August

2024

Responsible investment policy

Prepared by

Investment Management

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1. Introduction

At HESTA ('**the Fund**'), our purpose is to invest in and for people who make our world better. We tell the story of our purpose through "Super with impact™". Super with impact™ is the positive outcome we create by supporting our members to face the future with confidence, being a gutsy advocate for a fair and healthy community and delivering investment excellence with impact. Accordingly, responsible investment is one of three pillars through which we seek to influence positive outcomes.

We believe that as long-term investors, our members' best financial interests are served by having a deep commitment to responsible investment. We recognise the importance of pursuing a growing, sustainable and inclusive economy to deliver strong long-term returns for members. Responsible investment ('**RI**') is an approach to investing that incorporates the consideration of environmental, social and governance ('**ESG'**) risks and opportunities into investment decision making and active ownership[(1)], to promote the best financial interests of members.

This Responsible Investment Policy ('**the Policy'**) sets out the principles and commitments that direct our approach to Responsible Investment[(2)]. The Policy supports the Fund's Risk Management Framework and is a component of the Fund's Investment Governance Framework ('**IGF**'). It also supports execution of the Fund strategy.

2. Scope

The policy applies to all funds under management across all investment options offered by HESTA.

3. Governance

a. Roles and responsibilities

The HESTA Board ('**Board**') is at all times responsible for the Fund's investments including management of investments in a manner consistent with the best financial interests of members. The Board, on behalf of the Fund, has delegated approval and oversight of the Policy to the Investment Committee ('**IC**'). The Chief Executive Officer is responsible for ensuring that the Policy and its implementation is consistent with the Fund strategy, and as key spokesperson for the Fund, that there is alignment between the Policy and external positioning. The Chief Investment Officer ('**CIO**') - is accountable for the implementation of the Policy and the oversight of material RI factors. The Responsible Investment Team ('**RI Team'**) is part of the Investment Management Team. It is led by the General Manager RI ('**GM RI**') who reports to the CIO and is responsible for leading the implementation of the Policy supported by Investment Execution, Legal & Compliance and Risk teams including the reporting of material RI factors. Additional specific roles and responsibilities are performed in accordance with the Governance Framework Delegations Register.

Note (1) https://www.unpri.org/investment-tools/stewardship/active-ownership-20
Note (2) This Policy includes our proxy voting policy, as required under the Corps Reg 7.9.07ZB (3).

Through these roles and responsibilities, HESTA ensures appropriate resources are available to identify and respond to material RI factors.

b. Conflicts of interest

Our approach to avoiding, identifying, and managing conflicts of duties or interests is outlined in the HESTA Conflicts Management Policy. Our approach to managing insider information is outlined in our Conflicts Management Policy and Investment Option Switching and Personal Securities Trading Policy.

c. Monitoring and reporting

Our responsible investment activities are assessed through independent benchmarking(3) and informed by feedback through regular engagement with our stakeholders. The CIO and Investment Management Leadership key performance indicators and RI team objectives include responsible investment metrics.

Regular responsible investment reporting is provided to the Board, IC and senior management including:

- biannual reporting to the Board on active ownership;
- regular reporting to the Board on responsible investment progress and priorities;
- biannual reporting to the IC on climate change and responsible investment;
- reporting to senior management and IC of any incidents related to adherence to the Policy; and
- reporting to senior management and IC of activation of any responsible investment triggers outlined in the Investment Risk Limits & Monitoring Framework, together with remediation actions.

HESTA publicly disclose information about the management, holdings and performance of investment options, including our approach to managing material opportunities and risks, as well as responsible investment activities and outcomes via a range of reports, including but not limited to, the Principles for Responsible Investment ('PRI') Assessment and Transparency reports, the HESTA Annual report, and climate change disclosure, member communications and other HESTA websites(4).

4. Regulatory requirements & industry codes

In developing the Policy, the Trustee has referred to its duty to comply with the 'sole purpose test' and 'best financial interests duty', as set out in the *Superannuation Industry (Supervision) Act 1993* ('**SIS Act'**). The Australian Prudential Regulation Authority's ('**APRA**') Prudential Practice Standards and Guides - SPS 220 Risk Management, SPS 510 Governance, SPG 530 Investment Governance and CPG 229 Climate Change Financial Risks have also been integrated as they pertain to responsible investment activities.

Note (3) Including Principles for Responsible Investment (PRI) annual survey and Responsible Investment Association of Australasia (RIAA) annual super study

Note (4) As required under the *Corporations Act 2001, s.1017C*.

The Policy is also guided by legislation such as the *Modern Slavery Act 2018,* provisions of the *Corporations Act 2001* and industry codes and frameworks including:

- Principles for Responsible Investment ('**PRI**');
- UN Sustainable Development Goals ('**SDGs**');
- Paris Aligned Investment Initiative ('**PAII**');
- Australian Asset Owner Stewardship Code ('**Stewardship Code'**); and
- ACSI Governance Guidelines.

These codes and frameworks underpin HESTA's approach to responsible investment.

5. Responsible investment considerations

Responsible investment factors present risks and opportunities that can have a material effect on the performance of our investment portfolios and are therefore integrated into our investment process and decision making. The Trustee has identified Responsible Investment as a material risk sub-category and the Board has set the Fund's risk appetite as part of the Risk Management Framework. Examples of the type of responsible investment factors(5) that may be considered include:

Environmental	Social	Governance
• Climate change • Resource scarcity & efficiency • Pollution and waste • Natural capital & biodiversity	• Human rights • Labour standards • Health & wellbeing • First Nations rights & relations • Modern slavery • Diversity • Supply chain management • Stakeholder engagement & communities	• Culture • Executive remuneration • Bribery & corruption • Board diversity & composition • Lobbying • Taxation practices • Corporate accountability & transparency • Shareholder rights

Considering each of these issues across the thousands of assets that we invest in is not practicable given limited resourcing. Accordingly, we prioritise which companies and factors to focus on. We do this based on materiality and where we believe we are most able to influence change. When assessing the materiality of responsible investment factors, we consider whether an issue is material to a company and/or whether

Note (5) HESTA's definition of responsible investment incorporates environmental, social, governance, ethical and labour considerations as referred to in the *Corporations Act 2001,* s.1013D(1).

a company's management of an issue is material to our portfolio as a whole. We source responsible investment data from external research providers where applicable to assist us in identifying material opportunities and risks. This data generally utilises international frameworks such as the Paris Agreement (on climate change) and UN Global Compact (which is derived from the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work).

a. Managing systemic issues

We recognise how important a growing, sustainable and inclusive economy is to delivering strong long-term returns for members. As a super fund with diversified global investments, we are structurally exposed to risks related to some of the world's biggest issues and therefore manage these risks on an ongoing basis. Factors such as gender equality, decent work, and good health and wellbeing support strong market fundamentals including economic growth that drive member investment returns, while systemic risks[(6)] such as climate change and biodiversity loss[(7)] have the potential to undermine these returns. System level issues cannot be mitigated through diversification or divestment.

We endorse the ambitions of the SDGs as a framework to address systemic risks and identify areas of opportunity, and we prioritise a number of SDGs through our responsible investment program. We aspire to contribute to outcomes aligned with the aims of these priority SDGs through our capital allocation (including our investment strategy, exclusions and manager and asset selection, appointment and monitoring) and active ownership (including engagement, voting and advocacy), as discussed below. We believe this is aligned with members' best financial interests given the SDGs are a focus of global policy and initiatives, and therefore associated with material financial opportunities and risks. We measure the level of SDG alignment of our investment portfolios according to the Sustainable Development Investments Asset Owner Platform ('**SDI AOP**') Taxonomy. Reporting on our level of alignment is available in HESTA's annual report.

b. Climate change

We recognise that climate change poses a material, direct and current financial risk that is relevant to the management of our members' retirement savings. Climate risks include physical, transition and liability risks which can cause damage to assets, reduced revenue, increased costs, changes in asset viability, business disruption, penalties and disrupted workforces. We consider members' best financial interests are served through a timely, equitable and orderly transition to a low carbon economy, which minimises the systemic risks of climate change. Reflecting both the science and regulatory guidance, HESTA incorporates climate change into its investment process in a way that is consistent with the best financial interests of our members. This includes incorporation of climate change into the investment strategy process, risk

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Note (6) Systemic risk are those that threaten the functioning of the economic, financial and wider systems on which investment performance relies (United Nations Environment Project Finance Initiative)

Note (7) HESTA defines gender equality, decent work, good health and wellbeing, climate change and biodiversity loss in line with the relevant UN Sustainable Development Goals (SDG5, SDG8, SDG3, SDG7 and 13, SDG14 and SDG15), which are HESTA's priority SDGs.

framework, scenario analysis and stress testing, selection and review of investment managers, company engagement, investment in climate solutions, advocacy and reporting.

HESTA endorses the Paris Agreement. HESTA may also endorse standards that guide disclosure on climate risks and opportunities where it considers them to be relevant.

HESTA is a signatory to the PAII and have committed to address climate risks and opportunities across the Fund by:

- Reducing absolute carbon emissions across our investment portfolio to net zero by 2050(8);
- Incorporating the underlying principles of the Paris Agreement including an equitable transition into our approach to the management of climate-related risks and opportunities for investments;
- Considering the short, medium and long-term consequences of climate change and integrating these into investment strategy, stress testing and portfolio construction processes;
- Assessing investment manager processes to identify and manage climate-related risks and opportunities as part of the selection and monitoring of investment managers;
- Actively engaging with investment managers and service providers to encourage greater awareness and integration of climate risks and opportunities into the investment process;
- Assessing the exposure of our investments and their supply chains to climate-related risks including, but not limited to, physical, transition and legal risks;
- Engaging with our investment managers to ensure risks are being managed appropriately;
- Engaging with companies and assets, and collaborating with other investors, to advocate for emission reduction targets and plans aligned to the Paris Agreement, capital allocation and executive remuneration aligned with climate targets, disclosures with regard to relevant standards and Board capabilities in the area of climate change;
- Proactively investing in climate solutions(9) that offer competitive risk-adjusted returns;
- Advocating for strong action on climate change by companies and governments consistent with transition to a net zero emissions global economy by 2050;

Note (8) Refer to HESTA's Climate Action webpage

Note (9) Climate solutions are defined as investment opportunities aligned to SDG7: Affordable and Clean Energy, SDG11: Sustainable Cities and Communities and SDG 13: Climate Action under the Sustainable Development Investment Asset Owner Platform (SDI AOP) Taxonomy. Examples include renewable energy, energy efficiency and sustainable property.

- Measuring and monitoring portfolio carbon emissions[10], with a view to reducing emissions in line with HESTA's climate objectives; and

- Disclosing our progress on the above with regard to relevant standards that guide disclosure on climate risks and opportunities.

7. Responsible investment approach

We integrate responsible investment factors and act as active stewards of members' retirements savings throughout our investment process to enable a better understanding and management of opportunities and risks and to generate strong long-term returns for our members.

a. Investment strategy

We consider a broad range of risks as part of the annual review of our investment strategy and long-term strategic asset allocation process. This includes incorporating climate change into our long-term capital market assumptions (expected returns) and stress testing the impact of historic and forward-looking scenarios (including climate and other systemic risks) to help balance risk while working to meet return objectives.

b. Exclusions

HESTA may restrict investment in activities, sectors and companies that HESTA considers:

- contravene international treaties or conventions; or

- cause indiscriminate harm to society or the environment; or

- face significant risk of asset stranding[11]; or

- are involved in severe or repeated controversies that erode their social licence to operate; and

- where a company has failed to address material risk exposures and engagement is either not possible or has proved ineffective; and

- where divestment is believed to be in the best financial interest of members.

Our current exclusions are outlined in the HESTA Investment Choices guide and HESTA Income Stream Product Disclosure Statement.

Note (10) Scope 1 and 2 carbon emissions per dollar invested, and considering Scope 3 emissions where material.
Note (11) Stranded assets are those assets that at some time prior to the end of their economic life are no longer able to earn an economic return.

c. Manager selection, appointment and monitoring

HESTA invests globally across a range of asset classes, both directly through internal investment teams and indirectly through external investment managers. All members of the Investment Management team are responsible for integrating responsible investment into investment processes.

Our RI team works closely with internal Investment Management teams to ensure responsible investment is integrated into their direct strategies. We seek to partner with external investment managers that are aligned with our beliefs and corporate values, including our commitment to responsible investment, as outlined in the HESTA Partnership Principles.

Our investment manager and asset selection process includes a review of responsible investment factors, including how RI factors are integrated into investment analysis and portfolio management, as outlined in the HESTA Investment Due Diligence Policy. While all managers are expected to allocate appropriate resources to identify and respond to material RI factors, the way and extent to which managers incorporate RI factors into investment analysis and decision making and the standards used to assess investments will differ across the portfolio and are dependent on the relevance of a factor to each asset class and the style of the investment strategy (and subject to HESTA's exclusions).

We seek to include responsible investment requirements into external investment manager appointment documentation([12]).

We encourage all our managers to continuously improve their responsible investment approach. Monitoring responsible investment approaches and performance enables us to identify and manage potential opportunities, risks and impacts. We utilise a variety of responsible investment metrics sourced from a range of external research providers to monitor existing manager and portfolio performance on an annual basis. This includes but is not limited to:

- emissions measurement;
- gender representation in investment teams;
- responsible investment risk exposures;
- SDG metrics;
- exposure to excluded companies, selected sectors/companies/activities; and
- modern slavery risk assessment.

Insights from our monitoring program are incorporated into annual asset class reviews. Where we identify that a manager's policies, procedures, or operations do not comply with the selection and appointment

Note (12) This includes Investment Manager Agreements and, where possible, fund side letters requirements[13], or where portfolios do not align with expectations outlined in the Investment Risk Limits & Monitoring Framework, we will engage with the manager to establish an improvement plan to rectify the issue. While HESTA's preference is to work collaboratively to address any identified issues, if a manager is unable or unwilling to address the identified issue and/or if the manager has been flagged for other reasons, HESTA will review the appropriateness of the manager's ongoing appointment and may seek to redeem our investment in line with the HESTA Investment Due Diligence Framework.

d. Active ownership

Active ownership (or stewardship) is the process by which the Fund seeks to leverage its rights as a shareholder or lender to influence management of responsible investment factors that can impact long-term returns at both the company and market level. We do this as part of our responsibility to protect and enhance long-term investment value for HESTA members. By actively engaging with our investment managers, portfolio companies, regulators, and policy makers we seek to influence the management of material issues that can impact long-term returns at company and market level.

Our active ownership program focuses on addressing systemic issues, assessing the materiality impact of these (on our investments and of our investments on our portfolio and members), selecting the appropriate combination of active ownership levers and pursuing implementation. We prioritise engaging with companies and stakeholders on systemic issues, however, will engage on specific concerns at company level should a material risk arise.

i. Priorities

Engagement objectives are guided by HESTA's Active Ownership Priorities:

- *Alignment with long-term objectives* – we expect companies to create and enhance value for the long term while appropriately balancing their best interests with those of shareholders and stakeholders.
- *Identification and management of material issues and systemic risks and opportunities* – we expect companies to act in a responsible way considering how their business contributes to systemic issues. This includes identifying and managing material risks and opportunities both in the present and over the long-term. Assessment of risks and opportunities should consider financial, regulatory, operational, reputational and legal impacts.
- *Contribution to sustainability outcomes* – we encourage companies to assess and measure how they can contribute to the achievement of the SDGs. We believe that companies can benefit from delivering products and services that help solve some of the work's biggest challenges highlighted by the SDGs whilst also delivering financial value to our members.
- *Strong governance and accountability* – we expect companies to have effective systems and processes in place to ensure there is clear accountability for strategy development and

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Note (13) This includes the HESTA Partnership Principles, Investment Due Diligence Policy, Investment Manager Agreement and fund side letters.

implementation, risk management and company performance. This extends to ensuring companies have the right mix of skills, capabilities and diversity to deliver on their strategy.

- *Preserving a social license to operate* – we understand that an entity's social license to operate is a valuable intangible asset. It is founded by the trust a company has earned with its stakeholders. We expect companies to effectively engage with stakeholders to maintain this social license to operate (as outlined in *ACSI's Governance Guidelines*).

- *Transparency and adequate disclosures* – as shareholders and lenders, we require transparent and meaningful disclosure from companies underpinned by globally recognised frameworks for informed decision-making. Companies should publicly disclose all information that is or is expected to be material in the long term, in a timely and complete manner, including decision-useful reporting on any material environmental, social and governance issues.

ii. Active ownership tools

HESTA pursues active ownership using three key tools:

- *Engagement* – interaction with portfolio companies to better understand their business models and to influence their performance and practices in line with our Active Ownership priorities with the aim of driving enhanced long-term returns for members' best financial interests. Engagement with portfolio companies is undertaken directly by HESTA and indirectly through specialist service providers (ACSI for Australian equities and Federated Hermes EOS for international equities) and our external investment managers. By combining these different approaches to engagement, we are able to achieve both breadth in terms of the number of companies covered by our engagement program as well as depth by focusing our direct engagement on those issues or holdings that are most material. We may participate in public debate and collaborate with peers to undertake collective engagement activities to address significant responsible investment concerns. Engagement activities can include direct dialogue (e.g. company meetings, letters to management/boards), representation on unlisted company boards, site visits and dialogue with key stakeholders and external investment managers to encourage progress in their responsible investment integration practices and company interactions.

- *Voting* – exercising our voting rights in listed and unlisted markets is a key element of our active ownership approach and an important link in the chain of accountability between a company and its shareholders. We aim to exercise our voting rights for all shares in listed public companies that are held directly(14). HESTA discloses our voting decisions on our website(15). We may notify portfolio companies of our voting intentions ahead of company meetings. Decisions on Australian equities voting are made directly by HESTA based on what we consider is in the best financial interests of our members, taking into account our Active Ownership Priorities and following dialogue with companies

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Note (14) Exceptions to this approach include investments in pooled vehicles where we do not own voting rights and in markets that require a Power of Attorney, due to prohibitive costs. In countries where there is share blocking, our investment managers will determine whether the votes attached to the HESTA shares should be executed based on a cost benefit assessment.

Note (15) As required in *Corporations Act 2001 reg7.9.07zb (3) items 11 and 12* and consultation with our investment managers, proxy advisers, engagement service providers and other relevant stakeholders. As part of management of any actual or perceived conflict of interest, HESTA will prioritise the best financial interest of members in making voting decisions. HESTA does not engage in any coordination of voting decisions with other parties who have shareholdings in the same company. Decisions on International equities voting are made by Federated Hermes EOS according to *EOS Global Voting Guidelines*, which HESTA periodically reviews. HESTA has discretion to override any voting decisions made by EOS in line with what we consider to be in members' best financial interests. HESTA may co-file shareholder resolutions if it is considered that this will influence a company to take action and address material risks.

- *Advocacy* - As a significant asset owner and representative for our membership, we can play a leading role in the industry to influence meaningful change on responsible investment issues. We use our voice to address systemic issues that are at odds with maintaining and building a growing, sustainable, and inclusive economy which is important in delivering strong long-term performance. Our advocacy activities may involve seeking change, or development of laws, regulations, standards or guidelines to improve long-term performance of markets or reduce market failures. Our advocacy efforts are guided by our Active Ownership Priorities and priority SDGs. Where appropriate, we will advocate directly to decision-makers or via collaborative initiatives in ways that support long-term value creation. We advocate for changes to improve market efficiency, protect society or the environment, enhance governance and deliver appropriate and continuous disclosure where this serves to protect or enhance the value of members' investments.

iii. Monitoring progress

To ensure that we are addressing material risk exposures and that progress is made across our priority SDGs, we monitor our active ownership activities. Our process tracks progress through four key milestones:

1. Material issue raised with company;
2. Issue acknowledged as a concern by company;
3. Company commits to action and timeline; and
4. Material issue addressed effectively.

iv. Engagement escalation framework

Where HESTA considers that companies have failed to demonstrate adequate change, resulting in significant risks remaining, we can use our engagement escalation framework. Escalation can include use of either one or a combination of escalation tools such as a 'watchlist', votes against 'Say on Climate' resolutions, Director elections, support or filing of shareholder resolutions and/or consideration of divestment where we consider that progress has been insufficient to address the risks, where we have formed the view that further engagement is unlikely to achieve alignment with our objectives, and where we consider this to be in the best financial interests of our members. The escalation framework is responsive to engagement progress, new information and resultingly, it may not be sequential.

v. Engagement service providers

Our engagement service providers are selected following a comprehensive review of their coverage, approach and effectiveness. We provide regular input into the establishment and monitoring of annual engagement plans and receive regular reports on upcoming engagements, recent engagements undertaken and any improvements to company activities that have occurred as a result of engagement activities. We may participate in service provider led engagements and have an open dialogue with our investment managers about our collective engagement activities.

vi. Securities lending

HESTA's security lending program is conducted through an agreement with our Custodian and overseen by the Investment Execution team and Investment Management team. The Custodian is permitted to lend HESTA's domestic and international equities and fixed interest securities from the Fund. We recall 100% of Australian shares for voting and retain the ability to recall international shares on a case-by-case basis. For international shares, we limit lending to 90% of the total shares available to ensure we maintain voting rights at all times.

7. Collaboration

HESTA believes in the power of collective action for tackling systemic issues as collaborating often enables us to amplify our voice and drive action, while using our resources efficiently. We seek to collaborate with like-minded investors and organisations to improve the sustainability of capital markets, send consistent messaging to companies and policymakers and deliver economies of scale. We collaborate with a variety of stakeholders to undertake research on responsible investment issues, develop solutions to responsible investment challenges and to encourage companies and governments to improve their governance arrangements, risk management and disclosure on systemic risks as this will improve financial outcomes for our members. We monitor the outcomes of the collaborative initiatives in which we are involved and document direct participation by the HESTA team. A complete list of the collaborative initiatives in which HESTA is involved can be found on our website.

8. Review

This policy will be reviewed annually by Management and tabled for formal approval by the Investment Committee at least every three years.