally occur very infrequently.</p>	<p>Defensive invests in a diversified mix of asset classes, with 18.0% invested in growth style assets, like listed shares and 82.0% invested in defensive style assets, like cash, term deposits, defensive property and global debt. 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>
<b>Conservative</b>	<p>Medium term (5 years) RIS: CPI + 1.5%, TTR: CPI + 1.0% Long term (10 years) RIS: CPI + 2.5%, TTR: CPI + 1.75%</p> <p>Conservative aims to produce a return of 2.5% (TTR: 1.75%) above CPI over the 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 33.0% invested in growth style assets like listed shares, and approximately 67.0% invested in defensive style assets including cash, term deposits, defensive property and global debt. 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>
<b>Eco</b>	<p>Medium term (5 years) RIS: CPI + 3.0%, TTR: CPI + 2.25% Long term (10 years) RIS: CPI + 4.0%, TTR: CPI + 3.25%</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 superior environmental, social and governance performance as assessed by our managers. Eco investment exclusions concerning uranium, fossil fuels, tobacco and controversial weapons. Property investments are screened to ensure they meet appropriate environmental requirements. The Alternative Growth investments are in sustainability-focused private equity strategies.</p>

<sup>^</sup> 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](https://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 (cont.)

As at 30 June 2018

	Objective	Strategy^
<b>Active</b>	<p>Medium term (5 years) RIS: CPI + 4.0%, TTR: CPI + 3.25% Long term (10 years) RIS: CPI + 4.5%, TTR: CPI + 3.75%</p> <p>Active aims to produce a return of 4.5% (TTR: 3.75%) above CPI over the 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>
<b>Cash</b>	<p>To earn a return before tax (after tax for TTR) and after the investment fee and indirect costs, equivalent to 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>
<b>Term Deposits</b>	<p>To earn a return before tax (after tax for TTR) and after the investment fee and indirect costs, equivalent to or higher than the Bloomberg AusBond Bank Bill Index.</p> <p>Term Deposits aims to produce a return equivalent to 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 is more conservative than most other HESTA Income Stream investment options, with the exception of Cash.</p>	<p>Term Deposits has 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>
<b>Property</b>	<p>To earn a return before tax (after tax for TTR) and after the investment fee and indirect costs, equivalent to or higher than CPI + 4.0% (TTR: CPI + 3.25%).</p> <p>Property aims to produce a long-term return of 4.0% above CPI. 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^
<b>Australian Shares</b>	<p>To earn a return, after adjusting for tax credits (after tax for TTR) and after the investment fee and indirect costs, which is higher than the return from the combination of:</p> <ul style="list-style-type: none"> <li>• 95% S&amp;P/ASX 300 Accumulation Index</li> <li>• 5.0% RBA Cash Rate.</li> </ul> <p>Australian Shares aims for a long-term return of above the Standard and Poor's (S&amp;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>
<b>International Shares</b>	<p>To earn a return, before tax (after tax for TTR) and after the investment fee and indirect costs, which is higher than the return from the combination of:</p> <ul style="list-style-type: none"> <li>• 47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Unhedged</li> <li>• 47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Hedged</li> <li>• 5.0% RBA Cash Rate.</li> </ul> <p>This investment objective reflects the strategic asset allocation of International Shares and 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 our 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](https://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

As at 30 June 2018

	Strategic Asset Allocation									
	Balanced (%)	Defensive (%)	Conservative (%)	Eco (%)	Active (%)	Cash (%)	Term Deposits (%)	Property (%)	International Shares (%)	Australian Shares (%)
<b>Australian Shares</b>	27.0	6.0	13.5	32.0	43.5	0.0	0.0	0.0	0.0	95.0
<b>International Shares</b>	27.0	6.0	13.5	32.0	43.5	0.0	0.0	0.0	95.0	0.0
<b>Alternative Growth</b>	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Property</b>	9.0	6.0	6.0	8.0	4.0	0.0	0.0	85.0	0.0	0.0
<b>Infrastructure</b>	9.0	6.0	6.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
<b>Global Debt</b>	20.0	31.0	44.0	16.0	0.0	0.0	90.0	0.0	0.0	0.0
<b>Cash</b>	8.0	45.0	17.0	8.0	5.0	100.0	10.0	15.0	5.0	5.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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](https://hesta.com.au/ispds)

## investment policies

### Derivatives policy

A derivative is a financial instrument whose value depends on, or is derived from, the value of some other underlying asset or index. Derivatives are generally focused on equity, currency, interest rate, credit and commodity markets, and include various instruments such as futures, options, forward rate agreements, swaps and warrants.

Derivatives have a role in the fund's overall investment strategy, and are generally used to improve the risk-adjusted returns of the fund by providing an efficient way to add or remove market risk. The use of derivatives is common practice in investments, as they assist in managing liquidity, transitions, cost, and risk as well as, in some instances, to generate return.

Our derivative usage is governed by the HESTA policy on the use of derivatives, which outlines the monitoring and controls in place to ensure all risks are appropriately managed.

Our managers are permitted to use derivatives to achieve their investment objectives, particularly to control risk and maintain desired exposures, within the constraints of their investment mandates.

HESTA also uses derivatives directly to hedge positions (e.g. currency) or to efficiently maintain asset allocation targets (e.g. equity futures). Where held directly, derivatives are not used speculatively, to gear the portfolio, or to create net short positions.

# our performance

## The global environment

Throughout the 2018 financial year economic conditions around the world and Australia strengthened, and synchronised growth occurred in the major economies. This supported business confidence and jobs growth, although wages and inflation remained somewhat subdued. Geopolitical risks including nuclear tensions in North Korea, Trump trade war announcements, Brexit negotiations and Italian elections created uncertainty, but didn't derail investment markets.

The US Federal Reserve continued its upward trajectory on interest rates (+0.75%), triggering rises in bond yields (the income return generated on bonds), although both cash rates and yields remain close to all-time lows. Other central banks have been less successful in stimulating enough growth in their economies to remove monetary policy support, with the European Central Bank (ECB), Bank of Japan and Reserve Bank of Australia all leaving cash rates on hold.

The rise in bond yields impacted bond returns, with Australian bonds (Bloomberg AusBond Composite Index) delivering 3.1%. International bonds (Barclays Global Aggregate, Hedged) finished the year at 1.9%, marginally above cash (Bloomberg AusBond BankBill Index) at 1.8%.

On the other hand, listed sharemarkets performed strongly, with Australian shares (ASX300) delivering 13.2% and International shares (MSCI All Countries, Hedged) slightly behind at 11.2%. HESTA's unlisted investments, including private equity, property and infrastructure, also contributed strongly to returns.

## FY18 returns

**Our default investment option Core Pool returned 10.55% to members in 2017/18, an outstanding result in a strong year for investment markets.**

Core Pool continues to outperform its investment objective, delivering 8.83% p.a. since inception\* and 9.50% p.a. over the most recent five years.

Our Income Stream also performed well, with returns of 10.99% from our Balanced option and 5.07% from the Defensive option (which, combined, create the default investment strategy).

\*Core Pool inception date 1987

# HESTA investment performance

For year ended 30 June 2018

## Ready-Made Investment Pools

Annualised returns as at 30 June 2018 (% p.a.)

Investment Options	Since Inception (% p.a.)**	10 years (% p.a.)**	7 years (% p.a.)**	5 years (% p.a.)**	3 years (% p.a.)**	1 year (return)**
Conservative Pool (1/7/95*)	6.53	5.68	6.68	6.63	6.02	6.99
<b>Core Pool (1/8/87*)</b>	<b>8.83</b>	<b>6.89</b>	<b>9.04</b>	<b>9.50</b>	<b>8.12</b>	<b>10.55</b>
Eco Pool (1/2/00*)	6.53	8.87	11.00	11.31	9.86	8.65
Shares Plus (1/7/95*)	8.65	7.65	10.03	10.64	8.91	12.68

\* Refers to date of inception for the investment option.

\*\*Annualised return for the period.

## Your Choice Asset Classes

Annualised returns as at 30 June 2018 (% p.a.)

Investment Option	Since Inception (% p.a.)**	10 years (% p.a.)**	7 years (% p.a.)**	5 years (% p.a.)**	3 years (% p.a.)**	1 year (return)**
Cash (1/7/01*)	3.46	2.89	2.61	2.15	1.91	1.75
Global Bonds (1/7/01*)	5.42	5.47	4.89	4.07	3.41	2.52
Property (1/7/01*)	6.88	4.67	9.04	9.93	9.86	10.58
Infrastructure (1/7/01*)	8.44	7.68	9.92	10.02	11.54	11.76
International Shares (1/7/01*)	5.01	7.85	11.57	12.29	8.76	12.88
Australian Shares (1/7/01*)	9.22	7.87	9.46	10.11	9.56	13.83
Private Equity (1/7/01*)	8.19	9.48	12.35	13.22	10.26	10.58

\* Refers to date of inception for the investment option.

\*\*Annualised return for the period.

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

### How returns are applied to HESTA accounts and HESTA Income Stream accounts

Each week a unit price for each investment option is calculated which reflects the net movement in value of the underlying assets. The movement may be positive or negative. This unit price is applied to the number of units held by each member to calculate an account balance.

Investment fees and indirect costs (available at [hesta.com.au/pds](https://hesta.com.au/pds)) and taxes are deducted from investment earnings before the unit price is declared.

The latest and historical returns are available for HESTA at [hesta.com.au/performance](https://hesta.com.au/performance)  
HESTA Income Stream at [hesta.com.au/isperformance](https://hesta.com.au/isperformance)





## HESTA Income Stream investment performance

Annualised returns as at 30 June 2018 (% p.a.)

Investment Option	Since inception (% p.a.)**	10 years (% p.a.)**	7 years (% p.a.)**	5 years (% p.a.)**	3 years (% p.a.)**	1 year (% return)**
Balanced (since 12/12/2007)*	<b>5.17</b>	<b>6.69</b>	<b>9.61</b>	<b>10.14</b>	<b>8.80</b>	<b>10.99</b>
Defensive (since 12/12/2007)*	5.25	5.56	5.87	5.60	5.19	5.07
Conservative (12/12/2007)*	5.70	6.44	7.40	7.30	6.43	7.23
Eco (1/7/2012)*	14.27	-	-	12.45	10.78	9.52
Active (12/12/2007)*	5.16	6.98	11.40	12.22	9.88	13.91
Cash (1/7/2008)*	3.50	3.50	2.95	2.46	2.14	1.95
Term Deposits (1/7/2012)*	3.21	-	-	2.91	2.58	2.45
Property (12/12/2007)*	2.03	5.20	9.82	10.81	11.74	11.48
International Shares (1/7/2008)*	7.53	7.53	13.05	13.23	9.30	14.10
Australian Shares (1/7/2008)*	7.29	7.29	9.70	10.94	9.43	13.22

## HESTA Transition to Retirement investment performance\*\*\*

Annualised returns as at 30 June 2018 (% p.a.)

Investment Option	Since inception (% p.a.)**	10 years (% p.a.)**	7 years (% p.a.)**	5 years (% p.a.)**	3 years (% p.a.)**	1 year (% p.a.)**
Balanced (since 1/7/2017)*	<b>5.06</b>	<b>6.56</b>	<b>9.43</b>	<b>9.88</b>	<b>8.39</b>	<b>9.72</b>
Defensive (since 1/7/2017)*	5.19	5.50	5.78	5.49	5.00	4.50
Conservative (1/7/2017)*	5.62	6.35	7.27	7.11	6.12	6.31
Eco (1/7/2017)*	14.08	-	-	12.22	10.41	8.41
Active (1/7/2017)*	5.02	6.83	11.18	11.90	9.36	12.31
Cash (1/7/2017)*	3.47	3.47	2.91	2.40	2.04	1.64
Term Deposits (1/7/2017)*	3.15	-	-	2.84	2.45	2.09
Property (1/7/2017)*	1.93	5.09	9.66	10.59	11.37	10.39
International Shares (1/7/2017)*	7.41	7.41	12.87	12.99	8.91	12.88
Australian Shares (1/7/2017)*	7.16	7.16	9.51	10.67	8.98	11.85

\* Refers to date of inception for the investment option

\*\*Annualised return for the period.

\*\*\* Note that performance numbers for Income Stream options have been used in Transition to Retirement options for 10 years / 7 years / 5 years / 3 years / 2 years numbers prior to 01/07/2017.

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

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 investment fees, indirect costs and taxes for the period indicated.

# investing and engaging for impact: how we contribute to the SDGs

**In 2017 HESTA identified seven strategic areas of impact: health, climate action, clean energy, gender diversity and equality, water, decent work and economic growth, and sustainable communities. These themes align broadly with the United Nations' Sustainable Development Goals (SDGs).**

Our investing and engagement activities generate positive impact and help support our commitment to the SDGs.

Our focus is on generating sustainable, market-based returns to members through opportunities that support our health and community services sector, environment and society.

Our engagements enable us to advocate for change where a business could be run more responsibly.

📍 See page 7 for more about the SDGs and the role they play in the HESTA strategic plan.

## Health and wellbeing

### Investment snapshot

#### EBR Systems

EBR Systems has developed a wireless technology that improves the way pacemakers and cardiac resynchronisation devices work for people with certain types of heart failure.

#### Vaxxas

Vaxxas is a technology start-up developing and commercializing a unique needle-free vaccine delivery system using nanotechnology. The Nanopatch™ aims to deliver easy, pain-free immunisations through a small patch.

Its portability makes it specially useful for immunisations in remote areas of the developing world.

#### Value for members

Investment in medical innovations that benefit the health and community services sector and global community.

### Engagement snapshot

Number of companies engaged with: 10

In 2017, the opioid epidemic and the over-prescription of opioids in the US was estimated to cost over US\$500bn.

Through Hermes EOS, we engaged with some of the major pharmaceutical companies that manufacture and distribute opioids, calling for greater transparency.

EOS also participated in the Investors for Opioid Accountability initiative, supporting various resolutions at companies to improve accountability and governance.



## Gender diversity and equality



### Investment snapshot

#### Northern Arc Capital

Northern Arc Capital provides finance to lenders in the microfinance, affordable housing finance, small business lending, and commercial vehicle asset classes, working with financially excluded households and businesses in India. These companies currently serve over 30 million low-income people. The majority of its beneficiaries are women and families.

In addition, Northern Arc Capital helps clients implement best practices across technology, governance, risk management, customer protection, and operations.

#### Value for members

By providing access to finance to women, we are reducing gender inequalities.

### Engagement snapshot

Number of companies engaged: 172

#### Improving gender diversity in HESTA investment value chain

Last year we undertook initiatives to improve gender diversity in decision making at different levels of our investment value chain.

- We surveyed 70 investment managers regarding the gender diversity of their investment staff.
- Our engagement providers engaged with 43 companies on board diversity.
- Our CEO wrote to 172 ASX 200 companies about board diversity and diversity at senior leadership.

#### Value for members

HESTA believes diverse teams make better decisions. Ensuring we have gender diversity across all teams involved in making decisions to drive value in our investments will help improve our members' retirement outcomes.

📍 See page 62 for more on why we advocate for gender diversity

## Climate change



### Investment snapshot

#### X-ELIO Energy

X-ELIO Energy is a leading global developer and operator of photovoltaic plants to generate solar energy.

To date X-ELIO has developed over 2GW of solar photovoltaic plants and currently has 300MW in operation across 12 countries including the US, Italy, Chile, South Africa, Japan and Spain.

X-ELIO is committed to protecting the environment when carrying out its design, construction and commissioning activities for its solar PV facilities, as well as any health and safety actions for the benefit of employees and subcontractors.

#### Value for members

Contribution to clean energy generation.

### Engagement snapshot

Number of companies engaged: 211

#### Rio Tinto

Through Hermes EOS, we have been engaged with Rio Tinto for a number of years regarding their exposure to climate change risk and transition to a low carbon economy.

Rio Tinto published its first climate change report in 2017 and also reported a 38% reduction in emissions since 2008.

#### Value for members

Reduced exposure to climate change risks in underlying assets; contribution to the growth of a low carbon economy.

## Sustainable communities

11 SUSTAINABLE CITIES AND COMMUNITIES



### Investment snapshot

#### Social Impact bonds (SIB)

Australia's first homelessness-focused SIB, Aspire, aims to make a lasting difference to the lives of people experiencing homelessness in Adelaide while generating a competitive financial return.

The bond funds the Aspire Program, a 'housing first' intervention model that focuses on strengthening participants' community engagement and employment. The program gives each participant a long-term, dedicated 'Navigator' to help them connect with wider support services and identify and achieve their aspirations.

The program expects to support about 600 adults out of homelessness over the next four years.

#### Value for members

Contributes directly to better outcomes for those in greatest need while earning an investment return. Also provides stable funding to help deliver services and create jobs in the community sector.

## Decent work

8 DECENT WORK AND ECONOMIC GROWTH



### Investment snapshot

HESTA sees decent work as a pre-condition and enabler for good businesses, rather than an investable area on its own. Therefore our work in this area centres on engagement rather than investment.

### Engagement snapshot

Number of companies engaged: 169

#### Woolworths Limited

Woolworths' approach to the treatment of workers in its supply chain came under scrutiny before its 2017 annual general meeting.

Engagement with the company through Regnan, ACSI and investment manager IFM Investors, helped achieve a commitment to improve its practices. This included developing and undertaking a human rights risk assessment process, complaint hotline for workers and higher standards expected of potential labour hire firms.

## Clean water

6 CLEAN WATER AND SANITATION



### Investment snapshot

#### Wyuna Water

Wyuna Water operates two water filtration plants in Illawarra and Woronora, NSW. The plants provide water to more than 500,000 people on behalf of Sydney Water Corporation and have a combined treatment capacity of 370 ML/day.

#### Value for members

Clean water for communities in New South Wales.

### Engagement snapshot

Number of companies engaged: 26

## Walking the talk: our own portfolio performance on emissions

For the last three years we have calculated and analysed the carbon footprint of our investments in listed companies in Australia and internationally.

Our carbon footprint has declined year on year in the Australian equity portfolio and in the international equity portfolio performance was steady.

We also calculated the carbon footprint of our investments in Australian office and retail property.

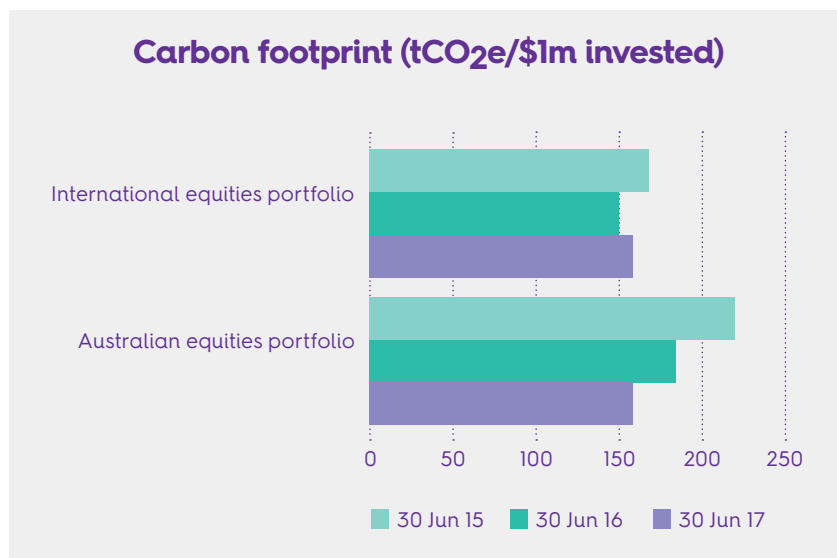
In 2017 0.0118 tCO<sub>2</sub>e were emitted per \$1 million invested in the Property portfolio, slightly lower than the previous year (0.0154 tCO<sub>2</sub>e) due to improving performance by managers in our office building portfolio.

While the carbon footprint associated with our property investments is small compared to that of our listed equities portfolio, we expect it to also decline in future.

Nearly all companies face some risks from climate change either directly or indirectly, so we cannot avoid climate change risk entirely. However, we have a strategy to reduce the risks that includes:

- ensuring our exposure to climate change risks is minimised through our choice of fund managers who understand the importance of these risks and factor them into their investment decisions
- allocating capital to lower our exposure to climate change risks. For example, in listed equities we have worked with one of our fund managers to develop a portfolio that invests specifically in international listed companies with a lower carbon footprint than their peers. This year, the carbon footprint of our low carbon portfolio was 44% less than the benchmark, while delivering returns in line with the broader index.

## Carbon footprint of equity portfolio



## looking forward

The global investment environment remains challenging. The US economic cycle is extended, and rising interest rates and liquidity withdrawal is likely to result in softer returns in future. Trade tensions are also emerging, which can be negative for growth, earnings and inflation if they escalate into a trade war.

Closer to home, the Australian consumer continues to be challenged by high debt burdens, low wage growth, a soft housing market and tightening financial conditions.

On the other hand, we continue to see significant innovation occurring in areas such as genetics, artificial intelligence, blockchain and digital technology which have the potential to deliver strong earnings growth for new entrants, but can be disruptive for incumbent companies.

These trends mean more risk in the investment environment over the coming period. While picking the turning point is challenging, we believe now is a time for caution.

By positioning our approach more defensively, we aim to provide our members with some insulation if sharemarkets soften.







# we stand up for what's right

## Why this matters to us

Creating long-term value for our members is the reason HESTA exists.

With the Sustainable Development Goals (SDGs) as our compass, we're using our influence to drive meaningful change for them.

We invest responsibly. We advocate for equity and financial inclusion. We operate sustainably. We do this to make a real difference to our members' financial future, and to the world into which they'll retire.

We think of this as the HESTA Impact.

## How we create value

### Investing responsibly

to support a better future for our members through healthy returns, people and planet

### Operating sustainably

to create long-term value through our people, our operating principles and our environmental performance

### Being a gutsy advocate

for legislative and systemic changes that can help end disadvantage for our members and women in Australia

3 GOOD HEALTH AND WELL-BEING



5 GENDER EQUALITY



6 CLEAN WATER AND SANITATION



7 AFFORDABLE AND CLEAN ENERGY



8 DECENT WORK AND ECONOMIC GROWTH



11 SUSTAINABLE CITIES AND COMMUNITIES



13 CLIMATE ACTION



## Responsible investing

We invest our members' money to achieve strong long-term performance, while also seeking to contribute positively to society and environment.

Our engagement program and impact investing support our commitment to the SDGs.

### Value for members

- sustainable long-term investment performance
- a stronger health and community services sector
- a more resilient economy, society and environment.

📍 We invest responsibly page 33 for more on how we do this.

## Advocacy

By raising our voice to influence opinion, policy and culture, we're keeping our promise to members to be the gutsy advocate driving meaningful change for generations to come.

We advocate for legislative and systemic changes that can help end disadvantage for our members and women in Australia, including:

- closing gender-based pay and super gaps
- improving financial and social inclusion for Aboriginal and Torres Strait Islander Peoples and other Australians at risk of exclusion
- allowing the early release of super for victims and survivors of family violence
- supporting women's health initiatives including the Heart Foundation and Mother's Day Classic
- policies affecting the investment environment.

### Value for members

- Improved financial and social inclusion and participation for at-risk members and groups in the community.
- A more resilient economy, society and environment.
- Progress towards financial and social equity.

## Sustainability

We work to minimise the social, environmental and ethical impacts of our operations and supply chain while meeting our business needs by:

- monitoring and aiming to reduce our operational carbon footprint, paper consumption, air travel and waste
- using a responsible procurement approach
- looking after the work health and safety of our people.

### Value for members

- A sustainable fund that can deliver a secure and confident future for them.
- A more resilient economy, society and environment.

📍 We invest responsibly page 33 for more on how we do this.

## Make Super Fair

On average, women currently retire with 47% less super than men\*.

In July 2017 Women in Super, supported by a number of super funds including HESTA, launched the Make Super Fair campaign. The campaign calls for action to address the gender gap in retirement, including:

- making sure that super is paid on parental leave
- removing the \$450 monthly pay threshold which sees about 22,000 women miss out on super every year
- providing women and other low income earners with an extra \$1000 contribution every year into their super.

These actions will help women and make up the gap that can see many retire into poverty.

\*Australian Bureau of Statistics (ABS); Retirement and Retirement Intentions, Australia, July 2012 to June 2013; [abs.gov.au/ausstats/abs@.nsf/mf/6238.0](http://abs.gov.au/ausstats/abs@.nsf/mf/6238.0)

## Early release of super on family violence grounds

In 2017, we called on the Federal Government to change super rules to allow family violence victims and survivors, as a last resort, early access to up to \$10,000 of their super. Given the prevalence of family violence in our community, it's likely this issue directly impacts tens of thousands of HESTA members in their life or work.

In December we welcomed the Federal Government's announcement that they will review the current rules governing the early release of super.

## Super splitting for de facto couples in Western Australia

In July 2017 we launched a campaign to allow de facto couples (including same sex couples) in WA to split their super if their relationship breaks down. This change would make WA's legislation on super splitting fair, equitable and consistent with other states.

In March WA State Attorney General announced State and Federal Governments had agreed to cooperate on amending the legislation.

## Gender diversity

- In February HESTA was again named an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency (WGEA).
- Our CEO Debby Blakey has been a WGEA Pay Equity Ambassador since 2016.

**📍 Our People and Culture page 20 and We invest responsibly page 33 for more on this.**

## Mother's Day Classic

2018 marked the 21st year that HESTA has sponsored the Mother's Day Classic (MDC), raising awareness and funds for breast cancer research.

HESTA had a presence at all major MDC locations nationally, handing out visors, ponchos and tote bags to participants. Many staff also took part in the walk/run event.

To date, MDC has raised more than \$33 million in funding that could transform women's health globally.

## HESTA and the Heart Foundation

More than 680,000 of our members are women that work in the health and community services sector - and we want to help them enjoy a healthy retirement. In May 2018 we joined forces with the Heart Foundation to help protect the hearts of Australian women. Our organisations will share our expertise, resources and reach to encourage women to better understand the warning signs of a heart attack and get regular heart health checks.

**We progressed another RAP action, to improve the financial future of Aboriginal and Torres Strait Islander peoples, by taking part in the APY Lands Experience.**

## Reconciliation Action Plan (RAP)

In 2015 HESTA was the first industry super fund to implement a RAP to help us chart the best path to stronger partnerships with Aboriginal and Torres Strait Islander communities.

In October 2017, we launched our second, 'Innovate' RAP. One of its significant actions will shine a light on the history of Aboriginal and Torres Strait Islander nurses in Australia. We will be working with the Congress of Aboriginal and Torres Strait Islander Nurses and Midwives to help record and celebrate their stories.

In May 2018 we progressed another RAP action, to improve the financial future of Aboriginal and Torres Strait Islander peoples, by taking part in the Anangu Pitjantjatjara Yankunytjatjara (APY) Lands Experience. This important outreach initiative was hosted by our regulatory partner ASIC.



Dee Eldridge and Husna Jamal with Ernabella Elder Graham Kulyura

## APY Lands Experience

We continue to deliver on our Reconciliation Action Plan by giving HESTA employees the opportunity to travel to Aboriginal and Torres Strait Islander communities to learn about and address their super challenges.

In May 2018, two HESTA employees took part in the APY Lands Experience, an initiative of ASIC's Indigenous Outreach Program. Joining peers from a small group of super funds, Dee Eldridge and Husna Jamal travelled to the APY lands, in South Australia's remote desert region, to help Aboriginal communities with their super.

The trip aimed to address some of the challenges faced by Aboriginal and Torres Strait Islander people in accessing their super because of language, limited phone coverage and irregular identification documents.

The group was able to directly assist more than 500 Anangu across the APY Lands (almost half of the region's working-age population) and gain a much deeper understanding of their needs.

## Financial Inclusion Action Plan (FIAP)

In 2016 HESTA launched our foundation FIAP in partnership with Good Shepherd Microfinance, which aims to increase financial inclusion across our community. Key actions include supporting victims of family violence and financial abuse, finding ways for low income earners to grow their super, and protecting members with access to low-cost insurance cover.

In February, we hosted a roundtable discussion with community sector partners on family violence and financial abuse, advocating for changes to early release of super rules.

In 2017 we used our growing data and insights capabilities to introduce member segmentation that points the way to better supporting members on low incomes.

## Gender diversity in our investment supply chain

We know diversity is much broader than gender. But because women make up about half of our society, and strong research supports the benefits of gender diversity on the quality of decision-making, we've decided to make gender diversity our first focus area.

Evidence suggests diversity is an indicator of a well-run company, which is more likely to deliver strong performance. That's why HESTA has been actively engaging with the companies we invest in, and the investment managers we use, to promote gender balance throughout their organisations.

Over the past year we have:

- become founding partners in an Employee Value Proposition for the investment management industry, to help attract and retain young women into the investment industry, particularly in to decision-making positions
- joined the Investor Working Group 30% Club
- signed up to the Workforce Disclosure Initiative, encouraging company disclosure, to better enable Hermes EOS to engage on diversity at senior leadership level globally
- published a case study on SDG 5 in the Global Compact website.

📍 [We invest responsibly page 33 for more on this.](#)

## Impact investing: Korongee dementia village

In July 2017 HESTA invested \$19 million through our mandate with Social Ventures Australia to finance Korongee, Tasmania, a cutting edge Australia-first village designed to maintain a sense of self, home and community for people living with dementia.

As the second leading cause of death in Australia today, dementia is a growing public health challenge. By 2056 more than 1.1 million Australians, and those who care for them, are expected to face it.

"The demand for dementia care across Australia is outstripping the available supply," our CEO Debby Blakey says. "This investment will help provide a world-class facility for the local community and benefits our members by earning a return.

"It will also pilot a model for investing in aged care that could attract other large investors to this space."



## Our own environmental performance

HESTA uses the National Greenhouse Accounts Factors to measure our operational environmental performance. These are published annually by the Australian Department of the Environment and Energy. We also follow the International Standard for Greenhouse Gas reporting (GHG Protocol).

We categorise emissions as:

**Scope 1:** Direct emissions from sources owned or controlled by HESTA, such as petrol used by the fleet cars

**Scope 2:** Indirect emissions associated with electricity use, such as emissions from the burning of fossil fuels at power stations

**Scope 3:** Other indirect emissions produced by our activities, but not directly controlled by HESTA, such as base-building usage and air travel.

## Carbon footprint

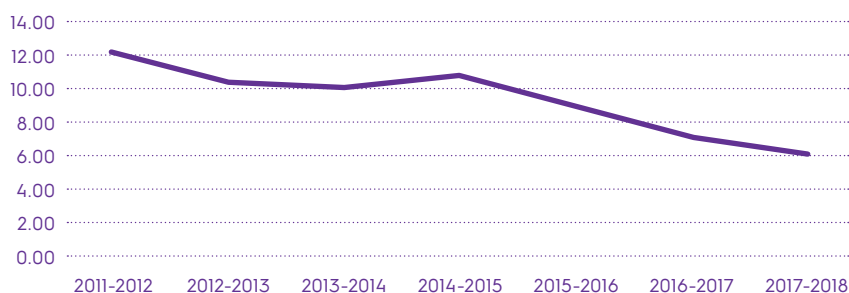
Our carbon footprint for FY18 was 1,106 tonnes of CO<sub>2</sub>-e. This is a 18% reduction in emissions per Full Time Employee (FTE) and an increase of 2.40% in absolute emissions compared with FY17.

The increase in absolute emissions is due to an increase in:

- the carbon-reporting boundary for FY18, which now includes our data centres
- the number of HESTA employees and occupied floor space for FY18.

Interestingly, the increase in absolute emissions is not in proportion to our ongoing growth. This means our emissions are decreasing per FTE year on year. It's a great example of our ongoing work towards realising a low-carbon future.

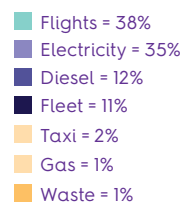
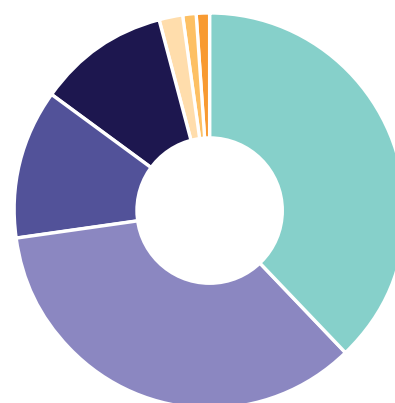
### Net emissions per FTE (tCO<sub>2</sub>-e/FTE)



Total emissions per FTE year on year.

Major contributors to our carbon footprint for FY18 were long haul air-travel (23% of emissions) office tenancy electricity (14% of emissions) and medium haul air-travel (15% of emissions).

## FY18 carbon footprint breakdown



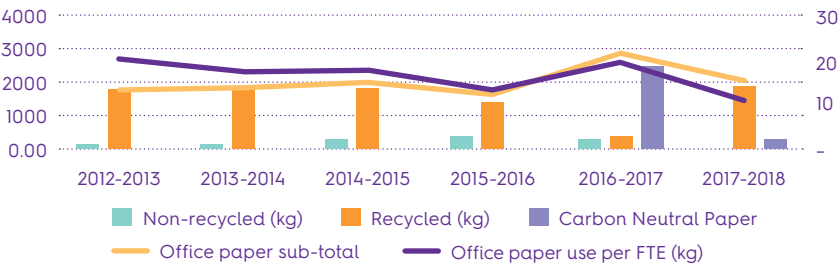
Our operational carbon footprint is offset via the QANTAS Future Planet Program.

Certified offsets we purchased include those generated through savanna burning in the Northern Kimberley and tree planting in North-Western NSW. The North Kimberley area of Western Australia is prone to extreme wildfires. By using traditional methods to manage burns, the Indigenous landowners of the North Kimberley reduce emissions and provide employment opportunities.

# Paper

In FY18 paper consumption decreased by 61% per FTE. HESTA continues to take positive action on our paper footprint by purchasing carbon neutral paper and by looking at how we can migrate member publications to an online format.

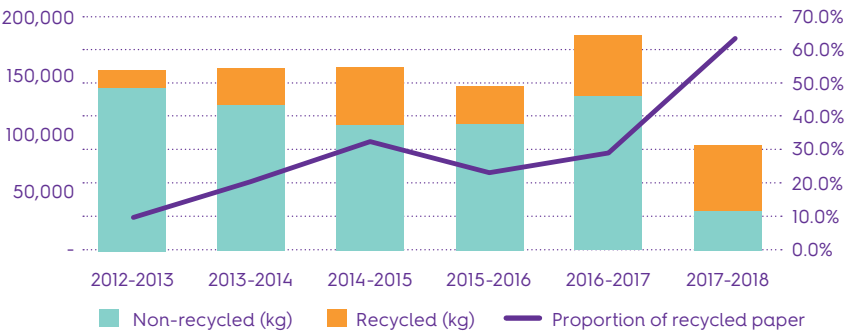
## Office paper



Internal paper use year on year by paper type.

This graph highlights a decrease in the amount of paper purchased and an increase in the volume of recycled paper.

## Printed paper used



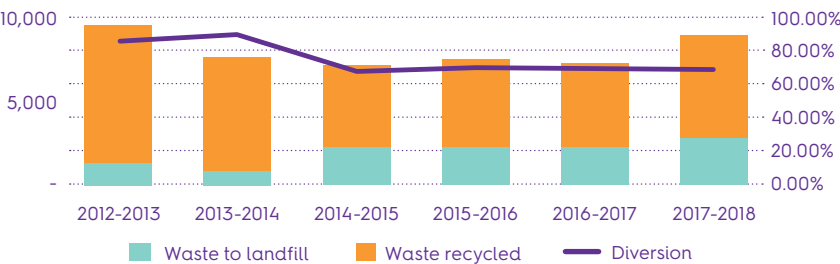
External paper use year on year.

This graph shows external paper consumption. We used less printed paper overall, and used more recycled paper.

# Waste

Waste production contributes 0.35% of total portfolio emissions for FY18. Total waste generated has increased by 19%, which is in line with the total FTE increase over the period. HESTA has maintained a relatively high recycling rate of 69% for the past three reporting periods.

## Waste generated



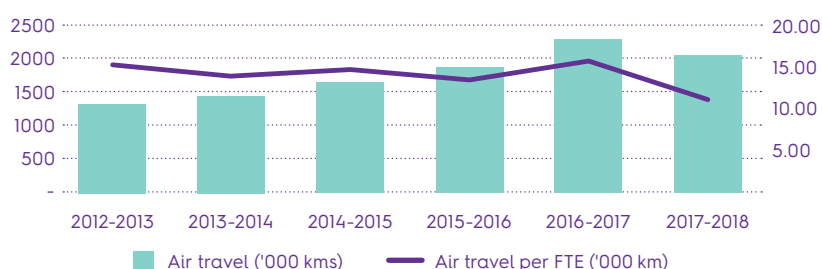
Waste by source (Recycled v Landfill) year on year comparison

## Air travel

Air travel continues to be the largest generator of carbon emissions for HESTA, contributing in total 38% of the total carbon footprint for FY18.

However there was a 6.74% decrease in air travel compared with FY17. This is due to measures such as improved use of technology and video conferencing tools to reduce the need to travel.

### Air travel

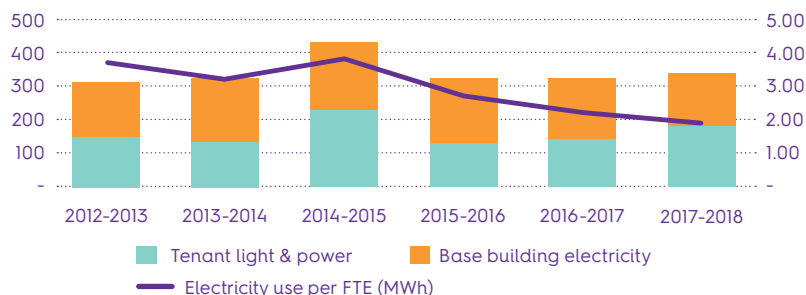


Air travel kms year on year.

## Electricity

Electricity consumption contributes 35% of our FY18 total emissions. This year we expanded the carbon-reporting boundary to include energy use and emissions from HESTA data centre operations. We also increased our office footprint during the period by leasing an additional floor at its national office. This resulted in an increase of 22% for tenancy electricity emissions and an additional 45 tonnes of emissions from the data centres as compared to FY17. Even so, HESTA has reduced the emissions from electricity per FTE by 18% from FY17. Emissions per FTE have also been steadily decreasing since FY15. This is directly related to our sustainability initiatives such as LED lighting and lighting controls implemented as part of our office refurbishment program.

### Electricity use - base building & tenancy



Electricity use year on year by source (Base Building v Office Tenancy)

# looking forward

## HESTA Impact

A key strategic goal for 2018/19 is to accelerate and deliver our HESTA Impact program.

This means ensuring everyone at HESTA can contribute to expanding our activities across responsible investing, advocacy and sustainability. It also means keeping our members up to date on and confident about what we're doing and how it delivers value to them, now and into the future.

Our goal is to become an international leader in creating positive environmental and social impact while improving our members' financial future.







# we understand our members

## Why this matters to us

People who work in healthcare, aged care, early childhood education and care, and community services are changing lives every day. Their contribution to our community is extraordinary.

We believe their retirement should reflect that. And everything we do is about helping them at every step along their journey.

But there can be many challenges along the way. This is especially true for the sector's high proportion of female workers, which is mirrored by our 80% female membership.

Our ambition is to be our members' super fund for life. That means guiding them to take steps now that will make a real difference to their financial future.

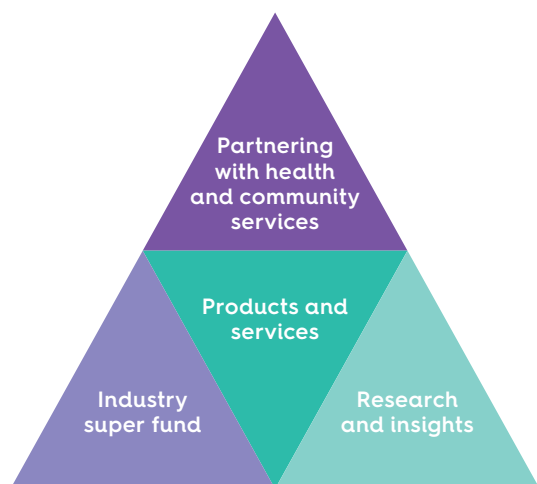
To deliver on that promise we need to personalise each member's experience, so that every time they connect with us they find the help they need to achieve good outcomes.

By developing a deep knowledge of key moments in our members' lives, we can continue to expand and refine that support.

And by continuing to partner with their sector as a service provider, investor, insights leader and advocate, we're supporting them now and throughout their retirement.



# how we create value



## Products and services

### Investment options

We invest members' money responsibly, with a focus on strong long-term performance.

Our members can choose from a wide range of options, so they can choose the level of return they want to aim for and level of risk they're comfortable with.

📍 We invest responsibly on page 33 for more on how we do this.

### Insurance

Our members have access to around the clock insurance cover tailored to meet the needs of people in health and community services.

For some members this is the only cover they have. This important member benefit protects them and their ability to continue contributing to their sector.

Eligible members automatically receive our standard insurance cover when they join HESTA, unless they choose another option.

Standard cover through HESTA costs a low weekly fee that varies with age (for example, members under age 25 pay the lowest fee).

Standard cover provides two units of Income Protection Cover to age 67 with a 90-day waiting period and two units of Death Cover to age 75.

If standard cover doesn't suit the member's needs, or if they want to change their cover, they can easily:

- apply for different cover
- reduce or opt out of cover.

### Education and advice

Our Member Engagement team works directly with members to deliver advice and education that can guide them towards better retirement outcomes.

We inform, inspire and advise members to make positive decisions that can make a real difference to their financial future through:

- workplace education and general advice sessions
- pre-retirement education sessions
- one-to-one advice online and over the phone
- detailed personal advice and full financial planning.

In most cases, our members pay no additional fee for advice on their HESTA super account.

📍 We partner with purpose on page 76 for more on how we do this.

### HESTA Income Stream

Our members can stay with HESTA throughout their retirement with our income stream product. The income stream keeps members' super invested with HESTA, and pays them a regular income throughout the year.

Members can keep their money working hard for them as they transition out of work into full retirement, knowing they're with the fund that supports their sector, invests responsibly and stands up for the issues they care about.

## Research and insights

We're developing our capability to better understand what individual members need, and support them with the right solutions at the time and place they need them.

Our Insights and Customer Experience team uses data to help us deliver the right support at every stage of our members' working lives and throughout their retirement.

We're translating those insights into personalised member experiences to support each member's unique journey.

📍 [Our research and insights on page 29 for more on how we do this.](#)

## Industry super fund

Our members are with a fund that was founded by and for their industry. All profits go to them, not to shareholders.

Every member can feel confident that:

- we keep our fees down and our costs low
- the financial advice we offer is commission-free
- we aim to deliver strong long-term performance.

## Partnering with health and community services

Our partnership with the sector, through our relationships with employers, unions and other partners, connects us to our members and the issues affecting them.

We use these insights to support our members and celebrate their incredible contribution to our community.

And our Awards program shines a national spotlight on the amazing work being done in health and community services every day.

For more than 12 years our Awards have recognised and directly supported unsung heroes working in nursing and midwifery, aged care, community services, early childhood education and care as well as primary and allied health.

📍 [We partner with purpose page 76 for more on how we do this.](#)

# our performance

## Member services

Our members have around-the-clock support to meet their financial needs now and throughout their retirement through a range of digital, phone and in-person services.

In the last five years digital channels have become our members' preferred way to engage with us.

We've been growing our digital capability so that we can offer members personalised journeys that enable them to take more positive actions based on their individual needs, and to take them quickly and easily.

## Education and advice

Our team provided one-to-one advice to 10% more members this year, including via our inbound contact centre and advice team. This additional reach is on top of over 60% growth in 2016/17.

Our customer satisfaction and net promoter scores from members that have received advice from HESTA are consistently very high.

And as demand for our teams' support rises, we've been growing to meet it.

**We partner with over 80,000 employers and deliver a range of workplace education and advice sessions across Australia.**

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



**Workplace visits**

**1,699**  
visits

**61,582**  
attendances



**Education sessions and general advice**

**958**  
sessions

**15,469**  
attendances



**Total member facing visits**

**2,657**  
Total visits

**77,051**  
Total attendance

**5,813**

**Contacts with Associate Superannuation Advisers**

**2,691**

**Advice appointments**

**3,796**

**Seminar participants**

## Innovations

We've continued to develop new ways to offer our members better experiences whenever they connect with us. In 2018 we launched:

- E-Communications, enabling our members to receive important correspondence on their super and entitlements online, and follow up SMS so we can process their requests sooner
- new Net Promoter, Customer Satisfaction and Customer Effort scores so we can keep improving our members' experiences
- our chatbot Liz, offering members instant answers to common super queries
- outbound calling services which resulted in our team calling more than 28,000 members about key super topics
- SuperCheckpoint, a new interactive dashboard that makes it easy for members to check their super account. It has been designed to serve members with personalised next-best-actions
- an upgraded call centre interactive voice response system to enable members to receive information more quickly through self-service
- redesigned Member Updates, delivering short, sharp super news stories directly to members' inboxes.

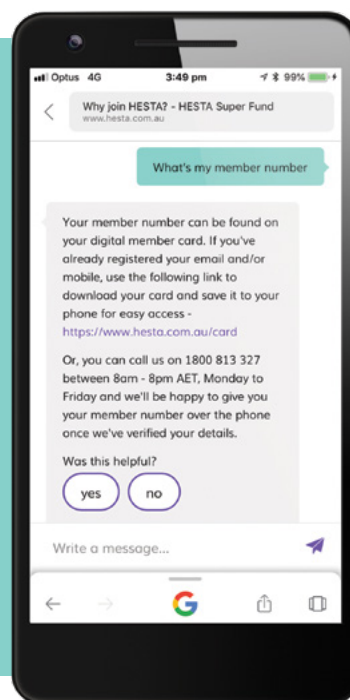
📍 Our business partners on page 23 for more on how we do this.

### Meet LIZ

Our website's chatbot Liz was introduced in late 2017. Our objective was to make it easier for our members to find the right answer on demand.

As a self-service, conversational search solution Liz meets our members' need for immediate, relevant, and easy-to-understand help. The insights we gain from member queries are fed back to our digital team, so we can continue to improve Liz's ability to help, and learn more about what's really important to our members.

Since being launched, Liz has averaged around 200 enquiries a day. By quickly and easily solving member queries online, Liz frees our call centre to have better conversations that deliver high quality personal super advice.



## Insurance

In March this year we changed our insurance design to offer our members even more benefits and further align it to the needs of people in health and community services.

Since 1996 HESTA has offered long-term income protection insurance to support members when they become ill or injured. This year we introduced new benefits including a unique additional lump-sum permanent incapacity amount of \$10,200. This helps members retrain in a new occupation or make home adjustments where they cannot return to their former occupation.

As part of the changes, we appointed new insurance partner AIA Australia Limited. AIA was chosen for their financial strength, sustainable pricing, rehabilitation support programs and ability to enhance our members' experiences through digital technology.

Other innovations include:

- tele-underwriting and tele-claims, so members can call us to apply for more cover or to make a claim
- easier ways to apply for, increase or reduce insurance online
- e-claims, so members can claim online in their own time
- more ways for members to cancel cover including online, by phone or by email
- a concierge service to support members who might need extra help to complete their claim
- an enhanced rehabilitation and wellness program to help members get back to life and work sooner.

### Insurance in Super voluntary code

HESTA has been an active member of several committees and working groups advocating for a voluntary insurance code for super funds. The code provides a framework for super funds to help ensure the insurance cover they offer members is affordable and appropriate to their needs.

In February the code became a reality, with HESTA one of the first to sign up.

### Welfare Rights Centre

This free service helps HESTA members maximise Centrelink entitlements. This support is especially important when claiming income protection benefits, where members might need extra support when they are unwell or injured.

## Income Stream

In 2017 we were thrilled to win a competitive tender to be the successor fund for IRIS, a retirement income fund. All IRIS members have been transferred to the HESTA Income Stream, increasing our scale and giving our new members access to all the great features and benefits HESTA offers.

### Insurance snapshot FY18

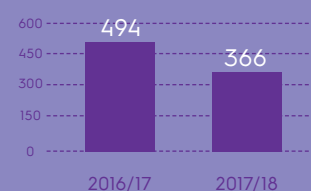
**>\$150m**  
paid claims

**2,077**  
approved claims

**1,377**  
death and terminal  
illness payments made  
from members' super  
accounts

**70%**  
of member death benefits  
paid included insurance

#### Complaints received



# looking forward

## Advice

We expect to continue creating closer relationships with members, building pathways to ongoing guidance as their lives evolve, and delivering new services to unlock other financial possibilities later.

We're reaching out to connect with members and talk through opportunities we see for them to improve their outcomes. These include making the most of tax concessions, investment strategies and Transition to Retirement income streams.

## Member services

We're continually looking for new ways to make it easier for our members to connect with us. Future improvements will include enabling members to choose different communication methods like SMS and having member correspondence published online.

This will help us keep reducing our environmental footprint.

We'll also continue to invest in optimising our members' experience by translating our insights into digital solutions that ease their journey to financial wellbeing.







# we partner with purpose

## Why this matters to us

HESTA grew out of a shared commitment between the health and community services and financial sectors to help employees retire well. Our partnerships model remains one of our core competencies today.

Our partnership with the sector, through our relationships with employers, unions and other partners, is fundamental to delivering on that vision.

By working closely with and supporting the sector our members work in, we aim to help them enjoy a rewarding working life and better outcomes in retirement. We're also proud to promote and invest in life-changing work that benefits our society every day.

Our business partnerships enable us to stay lean and agile, reduce costs and use the expertise of organisations best placed to deliver value for our members.

By extending our reach we can learn from our partners and strengthen our own business. We can also influence our partners with our values, to help us achieve great outcomes for our members now and drive meaningful change for generations to come.

 **Our business partners page 23 for more on how we do this.**

# our performance

## Partnership engagement



Over 3100 separate engagements across health and community services with our employers, unions, and other partners



Supported 30 national industry conferences sharing the HESTA story with approximately 18,600 health and community services delegates.



Employer union and association satisfaction with HESTA 8.6/10\* (up from 8.4/10 2016/17)

Key drivers:

- Relationship Manager performance
- Clearinghouse (easy to use and timely).



More employers chose to nominate HESTA as the default fund for their organisation.

\*Forethought Research, 2018

## Member education and advice services

Our Member Engagement team works directly with members to deliver advice and education that can guide our members towards better outcomes.

📍 We understand our members page 68 for more on this



## Research and insights: Transforming Aged Care

Released in May 2018, our landmark aged care report offers fresh insights that could help build, train and retain the sector's future workforce.

Drawing on data from the more than 200,000 HESTA members working in aged care, the report details the significant challenges faced by the sector in attracting and retaining workers to the rapidly changing industry.



These include a potential shortfall of more than 80,000 employees, with over 23% of those surveyed intent on leaving the sector in one to five years.

The two-year research project drew on discussions with employees, peak bodies, unions and service providers from across the country. The research explored aged care employees' broader working context, including number of employers, hours of paid and unpaid work, and career plans.

[hesta.com.au/transformingagedcare](https://hesta.com.au/transformingagedcare)

# how we create value

	The health and community services sector (employers, unions, and other partners)	Business partners and suppliers providing member and fund services
How we select these partners	These are our founding partners, for and by whom HESTA was created. We maintain our deep connection to the sector to ensure we understand our members' needs.	We use a procurement process that ensures we choose leading, cost-effective and sustainable partners that can help us meet our members' needs and expectations.
How we work with these partners	Our Partnership Engagement team works directly with employers, unions and other partners to develop strong relationships that help us grow our membership.	We use our business partnerships to extend our own capacity and capabilities, keeping us lean and flexible enough to respond quickly to change.
How this partnership creates value for us	<p>We can extend our capacity to deliver products and services our members need to improve their financial future.</p> <p>We gain direct insight into our members' unique needs, and the issues affecting them and their sector, so we can support and advocate for them effectively.</p> <p>We can share our insights and data to help build the sector's future.</p> <p>We can continue to recognise the sector's vital work through our Awards program.</p>	We can harness the expertise of other leading organisations to expand our internal capacity and capability to support our members and employers.
How we influence this partnership with our values	Our deep connection to the sector enables us to foster and talk about our advocacy and the benefits of our responsible investment approach.	We ensure our partners share our commitment to delivering great outcomes for members.
How this partnership creates value for our members and employers	<p>Through our close relationships with the sector, members and employers can clearly understand our product and service offer and how this benefits them.</p> <p>Employers can apply our research insights and data to help them support their workforce.</p> <p>Through our Awards program, our members' vital contribution to our community is celebrated and promoted. Our partners ME fund the prize pool, enabling winners to develop their career and strengthen their sector.</p>	Members can access leading products and services that can help them achieve better outcomes.
	📍 We understand our members for more on how we do this.	📍 Our business partners and We understand our members for more on how we do this.

Investment and engagement partners	Community organisations	Government and regulators
We use a screening process that ensures our investment managers and engagement partners share our commitment to responsible investment and sustainability.	We partner with community organisations that share our values and can influence outcomes for our members, and people facing financial and social exclusion.	We partner with government and regulators as key stakeholders in our members' future, through their direct influence on superannuation policy and practice.
We engage a range of professional fund managers to invest members' money according to specific objectives and strategies, and to manage risk. We use advice from our investment consultant, Frontier Advisors Pty Ltd and StepStone, to do this.	Our Partnership Engagement team works directly with key community partners such as Good Shepherd Microfinance to share insights and advocate on issues affecting our members.	We work openly and constructively with them to strengthen the oversight, sustainability and regulation of the super system. We do this by advocating strongly on policy development and implementation.
By using investment managers, we can leverage their expertise in investing members' retirement savings, while using our size to achieve economies of scale, construct diversified, robust portfolios and help keep costs low.  Our engagement managers enable us to influence positive change in companies and other investments.	By working directly with the community sector, we can combine our influence to drive meaningful change for members, women and people facing financial exclusion.	We can help ensure our industry remains stable, influential and able to support the best interests of our members.
Our engagement program enables us to drive positive change in practice and policy across responsible investment issues.	We ask our investment managers to foster diversity and inclusion in their own organisations.	We're using our voice to speak up for the interests of members, women and the financially vulnerable.
We recognise that investing responsibly - for people and planet - is important to an investment's long-term value.  This approach contributes to sustainable long-term investment performance for our members and positively impacts the broader economy, society and environment into which they will retire.	We can help drive long-term, meaningful change for our members and our community by making submissions to government on issues directly affecting them, and the world into which they'll retire.	We can enhance our members' interests and increase the financial resilience of the community.
 <b>We invest responsibly for more on how we do this.</b>	 <b>We stand up for what's right for more on how we do this.</b>	 <b>We stand up for what's right for more on how we do this.</b>

## our performance (cont.)

### Insurance

We're always on the lookout for better ways to help protect our members and their families.

After a competitive tender process, on 1 March 2018 AIA Australia was appointed as our insurance partner, replacing CommInsure.

📍 We understand our members page 68 for more on how we do this.

### Member services

Over the past 12 months we've partnered with Link and Adobe to introduce a raft of new member services that greatly enhance our ability to support them whenever and wherever they need us.

📍 We understand our members page 68 for more on how we do this.

### Celebrating the sector: #ThanksForEverything

People in health and community services spend their working lives caring for others. But the nature of their work means they don't always receive the acknowledgement they deserve.

So we launched the #ThanksForEverything campaign – a platform for people to thank nurses and midwives, social and aged care workers, early childhood teachers and allied health professionals who've impacted theirs or their loved ones' lives.

We posted a series of animated thank you notes across social media prompting others to write their own. More than 8,800 engagements were generated over the course of the campaign, with many people tagging those they thanked.

**"...it takes someone special to work in special care. You won't remember me but I remember you and all the wonderful staff at the SAN. More than 20 years since, you cared for our tiny boys and now one is a Dad himself. Bless you. You are a miracle."**



**"Aged care workers do not get thanks or praised often. This was good to see."**





### HESTA Awards program

The HESTA Nursing and Midwifery Awards in May was the first Awards event of 2018. We received a record 231 submissions, evidence of the Awards' enduring influence in the health and community services sector.

#### 2018 HESTA Australian Nurse of the Year Gail Yarran

Gail was awarded for her stellar 50 year contribution to improving health care services to Aboriginal and Torres Strait Islander peoples across her home state of Western Australia. A Noongar woman from Balladong and Wadjak peoples, Gail is the elder and registered nurse in the Maternal Child Health team at Derbarl Yerrigan Health Service Aboriginal Corporation, delivering primary health care to women and children who may not otherwise access health services.

Gail's prize money from proud Awards sponsors ME - the bank for you - will help her explore how to improve antenatal health services in regions such as the Kimberley and Pilbara. She also plans to research culturally appropriate heart health programs as a nurse ambassador with The Heart Foundation.

[hesta.com.au/awards](https://hesta.com.au/awards)

**The national HESTA Awards program shines a spotlight on the incredible work of people in nursing and midwifery, aged care, community services, early childhood education and care and primary healthcare.**

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## looking forward

We're focusing on growing our membership to enhance the benefits of scale our members already enjoy, and help build the future of health and community services by:

- engaging with sector employees at every key point in their financial journey
- increasing efficiencies in the way we support our employers
- maintaining our strong growth by focusing on emerging opportunities
- strengthening our current employer relationships to continue advocating effectively for their sector.



# our performance

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# financial statements

The following Statement of Financial Position, Income Statement and Statement of Changes in Member Benefits are extracts of the audited Financial Statements of the fund for the year ended 30 June 2018. Visit [hesta.com.au/disclosure](https://hesta.com.au/disclosure) or call 1800 813 327 to request a copy of the full financial statements.

## Statement of financial position

As at 30 June 2018

	30 June 2018 \$'000	30 June 2017 \$'000
<b>Assets</b>		
Cash and cash equivalents	68,714	20,955
Receivables and other assets	1,639	1,676
<b>Financial assets</b>		
Cash and short term deposits	4,082,441	4,227,716
Interest bearing securities	5,776,598	5,004,000
Australian equities	12,478,248	10,227,848
International equities	10,302,648	8,861,649
Unlisted unit trusts	10,452,888	8,812,217
Unlisted pooled funds	484,833	511,200
Pooled superannuation trusts	2,585,534	2,315,748
Private equity	1,616,835	1,244,833
Derivative assets	126,017	277,822
Property, plant and equipment	8,445	7,309
Deferred tax assets	3,188	3,474
<b>Total assets</b>	<b>47,988,028</b>	<b>41,516,447</b>
<b>Liabilities</b>		
Payables and other liabilities	(79,824)	(58,904)
Income tax payable	(48,173)	(126,128)
Financial liabilities	(260,591)	(195,148)
Deferred tax liabilities	(795,596)	(653,345)
<b>Total liabilities excluding member benefits</b>	<b>(1,184,184)</b>	<b>(1,033,525)</b>
<b>Net assets available for member benefits</b>	<b>46,803,844</b>	<b>40,482,922</b>
<b>Member liabilities</b>		
Allocated to members	(46,445,000)	(40,235,450)
Unallocated to members	(3,788)	(3,346)
Total member liabilities	(46,448,788)	(40,238,796)
<b>Net assets</b>	<b>355,056</b>	<b>244,126</b>
<b>Equity</b>		
Operational risk reserve	(109,630)	(93,411)
Fund development reserve	(78,872)	(67,784)
Investment account	(166,554)	(82,931)
<b>Total equity</b>	<b>(355,056)</b>	<b>(244,126)</b>

## Income statement

For the year ended 30 June 2018

	30 June 2018 \$'000	30 June 2017 \$'000
<b>Superannuation activities</b>		
Interest	125,084	138,490
Dividend revenue	647,294	575,527
Distributions from unit trusts	963,134	680,526
Changes in fair value of financial instruments	2,963,240	2,834,326
Other investment income	16,388	15,420
Other income	12,675	12,454
<b>Total superannuation activities income</b>	<b>4,727,815</b>	<b>4,256,743</b>
<b>Expenses</b>		
Investment expenses	(166,394)	(139,727)
Administration expenses	(44,418)	(46,872)
Operating expenses	(68,338)	(54,151)
<b>Total expenses</b>	<b>(279,150)</b>	<b>(240,750)</b>
<b>Net result from superannuation activities</b>	<b>4,448,665</b>	<b>4,015,993</b>
Less: Net benefits allocated to members' accounts	(4,129,539)	(3,707,403)
<b>Operating result before income tax</b>	<b>319,126</b>	<b>308,590</b>
<b>Income tax expense/(benefit)</b>	<b>209,432</b>	<b>270,915</b>
<b>Operating result after income tax</b>	<b>109,694</b>	<b>37,675</b>

## Statement of changes in member benefits

For the year ended 30 June 2018

	30 June 2018 \$'000	30 June 2017 \$'000
<b>Opening balance of member benefits</b>	40,238,796	34,836,444
<b>Contributions:</b>		
Employer	3,082,097	2,955,472
Member	512,743	688,659
Transfer from other superannuation plans	1,502,045	881,755
Government co-contributions	6,045	6,803
Low income superannuation contributions	49,852	54,907
Income tax on contributions	(434,945)	(404,603)
<b>Net after tax contributions</b>	<b>4,717,837</b>	<b>4,182,993</b>
Benefits paid to members/beneficiaries	(2,467,841)	(2,294,414)
Insurance premiums charged to members' accounts	(253,996)	(266,676)
Death and disability insurance benefits credited to members' accounts	84,453	73,046
<b>Benefits allocated to members' accounts, comprising:</b>		
Net investment income	4,224,836	3,793,366
Administration fees	(95,297)	(85,963)
<b>Closing balance of member benefits</b>	<b>46,448,788</b>	<b>40,238,796</b>

## reserves

The fund maintains an Operational Risk Reserve, in accordance with the requirements established by the Australian Prudential Regulatory Authority under Prudential Standard SPS114 Operational Risk Financial Requirement, and also holds a Fund Development Reserve and Investment Account.

### Operational Risk Reserve (ORR)

The purpose of the ORR is to provide protection to the fund in the event that a loss is incurred from an operational risk event occurring. The Trustee intends to maintain this reserve at 0.25% of net assets available for member benefits.

The ORR is maintained in a distinct segregated portfolio by our Custodian and is managed to the same strategic asset allocation as the HESTA 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 the last three financial years was:

30 June 2018	\$109.63 million (audited)
30 June 2017	\$93.41 million (audited)
30 June 2016	\$84.60 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 the HESTA 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:

30 June 2018	\$78.87 million (audited)
30 June 2017	\$67.78 million (audited)
30 June 2016	\$40.16 million (audited).

### Investment Account (IA)

The Investment Account is maintained for the purpose of accumulating the investment earnings of the fund's assets prior to allocation to member accounts as well as reflecting the transaction costs in the valuation of investments for the purpose of unit pricing that are not included for financial reporting.

The balance of the Investment Account at the end of the last three financial years was:

30 June 2018	\$166.55 million (audited)
30 June 2017	\$82.93 million (audited)
30 June 2016	\$81.44 million (audited).

## related parties

### Related party investments and transactions

At 30 June 2018 the fund had:

- a 31% (2017: 31%) shareholding of ordinary shares valued at \$1,710,775 (2017: \$1,676,328) in Frontier Advisors Pty Ltd.

Frontier receives fees from the fund for investment consulting services. These fees were \$3,721,731 (2017: \$3,012,407).

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 \$14,442 (2017: \$14,160).

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 (2017: \$nil).

### Other shareholdings and transactions

As at 30 June 2018 the fund had:

- a 17.7% (2017: 15.9%) shareholding in Industry Super Holdings Pty Ltd (ISH) valued at \$147,657,984 (2017: \$102,915,486).

Industry Funds Management Pty Ltd (IFM) is a subsidiary of ISH and manages investments totalling \$10,232,508,108 (2017: \$8,758,773,999) on behalf of the Fund.

ISH has other subsidiaries with which the Fund transacts. Industry Fund Services Pty Ltd (IFS) 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. The New Daily Pty Ltd is also a subsidiary of ISH and provides online news.

Ms C. Smith and Ms A.C. Emslie's partner, Mr G. Weaven are directors of The New Daily Pty Ltd.

Mr G. Weaven is a Director of ISA 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 18.7% (2017: 16.7%) shareholding in ME Bank valued at \$223,257,306 (2017: \$183,353,976). 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 \$13,507,408 (2017: \$23,454,091). The Fund

also had \$193,788,705 (2017: \$447,341,159) invested in cash and term deposits with ME Bank at year end and investments in subordinated notes totalling \$nil (2017: \$15,112,950).

- a 3.8% (2017: 3.8%) shareholding in ISPT Pty Ltd valued at \$1 (2017: \$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 \$2,224,104,756 (2017: \$1,988,578,592) 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.

## 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.

## eligible rollover fund (ERF)

HESTA may transfer your account to an Eligible rollover fund (ERF) if:

you reach age 65, and

- we have not received a payment into your HESTA super account for you for at least two years, and
- after making reasonable efforts, we have been unable to contact you for five years

OR

- you have died, and
- after making reasonable efforts and after a reasonable period has passed, we have been unable to locate a person entitled to the benefit

OR

- you are a former temporary Australian resident and
- it has been six months since you left Australia or since your visa expired

OR

- you are entitled to be paid your ex-spouse's super in a divorce and we are unable to contact you

OR

- You meet the ATO's definition of a lost member.

OR

- your account balance is below \$6,000; and

- your account has not received any contributions or rollovers for at least 13 months.

If your account is transferred to an ERF, you will cease to be a HESTA member and any insurance cover you have will cease.

HESTA uses AUSfund as its ERF. Contact AUSfund at PO Box 543 Carlton South Vic 3053; email [admin@ausfund.net.au](mailto:admin@ausfund.net.au); phone: 1300 361 798 or visit [ausfund.com.au](http://ausfund.com.au)

## key advisers and service providers

**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 2018 include:**

Custodian: JP Morgan Chase Bank

Insurer: AIA Australia Limited

Solicitors: Allens Linklaters, Corrs Chambers Westgarth, HWL Ebsworth, Maurice Blackburn, Slater & Gordon

Internal auditors: KPMG

External auditors: PricewaterhouseCoopers

Taxation advisors:  
PricewaterhouseCoopers

Technology providers: Tecala Group Pty Ltd

**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.



# when you have a concern, we listen

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. If your concern relates to your:</p> <ul style="list-style-type: none"> <li>• HESTA super account, call <b>1800 813 327</b></li> <li>• HESTA Income Stream account, call <b>1300 734 479</b></li> </ul>	<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><b>Mail:</b> Complaints Officer HESTA Locked Bag 5136 Parramatta NSW 2124</p> <p><b>Email:</b> 'Attention: Complaints Officer' HESTA super accounts: <a href="mailto:hesta@hesta.com.au">hesta@hesta.com.au</a></p> <p>HESTA Income Stream accounts: <a href="mailto:hestais@hesta.com.au">hestais@hesta.com.au</a></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 consumers can access free of charge to resolve disputes with financial services providers.

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

If you lodge your complaint before 1 November 2018		If you lodge your complaint after 1 November 2018
Superannuation complaints, including income streams	Non-superannuation complaints	Superannuation and non-superannuation complaints
<p><b>Superannuation Complaints Tribunal (SCT)</b> Locked Mail Bag 3060 Melbourne VIC 3001 1300 884 114 <a href="http://sct.gov.au">sct.gov.au</a></p> <p><small>* You can also access the SCT if your complaint has not been resolved by the internal dispute resolution process within 90 days.</small></p>	<p><b>Financial Ombudsman Service (FOS)</b> GPO Box 3 Melbourne VIC 3001 1300 565 562 <a href="http://fos.org.au">fos.org.au</a></p> <p><small>* You can also access FOS if your non-superannuation complaint has not been resolved by the internal dispute resolution process within 45 days.</small></p>	<p><b>Australian Financial Complaints Authority</b> GPO Box 3 Melbourne VIC 3001 1800 931 678 <a href="mailto:info@afca.org.au">info@afca.org.au</a> <a href="http://afca.org.au">afca.org.au</a></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', 'HESTA Personal Super', 'HESTA Term Allocated Pension', and 'HESTA Income Stream'.

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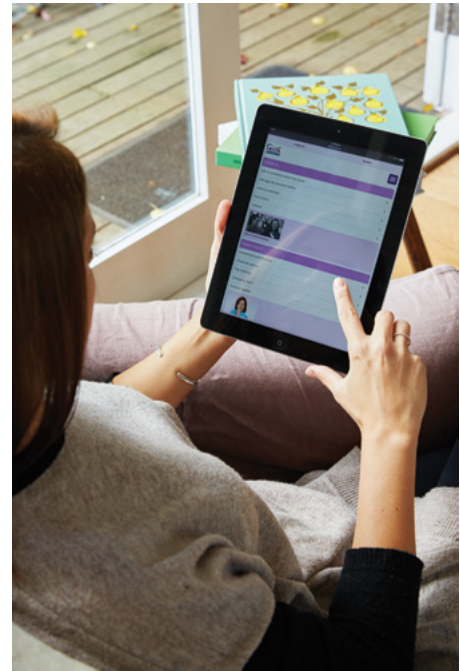
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If you have any feedback on this Annual Report you can write to:

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