significant event notice

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HESTA

30 August 2022

This Significant Event Notice ('Notice') is to let you know about important changes to **HESTA, HESTA Personal Super and HESTA Corporate Super**. Generally this includes changes to, or events impacting, the information provided in the Product Disclosure Statements (PDS) of those products. The changes will be incorporated into future versions of the PDS available at **hesta.com.au/pds**

The changes that we are letting you know about in this Notice include:

- amount paid from fund assets
- removal of activity fees
- investment changes
- responsible investment updates
- investment fees and costs and transaction cost changes, and
- insurance changes.

Amount paid from fund assets

The administration fees and costs deducted from member accounts are paid into the Fund Development Reserve. The Fund then pays its administration costs (including a trustee fee) from the Fund Development Reserve. In some years the amount deducted from the Fund Development Reserve may exceed the amount paid into this reserve. For the 12 months to 30 June 2022, the excess amount was determined to be 0.06% p.a. of funds under management, which was paid from the Fund Development Reserve, and not deducted from member accounts.

Removal of activity fees

Removal of family law account splitting fee

Since 1 July 2022, HESTA has removed the family law account splitting fee (that gives effect to a family law splitting order or arrangement) of $80.

Removal of contribution splitting fee

From 30 September 2022, HESTA will also be removing the contribution splitting fee of $60.

Investment changes

Annual investment review

We review our investment strategy every year considering a range of factors that seek to ensure our investment options remain competitive, are appropriately positioned for the likely future environment facing HESTA and our long-term expectations of investment markets.

A number of changes will be made from 30 September 2022.

Table 1: Change to Your Choice options – International Shares long-term investment objective

This change is being made to align with comparable peer options.

Investment option	Up to 29/9/2022	From 30/9/2022
International Shares		
	Over the long term, to earn an after-tax return, after investment fees and indirect costs, equivalent to or higher than the return (net of tax) of the combination of: • 77.5% MSCI World ex-Australia Index in $A net dividends reinvested • 22.5% MSCI Emerging Markets Index in $A net dividends reinvested • 50/50 $A hedged/unhedged	Over the long term, to earn an after-tax return, after investment fees and indirect costs, equivalent to or higher than the return (net of tax) of MSCI All Country World ex-Australia Index (unhedged in AUD).

Table 2: Change to Your Choice options – Diversified Bonds probable number of negative annual returns over 20 years and risk level

The table below describes how the risk level is changing based on the probable number of negative annual returns over 20 years. When investment performance is expected to be higher, in this case with higher bond yields, the probability of a negative return in a given year is lower, which has reduced the risk level under the Standard Risk Measure.

		Up to 29/9/2022	From 30/9/2022
Diversified Bonds			
	Probable number of negative annual returns over 20 years	4 to less than 6	2 to less than 3
	Risk level	High	Medium

Table 3: Change to Ready-Made options – overall growth and defensive asset splits

The changes to strategic asset allocation and ranges (as detailed in table 4) have led to the following growth and defensive split changes.

		Up to 29/9/2022	From 30/9/2022
Conservative			
	Growth	36%	37%
	Defensive	64%	63%
Sustainable Growth			
	Growth	73%	75%
	Defensive	27%	25%
High Growth			
	Growth	89%	88%
	Defensive	11%	12%

Table 4: Changes to the strategic asset allocation and ranges

		Strategic asset allocation		Allocation ranges	
		Up to 29/9/2022	From 30/9/2022	Up to 29/9/2022	From 30/9/2022
Ready-Made options					
Balanced Growth					
	Australian shares	24%	24%	15 - 40%	15 - 40%
	International shares	30%	29%	15 - 45%	15 - 45%
	Private equity	4%	5%	0 - 15%	0 - 15%
	Alternatives	2%	2%	0 - 15%	0 - 15%
	Infrastructure	10%	10%	5 - 25%	5 - 25%
	Property	6%	6%	0 - 20%	0 - 20%
	Global debt	19%	19%	0 - 35%	0 - 35%
	Cash	5%	5%	0 - 30%	0 - 30%
	Currency exposure	20%	19.5%	0 – 35%	0 – 35%
Conservative					
	Australian shares	11%	11%	5 - 20%	5 - 20%
	International shares	11%	11%	5 - 15%	5 - 15%
	Private equity	-	-	-	-
	Alternatives	1%	1%	0 - 15%	0 - 15%
	Infrastructure	12.5%	12.5%	0 - 25%	0 - 25%
	Property	8.5%	8.5%	0 - 20%	0 - 20%
	Global debt	38%	38%	25 - 55%	25 - 55%
	Cash	18%	18%	10 - 30%	10 - 30%
	Currency exposure	10%	9.5%	0 – 25%	0 – 25%

		Strategic asset allocation		Allocation ranges	
		Up to 29/9/2022	From 30/9/2022	Up to 29/9/2022	From 30/9/2022
Sustainable Growth					
	Australian shares	29%	29%	20 - 40%	20 - 45%
	International shares	35%	34%	20 - 45%	20 - 45%
	Private equity	4%	5%	0 - 15%	0 - 15%
	Alternatives	0%	0.5%	0 - 15%	0 - 15%
	Infrastructure	0%	2%	0 - 20%	0 - 20%
	Property	10%	7.5%	0 - 20%	0 - 20%
	Global debt	17%	17%	5 - 30%	5 - 30%
	Cash	5%	5%	0 - 15%	0 - 15%
	Currency exposure	20%	20%	0 – 35%	0 – 35%
High Growth					
	Australian shares	33%	33%	20 - 45%	20 - 45%
	International shares	37.5%	35.5%	25 - 55%	25 - 55%
	Private equity	8%	10%	0 - 15%	0 - 20%
	Alternatives	2%	2%	0 - 15%	0 - 15%
	Infrastructure	7.5%	9.5%	0 - 15%	0 - 20%
	Property	4%	4%	0 - 10%	0 - 10%
	Global debt	6%	4%	0 - 15%	0 - 15%
	Cash	2%	2%	0 - 15%	0 - 15%
	Currency exposure	25%	24.5%	0 –50%	0 – 50%
Your Choice options					
Diversified Bonds					
	Global debt	100%	100%	50 – 100%	50 – 100%
	Cash	0%	0%	0 - 25%	0 - 50%
	Currency exposure	-	-	-	-
International Shares					
	International shares	100%	100%	90 – 100%	90 – 100%
	Cash	0%	0%	0 – 10%	0 – 10%
	Currency exposure	50%	100%	0 – 100%	0 – 100%

Other investment changes

Change to the asset class description of Cash that applies to all other investment options other than Cash and Term Deposits

From 1 July 2022, the description of the Cash asset class that applies to all other investment options was updated to include a broader allocation to short-dated debt securities, including high-quality asset backed securities, which allowed HESTA to expand its eligible investments in this asset class.

Change to the asset class description of Alternatives

From 30 September 2022, the description, risk and return characteristics of the Alternatives asset class will be updated per the below which allows HESTA to invest in a broader range of investments:

Description	Risk and Return Characteristics
• Alternatives includes a broad range of strategies designed to invest in thematics, take advantage of market mispricing, and/or provide diversification to the portfolio over the economic cycle. These are generally strategies that don't naturally conform to the definition of traditional asset classes.	• return and risk expectations are moderate to high. • returns will rely on the performance of certain identifiable characteristics/factors/thematics. • strategies can include complex and less liquid investment structures.

Responsible investment updates

Portfolio-wide exclusion

We have added a new portfolio-wide exclusion. From 30 September 2022, HESTA will exclude investment in:

- Any company that derives 75% or more revenue from the extraction, production and refining of unconventional oil and gas, and 75% or more of its reserves from unconventional oil and gas. Unconventional oil and gas includes tar sands, shale oil and gas and coal seam gas.

You can find more information about exclusions in *Investment Choices* and on our website at **hesta.com.au/pds**.

Update to the circumstances affecting exclusions

Implementation of the exclusions that apply to our investment portfolio may be affected by certain factors outlined in the PDS.

From 30 September 2022, an additional circumstance that may result in holdings in excluded companies is that in the event of a merger, HESTA may receive investments that were previously not subject to our investment restrictions and exclusions. Such holdings, typically over the short term, will be removed or managed on a case-by-case basis taking into account matters such as available options, liquidity, market conditions, investment fund structure, and best financial interests of members.

Sustainable Growth

Change to the description of Sustainable Growth

Since 1 July 2022, the description of Sustainable Growth has been updated to better describe the option. Changes to how this option is invested are explained in detail on the following page.

Sustainable Growth exclusions

Informed by our member research conducted in 2021, additional exclusions have been introduced for the Sustainable Growth option. Except as noted below, the following new exclusions have applied since 1 July 2022:

Fossil fuels	In addition to the existing fossil fuel exclusions in Sustainable Growth, we have expanded the exclusion to capture any company: • that derives 50% or more revenue from indirect services to the fossil fuel sector. For example, the provision of specific materials, contracted services and transportation[1]; or • has any total volume proved and probable reserves of thermal coal and metallurgical coal; or has any total volume of proved reserves of oil and gas[2]. This part of the exclusion has been effective since October 2021.
For-profit detention	In addition to the existing exclusion for services to asylum seeker detention centres, this category has also been expanded to include for-profit correctional facilities or prisons.
Weapons	Any company that derives 5% or more revenue from military weapons production, civilian firearm production or retailing.
Red flags identified by our data provider related to human and labour rights breaches[3]	Any listed company identified by our data provider as having a "red flag" related to human rights or labour rights breaches. Breaches may relate to: **Human Rights** • Support for controversial regimes • Freedom of expression and censorship • Other human rights abuses and adverse impact on a community **Labour Rights** • Labour management • Employee health and safety • Collective bargaining and unions • Discrimination and workforce diversity • Supply chain employee relations standards
Red flags identified by our data provider related to environmental breaches[3]	Any listed company identified by our data provider as having a "red flag" related to environmental breaches. Breaches may relate to: • Land use and biodiversity • Toxic spills and releases • Energy and climate change • Water management • Operational non-hazardous waste • Environmental impact of products and services • Supply chain environmental impacts

[1] Transitioning companies - companies that are indirectly involved in the fossil fuel sector may be permitted for investment where they can demonstrate a clear climate change transition path aligned to the Paris Agreement (through 10% or more revenue derived from renewable energy generation and either a Science-Based Target or Transition Pathway Initiative score of 2°C and below). The option currently holds a very limited number of companies within the private equity asset class that generate greater than 50% of their revenue from the provision of services to the oil and gas sector. Due to the illiquid nature of these investments, these will be retained within the option until July 2024, by which date they will be exited.

[2] The external data provider does not differentiate between conventional and unconventional oil and gas reserves.

[3] For incident-based exclusions e.g. human, labour rights and environmental breaches, HESTA may exercise discretion to not exclude a company or to re-invest in a company following a period of exclusion if a company can demonstrate through engagement that it has addressed the cause of the previous incident/s and the associated risk has been mitigated.

Poor ESG policies and systems	Any listed company that scores a 'CCC' ESG rating. Companies are ranked from AAA (best) to CCC (worst). Ratings are determined by how well a company manages material environmental, social and governance (ESG) risks compared with sector peers.
Poor financial practices	Any listed company that receives a Corporate Behaviour Theme Score of <1 (less than 1) in addition to any severe or very severe business ethics controversies. The Corporate Behaviour Theme Score evaluates the extent to which companies face ethics issues such as fraud, executive misconduct, corruption scandals, money laundering, anti-trust violations, or tax-related controversies.
Uncertified palm oil	Any company that derives 10% or more revenue from the production and/or distribution of palm oil and has less than 50% Roundtable of Sustainable Palm Oil (RSPO) certified oil. The RSPO certification requires companies to adhere to a strict set of principles and criteria for sustainable palm oil production.
Gambling	Any company that derives 5% or more revenue from the operation, licensing, and provision of key products or services fundamental to gambling operations.
Live animal exports	Any company that derives 10% or more revenue from the export of animals for the purpose of selling live animals for slaughter, husbandry and breeding subjects, including specialised transportation services.
Poor Sovereign ESG rating	Any country that scores a 'CCC' ESG rating. Our data provider scores and ranks countries from AAA (best) to CCC (worst). Ratings are determined by how well a country manages underlying factors across environmental, social and governance (ESG) issues. This exclusion also captures sub-national local authorities (such as states and provinces) who are exposed to similar ESG risks as countries.

Allocation to new asset classes in the Sustainable Growth investment option

From 30 September 2022, HESTA will broaden the strategic asset allocation of the Sustainable Growth investment option to increase its exposure to more types of investment opportunities. The new strategic asset allocation of the Sustainable Growth option will include a 2% investment allocation to Infrastructure and a 0.5% allocation to Alternatives.

Please refer to Table 4 in this Notice for full strategic asset allocation and allocation ranges.

Investment fees and costs and transaction cost changes

Investment fees and costs and transaction costs are deducted from the valuation of investments before daily unit prices are calculated. The amounts below shown for the 2021/22 financial year are indicative only and include several components which are estimates, including performance fees which are required to be disclosed as an average over the past five financial years. Actual amounts in subsequent financial years will depend on the actual costs incurred in those years. Past costs may not necessarily be an indicator of future costs.

		2020/2021	2021/2022
		Investment fee and Indirect Cost Ratio	**Investment fees and costs and transaction costs**
Ready-Made options			
	Balanced Growth (MySuper)	0.81%	0.73%
	Conservative	0.41%	0.44%
	Indexed Balanced Growth	0.05%	0.05%
	Sustainable Growth	1.20%	0.97%
	High Growth	1.14%	0.88%
Your Choice options			
	Cash and Term Deposits	0.02%	0.02%
	Diversified Bonds	0.28%	0.27%
	Property and Infrastructure	0.94%	0.88%
	International Shares	0.42%	0.44%
	Australian Shares	0.31%	0.32%

On 1 July 2022, HESTA adopted the Australian Securities and Investments Commission (ASIC) Regulatory Guide 97 (RG 97) to fees and costs disclosure. As a result, the names of different fee categories and the methodology of what's included in these fees have changed, including the treatment of performance fees. As such, the above table is not a direct like-for-like comparison between FY21's fees and costs and FY22's fees and costs. For a full explanation of what the different fees mean and what is included in each category, go to *Fees and costs* at **hesta.com.au/pds**

Insurance changes

Changes to the New Events Cover terms for Personal Super members

Members who join HESTA Personal Super and opt to hold Standard Cover are subject to New Events Cover (limited to illnesses or injuries that occur after cover has commenced).

From 1 July 2022, subject to some exceptions, new members who joined HESTA Personal Super will have the New Events Cover restriction lifted once they have been in Active Employment for 30 consecutive days.

Existing Personal Super members with insurance that joined before 1 July 2022, who are subject to the New Events Cover restriction, will subject to some exceptions, have the restriction lifted once the member has been in Active Employment for 30 consecutive days after 1 July 2022.

contact us

hesta@hesta.com.au | 1800 813 327 | Locked Bag 5136, Parramatta NSW 2124 | hesta.com.au

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