

13 March 2026

Ms Deepika Patwardhan
Director, Labelling and Disclosure Unit
Climate and Energy Division
The Treasury
Submitted via consultation website

Dear Ms Patwardhan

Sustainable Financial Product Labelling – Policy design

HESTA welcomes the opportunity to continue engaging with Treasury on the design of Australia’s sustainable product labelling regime. Our submission draws on extensive member research and experience delivering our sustainable investment option, Sustainable Growth, which has been offered to members since 2001¹, with over 33,000² HESTA members choosing this product.

HESTA recommends against introducing thresholds as a prerequisite for sustainable product labelling. Thresholds would constrain diversification, increase concentration risks and conflict with funds’ ability to meet the annual performance test (Element 3).

About HESTA

HESTA is a profit-to-member industry super fund investing more than \$100 billion³ on behalf of more than one million members, who work predominantly in the health and community services sector.

HESTA’s fund-wide approach to responsible investment focuses on integrating responsible investment factors (including environmental, social, and governance (ESG)) into our investment decisions and engaging actively as owners. This approach not only aims to deliver strong, long-term returns for our members, but also seeks to accelerate progress towards a more sustainable world.

¹ Sustainable Growth previously known as Eco Pool

² As at November 2025.

³ As at 11 March 2026

[Element 1] HESTA supports an approach to regulate sustainable products under the Corporations Act and based on product title

HESTA supports a labelling regime regulated at the investment product or option level, rather than at the whole-of-fund level. This position is also shared by our peaks industry bodies and associations: the Association of Superannuation Funds of Australia (ASFA), the Australian Council of Superannuation Investors (ACSI), the Australian Sustainable Finance Institute (ASFI) and the Responsible Investment Association Australasia (RIAA).

Making this distinction is important because, like many funds, HESTA integrates responsible investment factors through our portfolio-wide investment process to enable a better understanding and management of opportunities and risks and to generate strong long-term member returns. We also offer a Sustainable Growth investment option with a distinct and elevated sustainability objective that actively avoids exposure to certain activities and tilts investment towards companies and assets whose practices align with sustainability goals.

HESTA believes regulating at the product level or option level is the right approach, giving funds both clarity and ability to continue to communicate their responsible investment philosophy and practices to members. This is especially important considering terms like "sustainability" are used in different contexts by various funds in their whole of fund marketing and member communication. A sustainable product labelling regime should not seek to limit whole-of-fund level branding and member communication.

[Element 2] HESTA supports introducing consumer facing disclosure, promoting comparability and cost effective delivery of policy intent

HESTA supports the shared view of industry peak bodies and associations, ASFA, ACSI, ASFI and RIAA, advocating for a hybrid consumer facing disclosure model.

Our experience shows members who opt into our Sustainable Growth product are typically more engaged, have higher retirement balances, possess higher levels of financial literacy and are less likely to switch products once they have made their investment choice. Designing and consumer-testing disclosures will be critical to helping consumers find this information useful.

To minimise compliance costs and avoid duplication, HESTA supports robust consumer testing to determine the most effective disclosure channel.

[Element 3] HESTA does not support prescribed minimum thresholds for sustainable products

Minimum thresholds risk portfolio diversification and member outcomes

We strongly recommend against introducing prescribed minimum thresholds for sustainable products as a means of underscoring product credibility. Imposing thresholds risks significantly constraining funds' ability to diversify investment portfolios and limits their capacity to deliver strong long-term returns for members through economic cycles.

The nature of sustainable products, which typically operate under stricter exclusion policies, mean they already face a restricted investable universe and heightened concentration risk and volatility, making sustainable products more susceptible to the negative impacts of thresholds.

In practice, take the example of a product that requires a high proportion of assets to be allocated towards 'climate solutions' and which excludes fossil fuels. Such a product might be expected to perform reasonably well over the long-term, but short-term movements in oil and gas prices and/or international policy settings could introduce significant volatility and short-term underperformance particularly if funds cannot adequately diversify across sectors. This could compromise risk-adjusted returns and ultimately disadvantage members.

This concern is supported by APRA's guidance (SPG 530 – Investment Governance⁴), which emphasises trustees have a duty to act in members' best financial interests by systematically considering both investment returns and sustainability factors as material risks and opportunities. The guidance makes it clear that trustees are expected to integrate these considerations holistically to optimise long-term risk-adjusted returns for members, rather than focusing on any single aspect.

Practical and regulatory challenges of the performance test

There are significant practical and regulatory challenges associated with setting thresholds for sustainable investments within the Australian superannuation sector.

⁴ See section Risk factor consideration – [Prudential Practice Guide SPG 530 Investment Governance - Integrated version](#)

For example, HESTA's Sustainable Growth option reported that 27.3% of funds under management were invested in company activities whose revenues aligned with underlying SDG targets⁵. More broadly, 88% of funds under management in Sustainable Growth were managed through sustainability-tilted or thematically aligned strategies, with cash and government bonds accounting for the majority of the remainder⁶.

While these figures reflect a strong commitment to sustainable investing, they also underscore the considerable gap between current allocations and the suggested threshold of 70%. Achieving such a threshold would require a substantial reallocation of assets, which may not be feasible given the existing investable universe and risk-return considerations.

Imposing high thresholds could also create significant challenges for funds in meeting the annual performance test. If sustainable products are required to meet the suggested threshold, many could fail under the current test, especially during periods in the economic cycle like the current geopolitical situation where oil and gas prices are elevated. We request Treasury consider holistically the interaction of sustainable product labelling and any potential changes to the performance test currently being considered.

Notable differences with the United Kingdom (UK) regime

The UK regime with minimum thresholds for sustainable asset allocation was initiated at the asset manager level for single asset class strategies. In contrast, Australia's superannuation system offers mixed-asset portfolios to members.

This distinction is significant. Australian super funds must balance member preferences, risk management and regulatory obligations across a broader range of asset classes and investment strategies. Applying the UK's threshold-based approach to Australia risks undermining the flexibility required for funds to construct diversified, balanced portfolios that deliver strong long-term returns and meet members' sustainability goals.

⁵ Alignment with the Sustainable Development Goals (SDGs) is measured *using the Sustainable Development Investments Asset Owner Platform (SDI AOP platform), which measures revenues to the SDGs. The SDI AOP taxonomy is now known as the Net Purpose SDG Investment Taxonomy following the merger of SDI and Net Purpose.*

⁶ *Measured under using the Sustainable Development Investments Asset Owner Platform (SDI AOP platform), now known as the Net Purpose SDG Investment Taxonomy following the merger of SDI and Net Purpose.*

Periodic reporting to support product credibility, not through thresholds

Instead of prescribed thresholds, HESTA proposes funds report on their sustainability investment goals, strategy and performance as the chosen mechanism to showcase product credibility to everyday consumers. We consider this to be a more effective and pragmatic approach than introduction of sustainability thresholds whilst still delivering on the policy intent.

[Element 4] - Support principles approach to evidentiary reporting of sustainable outcomes

HESTA supports broad views of industry peak bodies and associations, ASFA, ACSI, ASFI and RIAA, advocating for a principles-based approach. This avoids the limitations of a simple prescriptive model and recognises the diversity and nuanced differences of sustainable products in the market.

Australian Sustainable Finance Taxonomy

The Australian Sustainable Finance Taxonomy was developed by ASFI to identify environmentally sustainable economic activities at an activity-specific level to accelerate capital allocation towards the climate transition. We believe that incorporating the taxonomy into the reporting of sustainable products, for the sectors and activities that it currently covers, would provide broader benefits as a national standard (augmented by other tools and frameworks) for comparison across products.

We would welcome the opportunity to discuss our submission in greater detail, and investor perspectives on setting thresholds for sustainable products. Should you have any questions, please contact Kim Farrant, Head of Strategy, at kfarrant@hesta.com.au.

Yours sincerely



Kim Farrant

Head of Strategy

hesta.com.au

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Contact us

1800 813 327
hesta@hesta.com.au

Locked Bag 35007
Collins St West VIC 8007