

HESTA Modern Slavery Statement

2020/21

HESTA FY2021 Modern Slavery Statement

Principle governing body approval

This Modern Slavery Statement was approved by the Trustee board, the principal governing body of HESTA, as defined by the Modern Slavery Act 2018 (Cth)¹ ("the Act") on 8 December 2021.

Signature of Responsible Member

This Modern Slavery Statement is signed by the Chair on behalf of the HESTA Trustee Board as defined by the Act²:

The Honourable Nicola Roxon, Chair



Mandatory criteria	Section	Page number
1. Identify the reporting entity.	About HESTA	Page 4
2. Describe the reporting entity's structure, operations and supply chains.	About HESTA	Pages 4-6
3. Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities it owns or controls.	Our approach to identifying modern slavery	Pages 9-12
4. Describe the actions taken by the reporting entity and any entities it owns or controls to assess and address these risks, including due diligence and remediation processes.	Taking action	Pages 12-15
5. Describe how the reporting entity assesses the effectiveness of these actions.	Assessing our effectiveness	Page 16
6. Describe the process of consultation on the development of the statement with any entities the reporting entity owns or controls (a joint statement must also describe consultation with the entity covered by the statement).	About HESTA	Page 4
7. Any other information that the reporting entity, or the entity giving the statement, considers relevant.	N/A	

¹ Section 4 of the Act defines a principal governing body as: (a) the body, or group of members of the entity, with primary responsibility for the governance of the entity; or (b) if the entity is of a kind prescribed by rules made for the purposes of this paragraph—a prescribed body within the entity, or a prescribed member or members of the entity.

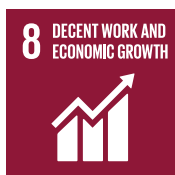
² Section 4 of the Act defines a responsible member as: (a) an individual member of the entity's principal governing body who is authorized to sign modern slavery statements for the purposes of this Act; or (b) if the entity is a trust administered by a sole trustee—that trustee; or (c) if the entity is a corporation sole—the individual constituting the corporation; or (d) if the entity is under administration within the meaning of the Corporations Act 2001—the administrator; or (e) if the entity is of a kind prescribed by rules made for the purposes of this paragraph—a prescribed member of the entity.

A message from HESTA

HESTA is pleased to release its FY2021 statement to provide an update on commitments and progress made toward addressing modern slavery risks in its business operations, investments operations and supply chains. Addressing modern slavery remains a commitment for HESTA as we recognise that delivering long-term sustainable returns for members relies on equal opportunity and prosperity for all in society.

Our highlights for FY2021 include:

- Establishment of the Modern Slavery Working Group (MSWG) and defining its Terms of Reference.
- Deepening our awareness of supplier and investment manager capacity through tailored questionnaires.
- Initiated review of supplier onboarding processes and agreements with progress towards including an acknowledgement of responsible procurement for all contract renewals.
- Began revision of Investment Management Agreements (IMAs) to include modern slavery requirements.



At HESTA, we think and act holistically about how to achieve strong investment returns, while contributing to a healthier planet and society our members will retire into. We recognise the important role that long-term investors, like super funds, have in meaningfully contributing to the ambitions of the United Nations Sustainable Development Goals (SDGs).

Modern slavery is addressed under SDG 8: Decent work and economic growth.³ The goal, which sets a target to *take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour*, is included in the HESTA seven strategic areas of impact. Our focus on SDG 8 is not in isolation as we believe this issue is increasingly linked to SDG 13 Climate Action and SDG 5 Gender Equality. You can read more about our SDG focus areas on our website at hesta.com.au/content/hesta/about-us/hesta-impact/un-sustainable-development-goals.



³ United Nations 2030 Agenda, Goal 8, read more [here](#)

About HESTA

The Health Employees Superannuation Trust Australia ABN 64 971 749 321 (HESTA) is the reporting entity for this statement and is a public offer superannuation fund, the Trustee of which is H.E.S.T. Australia Limited ('the Trustee', 'we', 'us', 'our') ABN 66 006 818 695, AFSL No. 235249, a not-for-profit public company limited by guarantee. The Trustee is governed by a Board of Directors and the Trustee's address is Level 20, 2 Lonsdale Street, Melbourne, VIC 3000. There were no controlled entities relevant to the development of this statement during the reporting year ending 30 June 2021.

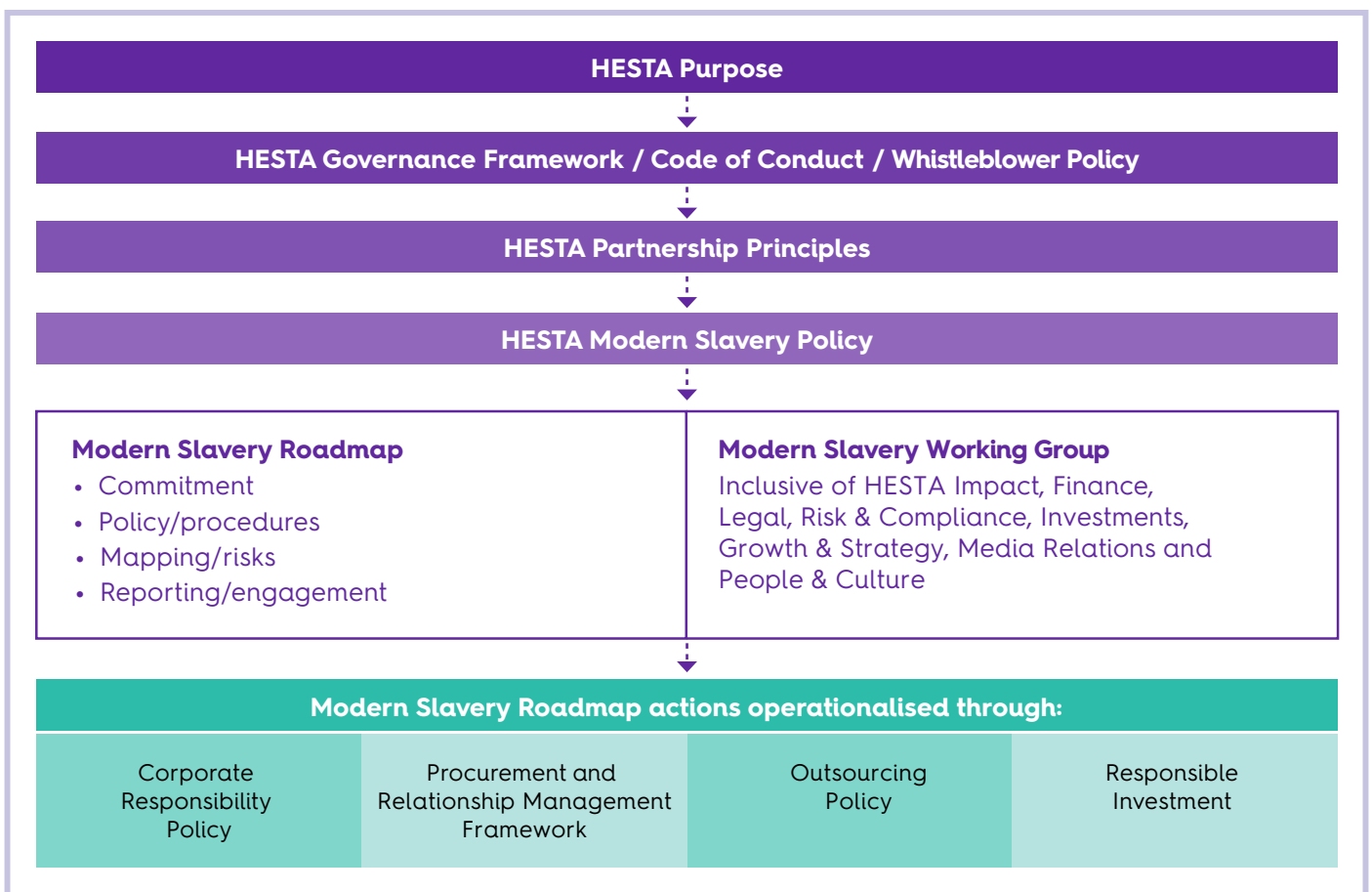
What we do

At HESTA, we invest in and for people who make our world better. This is our purpose. We are focused on serving our members, many who work in health and community services (HACS) sectors. Our promise is to be an advocate to drive meaningful change to make a positive impact to every member, and our ambition is to become the super fund of choice for all those who work in the health and community services in Australia.

Business activities at HESTA primarily involve the management of members retirement savings. This includes investment management and procurement, and the operations and procurement associated with our corporate functions. The National office is based in Melbourne, Victoria, with offices in all States and Territories. HESTA is subject to the regulatory and statutory requirements covering financial services firms regulated by ASIC, APRA and others.

HESTA Modern Slavery Governance Framework

Our Board is responsible for the overall management of HESTA. The Board sets the strategic direction, business plans and the risk appetite statement. The Trustee has four Board-appointed committees who each play a role in the assessment, mitigation and remediation of any modern slavery risks or breaches that may occur across HESTA.⁴ The below table shows our governance framework, which is now supported by our established MSWG.

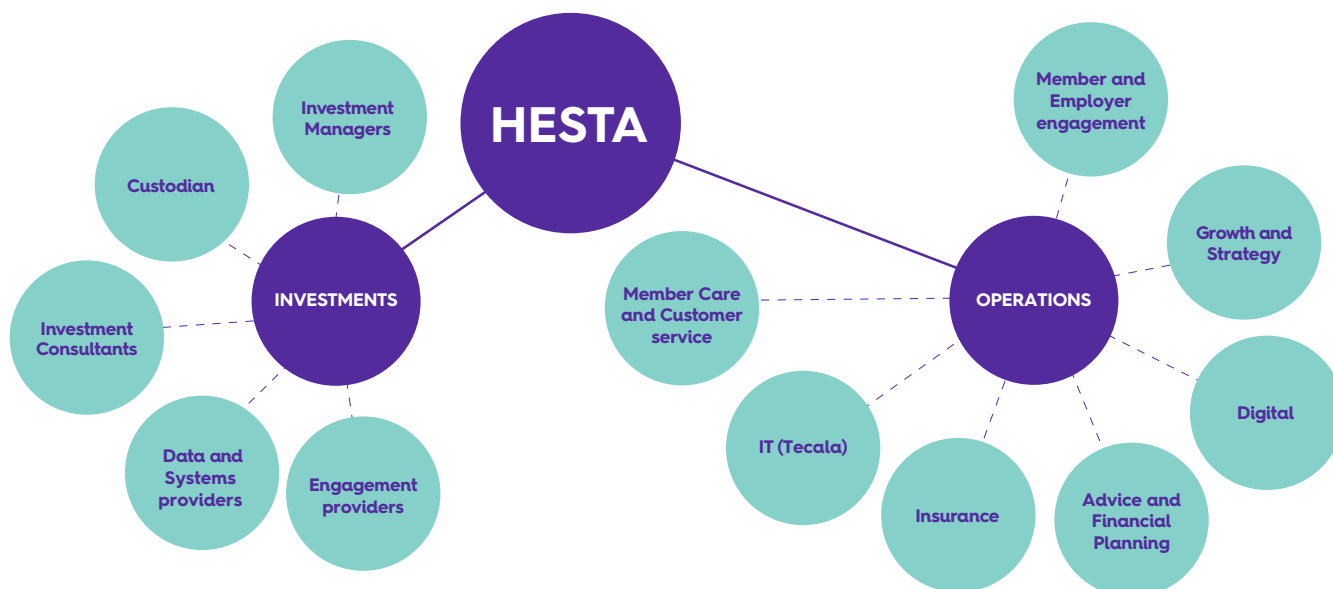


⁴ Read more about committees on page 17 of the [HESTA 2019-2020 Annual Report](#).

Internal operations

HESTA's own operations are based in Australia and encompass the provision of services associated with a financial services firm. As mapped out below, this includes executing investment functions, offering financial advice, insurance, and marketing and digital functions to ensure members are provided a seamless customer experience. In addition to this, we also have a team dedicated to maintaining valuable partnerships in the HACS sector. Given the highly regulated nature of our business, we also have the relevant risk and control frameworks that support the corporate functions and the daily administration of a superannuation fund.

At the end of FY2021 we directly employed 348 people in our own operations, with around 7% on temporary contracts.



Procurement and outsourcing

In FY2021, HESTA continued to procure goods and services from third parties, with 628 of its 694 suppliers based within Australia (please see breakdown below). This is based on existing knowledge of our suppliers and their supply chain. Over the coming year, we expect to have a greater understanding of the regions and this breakdown may change accordingly.

During this reporting period, the procurement function has operated as a decentralised model with each business team procuring products and services as required. The map above outlines some of the business teams who have procured products and services at HESTA.

Region	Number	%
Australia	628	90.49%
Asia	4	0.58%
Europe	8	1.15%
North America	39	5.62%
UK	13	1.87%
Other	2	0.29%
Total	694	100.00%

Our material service provider list is also available at hesta.com.au/about-us/leadership/service-providers for an indication of the external services we procure. The arrangements we have with our suppliers are generally stable long-term contracts.

We encourage the organisations we do business with to operate in alignment with our organisational values and Partnership Principles⁵. While not legally binding, the Partnership Principles provide a framework for our partners to work together with HESTA to deliver a strong and resilient future for our members. These principles include our expectations towards human rights and workplace standards.

As we focus on continuous improvement in addressing modern slavery risks, we recognise that the processes underpinning purchasing decisions may affect downstream risks.⁶ We are currently in the process of establishing a centralised, strategic procurement function within the business. This change should enable us to incorporate greater sustainable and responsible purchasing considerations, allowing us to further factor in modern slavery impacts into our purchasing decisions. We hope to report on the completion of this project in our next statement.

Procurement in investments

In FY2021, HESTA maintained the same investment structure through direct investments and assets selected through external investment managers. We utilise over 70 external investment managers with personnel and offices based in Australia and globally. Our investment managers are listed on our website at hesta.com.au/members/investments/super-investment-options. We also procure investment support infrastructure and professional services where needed as detailed in the map on page 5.

At 30 June 2021, HESTA had over \$64bn in funds under management. The total portfolio asset allocation remains diversified across Australian and international shares, infrastructure, property, private equity, alternatives, debt and fixed interest, and cash. At the end of FY2021, the notable changes to our asset class weights were a reduction in cash and an increase in Australian and international shares.

Responsible investment

We aim to make a difference to the financial future of our members and to the world in which they'll retire. Our objective is to generate sustainable long-term returns that create a positive impact. A core component of our approach to responsible investment is the consideration of environmental, social and governance (ESG) risks and opportunities in our investment decision-making.

As a super fund, we strongly believe the consideration of ESG risks, including modern slavery risks, is aligned with our fiduciary responsibility to act in members' best financial interests. Research has indicated that entities with a poor approach to ESG may perform worse financially, which negatively impacts the value of our members' investments and ultimately their retirement outcomes⁷. We capture modern slavery risks and opportunities as part of the ESG 'social' pillar.⁸

You can read more about our responsible investment approach including the HESTA Responsible Investment Policy at hesta.com.au/responsible.

⁵ HESTA Partnership Principles [here](#)

⁶ <https://www.unpri.org/pri-blog/esg-incidents-and-shareholder-value/7937/article>

⁷ <https://www.unpri.org/pri-blog/esg-incidents-and-shareholder-value/7937/article>

⁸ Read our Responsible Investment Policy [here](#)

Acknowledging the links: Climate change, gender impacts and modern slavery

For many years, we have been focused on the direct and indirect impacts of climate change to our investment portfolio, its performance, the broader economy and the world our members will retire into. The systemic nature of climate-related risk is now so broad, it intersects with other global systemic issues like modern slavery and gender equality.

In June 2021, Anti-Slavery International released an important report outlining the complexities and commonalities across both climate change and modern slavery: [From a Vicious to a Virtuous Cycle](#). The report showed that increasing climate change impacts have flow-on effects into industries that are known to have high rates of forced labour like agriculture or extractives, increasing vulnerability to slavery. In addition, climate impacts are creating new and increasing existing migration patterns, with migrants known to be more vulnerable to practices of modern slavery. We therefore consider our actions to advocate for, and to reduce climate change impacts, as inherently linked to the work we undertake to mitigate the risk of modern slavery.

“the impacts of climate change worsen existing economic and environmental vulnerabilities, and deepen exclusion and marginalisation, leading some to fall into conditions of debt bondage, labour and sexual exploitation, and conditions analogous to slavery”

- Anti-Slavery International

140 million people

expected to be **displaced by climate change impacts by 2050**

90% of the world's poorest people

depend on the availability of **natural resources**



Acknowledging the links:**Climate change, gender impacts and modern slavery (continued)**

To further signal the importance of Anti-Slavery's research, the report also highlights that the impacts of climate change worsen existing vulnerabilities for women and other minorities. As more than 80 per cent of our members are women, this shows the importance of reducing climate change impacts for both our members and all women around the world.

Walk Free Foundation also released a report in 2021, Stacked Odds, focussed on the impacts of Modern Slavery on women. The report draws the same links, highlighting that women are more vulnerable to exploitation as a result of food insecurity and displacement caused by extreme weather events and climate change. Gender inequalities greatly contribute to the wider vulnerabilities women face to modern slavery, often linked to cultural values, land ownership, education and discrimination. Women make up 71 per cent of all victims of modern slavery, again highlighting the importance of modern slavery mitigation to HESTA and our members.



“Gender stacks the odds against girls from before they are born, to the end of their life. This is in our power to change.”

- Walk Free Foundation

Women and girls account for

**71% of the
40.3 million**

people living in modern slavery

Females account for

99% of all victims

of forced sexual exploitation, 84% of all forced marriage victims and 58% of all victims of forced labour

15 million girls each year will

never go to school

Only 12 countries have set the

minimum legal age of marriage at 18

More than 100 countries have labour laws that

restrict the types of jobs

women are able to have

Our approach to identifying modern slavery

Guiding our approach

We continually review the following guidance and research resources to inform our understanding of modern slavery risks in addition to any new resources released:

- [Commonwealth Modern Slavery Act 2018 Guidance for Reporting Entities](#), ABF, 2019
- [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#), 2011
- [Modern Slavery Reporting – Guide for Investors](#), RIAA & ACSI, 2019
- [Modern Slavery Risks, Rights and Responsibilities – A Guide for Companies and Investors](#), ACSI & KPMG, 2019
- [Property, Construction & Modern Slavery](#), KPMG & AHRC, 2020
- [A Blueprint for Mobilising Finance Against Slavery and Trafficking](#), FAST, 2019
- [Materiality Map](#), SASB
- [Global Slavery Index](#), Walk Free Foundation, 2017
- [List of Goods Produced by Child Labor or Forced Labor](#), US Department of Labor ILAB, 2020

Understanding the risks

The following three tiers capture our understanding and approach to risks across our operations and supply chain.

Inherent risk of modern slavery ⁹	Our relationship to the risk ¹⁰	Our ability to influence the risk
Likelihood and severity are determined through risks inherent to different geographies and industries.	Informed by the UNGPs, we consider our link to determine level of impact, response and engagement with risks as caused, contributed or linked .	Type of ownership or relationship with the investee company or leverage with the supplier.
<p>Geography: Region, country or location where the risk occurs and factors including the legal, regulatory, political and socio-economic environment it can contribute to.</p> <p>Industry: Industry, product or service to which the risk relates, for example, low-skilled manufacturing as opposed to professional services, and business models that rely on sub-contracting.</p>	<p>Relevant to all human rights factors, determining cause can assist in developing the actions necessary to mitigate and remedy any modern slavery impacts.</p> <p>Cause: A risk where an entity's actions directly result in practices of modern slavery.</p> <p>Contribute: A risk where an entity's operations or actions may contribute to or increase the risk of modern slavery.</p> <p>Linked: A risk that an entity's operations, products or services (including financial) may be connected to modern slavery indirectly.</p>	<p>Own operations: Our highest leverage exists in controls under our own operations, where we directly influence day-to-day practices.</p> <p>Product and service suppliers: We consider the first tier of our directly procured product and service suppliers where we can better affect change.</p> <p>Investments: We consider the relationship to investee companies, whether direct or through an investment manager, and our scale of ownership, engagement and influence as integral to our ability to affect change.</p>

⁹ Note risk according to the Act considers risk to people rather than risks to our entity

¹⁰ As defined by the [United Nations Guiding Principles on Business and Human Rights](#), 2011

Our modern slavery risks

<p>Internal operations: Management of the HESTA Trustee office and associated activities</p>	<p>At HESTA, we take a zero-tolerance approach to modern slavery and breaches of human rights in our internal operations and direct employee workforce.</p> <p>Due to our oversight and control of our employee arrangements and operating in the professional services industry, we subsequently assess the risks in our own operations as low, however we provide strong protections to ensure we do not cause any risks.¹¹</p>
<p>Procurement and outsourcing: There are known modern slavery risks in any procurement or outsourcing of products and services.</p>	<p>We recognise the heightened risks of modern slavery where our suppliers' operations or supply chains extend outside of Australia. We have identified the below goods and services as being high-risk in our procurement spend:</p> <ul style="list-style-type: none"> • Cleaning contractors • Stationery • Promotional products • Leasing & maintenance of IT equipment (including computers and smartphones) • Office maintenance and security • Outsourced call centre. <p>Our procurement activities may be labelled as <i>contributed</i> or <i>linked</i> to risks of modern slavery.</p>
<p>Investments: Assessing investment portfolio risks can be complex due to the layers of mixed accountability and the broad range of investment industries and asset classes.¹³</p>	<p>In FY2021, we continued to use the FY2020 review and risk assessment conducted for HESTA's top 20 Australian and international share holdings, supplemented by Citi Research¹⁴ and MSCI ESG Research. The assessment of the private equity, property and infrastructure investments in the HESTA portfolio allowed us to ascertain our exposure to high-risk sectors or countries as a basis for our ongoing approach.</p> <p>The highlights of this assessment include:¹⁵</p> <ul style="list-style-type: none"> • For both the private equity and the international shares asset classes, our highest sector exposure is in information technology. • The highest sector exposure for Australian shares is in financials and materials. <p>The common high-risk sectors and supply chains for large global investors include:</p> <ul style="list-style-type: none"> • Energy industries, • Consumer discretionary retail investments, and • Consumer staple supply chains such as fresh food and horticulture. <p>As we consider ourselves to be a 'universal asset owner,' we acknowledge HESTA is exposed to modern slavery risks as <i>linked</i> in our investment portfolio.</p>

¹¹ This is supported by the conclusions made by ACSI & KPMG in [Modern Slavery Risks, Rights and Responsibilities- A Guide for Companies and Investors](#), 2019

¹² As informed by the sources listed under [Guiding our approach](#)

¹³ Refer to page 5 of our [FY2020 modern slavery statement](#) to read more on these risk exposures.

¹⁴ Citi Research, 17 May 2020; Nothing to lose but chains: A modern take on slavery for investors

¹⁵ Find the full description of risk exposure on page 8 through 10 of our [FY2020 modern slavery statement](#)

Our modern slavery risks – the investment portfolio

Investment managers and investment supply chains:

Investment management firms themselves are not the key focus of modern slavery risk as these organisations use skilled and professional labour in their operations and the regions in which they operate are usually deemed low-risk due to stronger labour protections.

Similar to HESTA, these investment management firms will more likely have exposure to modern slavery risks through their own procurement. Therefore, the key risk focus for investment managers is through exposure in the operations and supply chains of investee companies or physical assets that are in HESTA's investment portfolio.

We would designate these risks and impacts of modern slavery as *contributed* or *linked* to modern slavery risks.

The HESTA investment portfolio

Australian shares

HESTA's top 20 ASX listed shareholdings at 30 June 2021 are dominated by the Financials sector which reflects the size of financial companies in the ASX top 20. Several companies in our top 20 holdings such as Woolworths, Coles, Wesfarmers, BHP and Brambles, have high modern slavery risk exposures due to the nature and industry of their businesses which include:

- consumer staples
- materials
- consumer discretionary
- industrials

International shares

In our review of HESTA's top 20 international share holdings, we identified multiple sectors and companies that have possible modern slavery risk exposure based on MSCI ESG Research.¹⁶ These include companies like Amazon and Apple and risk exposure sectors such as:

- consumer discretionary
- information technology

Private Equity

HESTA's private equity portfolio in FY2021 consists of investments mainly in the financial and information technology sector.¹⁷ According to the ILAB and the Global Slavery Index,¹⁸ technology hardware, storage, peripherals, communication equipment and components primarily manufactured in China and Malaysia carry significant risks of modern slavery. However, only a small percentage of investee companies manufacture these products and components.

Real assets – property and infrastructure

This includes commercial offices, shopping centres, renewable energy, airports and toll roads, with assets located both in Australia and internationally.

Property

The research we conducted with our investment managers in FY2021 highlighted property as the most progressed industry with modern slavery awareness across all asset classes.

The majority of HESTA's property assets are located in Australia, followed by North America, and the remainder in Europe and Asia. Modern slavery risks for building services, asset and tenant management are usually within the following services:

- cleaning
- security
- installation and maintenance

The risks in these services are due to the base skill nature of the work and common informal work and contract arrangements, which has led to breaches in workplace law, payments below legal minimums and poor treatment of workers. All our property sector investment managers have provided detail of having identified similar sector risks as outlined above.

Infrastructure

HESTA's infrastructure assets vary in geography, industry and infrastructure type. In order of percentage of portfolio value, our infrastructure assets are located in Australia, North America, UK & Europe, Latin America and a small proportion in Asia.

The portfolio includes some higher risk assets, including renewable energy infrastructure such as solar power plants and wind farms. Both raw materials and the manufacturing of components used in renewables have high risks of forced labour and emphasising the concern for a just transition.¹⁹

Infrastructure managers are not as advanced in their approach to modern slavery as property, and there appears to be less consistency within modern slavery considerations.

¹⁶ MSCI ESG Research: reviewed Labor Rights and Supply Chain issues for controversies in relation to child labor, labor management relations, and supply chain labor standards.

¹⁷ Measured on percentage of total net asset value

¹⁸ [Global Slavery Index](#), Walk Free Foundation, 2017

¹⁹ [A Material Transition: Exploring supply and demand solutions for renewable energy materials](#), War on Want, 2021

Investment leverage

The extent to which an investment manager can control or affect an investment or investee company on business practices that may involve modern slavery varies. This includes by asset class, investment style (active versus passive), the type of ownership, management arrangement, and the investment manager's ability to identify and assess the potential risks. We hold assets across varied arrangements including pooled fund investments, fund-of-one and direct investments. The ability HESTA has to exert influence and manage modern slavery risks may differ depending on the type of investment.

HESTA is continually exploring ways this capability and leverage can be assessed in its investment manager due-diligence process. We have also defined a Roadmap goal to ensure investment managers incorporate modern slavery risks in investment considerations.



Looking ahead

For our own operations and procurement of products and services, we will continue to evolve our understanding of the country and industry risks as we incorporate greater risk knowledge into our centralised procurement function.

We continue to focus our monitoring of risks in investments on the five asset classes outlined in the table on page 11. We will also further develop our risk indicators to understand our exposure to high-risk sectors and leverage through ownership, engagement or influence to effect change for both investments and procurement of products and services.

Taking action

Continuing with progress defined in our [Roadmap](#), in FY2021 we have focussed our due-diligence efforts on increasing our understanding of our suppliers' capacity to assess and address risks. These activities build on our previous actions to strengthen and update our policies and procedures to deliver against Roadmap actions.

Internal operations

The governance and modern slavery policies established in FY2020 provided a basis for our ongoing operations in FY2021. As outlined in our FY2020 statement, HESTA identified the need to develop a cross-functional Modern Slavery Working Group (MSWG) to deliver on the actions in the Roadmap. The inaugural meeting of the MSWG in February 2021 was the beginning of our journey to operationalise the key tasks identified in FY2020. The MSWG has oversight for maintaining the continuous improvement of our systems and policies to address modern slavery, and assess and remediate any issues or immediate risks identified.

Collaboration and education

The Responsible Investment team attended the RIAA Human Rights Working Group and Investors Against Slavery and Trafficking member sessions during FY2021 to further develop our understanding of modern slavery and learn from experts and industry peers.

We have continued to conduct an organisation-wide awareness program to educate our employees on modern slavery risks that may exist within our operations and supply chains. In addition, we have created a microsite for our internal staff to access and reference key documents and information on modern slavery.

We believe ongoing collaboration, education and training is important for all employees to identify potential modern slavery risks and areas for improvement.

Procurement and outsourcing

Strategic procurement

In FY2021 we initiated work to create a centralised, strategic procurement function within HESTA that will have long-term benefits to the sustainability of our procurement activities. The new procurement function will assist in gaining a greater understanding of our supply chain and any risks of modern slavery within it. Synthesising and clarifying our procurement and purchasing structures will enable more embedded considerations of modern slavery risk in our tendering, and under a strategic function these will often be larger value contracts. Once this process is finalised, training will be rolled out to stakeholders involved in procurement to increase the understanding of products and services with higher modern slavery risks. Work is still underway to formalise the structure of this new function, but this is another way we are creating long-term value for our members.

Looking deeper

In FY2021 we released a supplier Self-Assessment Questionnaire (SAQ) with our material and major suppliers. The questionnaire canvassed suppliers' understanding and management of modern slavery risks within their own operations and supply chains. We found that:

- 26% of respondents were required to report under the Act, with an additional 10% reporting voluntarily.
- All respondents that were required to report had work underway in relation to modern slavery, including training programs, e-learning development, and implementing supplier standards or codes of conduct.
- 5% of respondents had policies in place to address modern slavery risks in operations or supply chains, and another 10% referenced modern slavery within supplier codes of conduct.
- 76% of respondents provided descriptions of the understanding of modern slavery within the context of the business.
- 68% of respondents indicated future work was planned to address modern slavery, mapping supply chains, advocating to other companies, review policies, and renewing contract agreements to include modern slavery considerations.
- 0% of respondents indicated awareness of any modern slavery issues in their supply chains, and some provided comment regarding risks related to modern slavery.

The response rate of our questionnaire was low at 22%, which means we were not able to gain a breadth of insight across our supplier base. In future SAQs, we will explore ways to increase participation, and explore how our new strategic procurement function can utilise SAQs in the tendering process for high-risk products and services. We will release and assess SAQs of our smaller suppliers in ongoing years, as part of a wider intention to understand our suppliers' risks to a deeper level.



Social procurement

In FY2021 we have continued to partner with Social Traders to increase our business relationships with social enterprises. Social enterprises are commercially viable businesses with the social purpose of benefiting the environment, public and community.

Social Traders has calculated that through business and social enterprise collaboration, 1,430 jobs have been supported, 379,000 training hours delivered, \$2.5million charitable funds donated, and 5,000 tonnes of waste diverted from landfill. We will continue looking for opportunities to not only avoid negative impacts in our procurement activities, but also create opportunities for positive impact.

You can read more about Social Traders at socialtraders.com.au

Investments

During FY2021, our investment related modern slavery actions included:

Advocacy and collaboration

In November 2020, HESTA, alongside 23 other investors in the [Investors Against Slavery & Trafficking Asia-Pacific \(IAST APAC\)](#) collaboration released a joint statement calling on the top 100 Australian listed companies to pursue real action to combat modern slavery, human trafficking, and labour exploitation. The investor statement is available [here](#).

The investor-led engagement program, with a collective \$7.6 trillion in assets under management at the end of June 2021, works in collaboration with a range of Asia-Pacific companies with high inherent risks of modern slavery in consumer staples and discretionary, healthcare, and technology sectors. The aim of the program is to understand how companies approach these issues and encourage improvements. You can read more about IAST APAC at iast.fastinitiative.org.

Manager engagement

We sent our first round of investment manager questionnaires in late 2020 to gauge our managers' capacity to assess and address modern slavery risks in their investment supply chains. The questionnaire was accompanied by a letter from the HESTA Head of Impact Mary Delahunty, outlining our obligations under the Modern Slavery Act 2018, the importance of addressing modern slavery risks and why SDG 5 and 8 Decent Work and Gender Equality are focus SDGs for HESTA.

Industry engagement

We continued our active membership in the Responsible Investment Association Australia (RIAA), attending regular RIAA Human Rights Working Group meetings to keep abreast of modern slavery related industry developments and gain key learnings from peers.

Capacity building

We conducted training and briefing activities in February 2021 for our Investment Management Team, in tandem with the publishing of our inaugural modern slavery statement. These briefings allowed us to communicate our Roadmap, the results of the investment manager questionnaires, and our intentions for integrating modern slavery considerations into investment procurement and investment management processes.

Investment managers

We are in regular dialogue with our investment managers about our strategic ESG priorities, which includes modern slavery. We use this as an opportunity to understand how managers identify and assess potential modern slavery risks arising in investee companies and to gauge their ESG integration and engagement approach on these risks. We are in the process of revising our Investment Management Agreement to include modern slavery references going forwards.

In FY2021, we worked to identify where our investment managers considered modern slavery risks through a questionnaire. The manager survey included questions to assess the applicability of the Australian or UK Modern Slavery Act, their corporate awareness, what policies or plans regarding modern slavery are in place, and how managers take into account modern slavery as part of their ESG integration and investment management approach. We found that:

- 24% of managers were required to report under the Commonwealth Modern Slavery Act (2018) and 38% under the UK Modern Slavery Act (2015).
- Australian shares investment managers were the least developed in considering modern slavery risks while Australian Property investment managers the most evolved. We expect the requirements of the Act will deepen engagement and understanding in the coming years.
- Investment managers often used different methodologies for assessing modern slavery risk in their portfolios, resulting in the same investee companies being given different risk labels across different investment management firms. Methods for assessing risk included service providers such as Sustainalytics, MSCI, SAM Corporate Responsibility Assessment, Trucost, RepRisk, Know the Chain, and Refinitive.
- Mature responses included targeted due-diligence activities, such as an investigation into subcontracting for property assets.
- Many private equity managers viewed their organisations and speciality investment market segments as having little to no modern slavery risks.

We will continue engagement with our investment managers to encourage integration of modern slavery considerations into their investment decision-making and operations.

Active ownership & engagement partners

HESTA invests in more than 3,000 entities across multiple markets. We pursue partnership arrangements to amplify our reach and impact of our active ownership activities.

Active ownership is where investors most directly influence investee companies, markets and economies, and in turn, society as a whole.²⁰ We do this to protect and enhance long-term investment value for members, by promoting sustainable value creation in the companies we invest in.

<p>Australian Council of Superannuation Investors (ACSI) Coverage: Australian shares</p>	<p>In the first half of FY2021, ACSI has engaged with nearly all ASX200 investee companies on their modern slavery performance.</p> <p>ACSI have published research analyzing the initial gamut of statements pursuant to the Act, providing a helpful resource for companies to improve their reporting and mitigating approaches to modern slavery. The findings of the report, showing a broad range of leader and laggard approaches to modern slavery, will direct the ACSIs future engagement with investees. Read more in ACSIs engagement reports here.</p>
<p>Regnan Coverage: Australian shares</p>	<p>Building on previous advocacy work, encouraging companies to pursue human rights and modern slavery impact, Regnan have noted clear progress in engaged companies. This progress includes:</p> <ul style="list-style-type: none"> • Formal recognition of risks regarding modern slavery • Acknowledgement of the business role in mitigating vulnerabilities that lead to modern slavery • Improved screening processes and awareness of grievance mechanism limitations <p>Read more in Regnan's FY2021 report here.</p>
<p>Federated Hermes EOS Coverage: International shares</p>	<p>Social and ethical considerations formed 17% of Hermes' total engagement activities in calendar year 2020, with human rights forming 28% of this engagement and labour rights another 7.1%.</p> <p>Hermes EOS evolved their engagement methodology in 2020 for high-risk contexts, as there has been increasing regulation and scrutiny for modern slavery and human rights throughout the COVID-19 pandemic. Engagement was initiated with the Investor Alliance for Human Rights to create an Investor Toolkit called 'Find It, Fix it, Prevent It' to promote increased effectiveness in corporate action taken against modern slavery. You can read more in the Hermes 2020 calendar year Annual Review here.</p>



Looking ahead

Our procurement capabilities are growing, which will enable us to better capture modern slavery considerations. We hope to report on the impact of this change in coming years as the project is implemented. We will continue our active engagement with industry partners and continue to train our internal staff to increase modern slavery awareness.

The responses we received from the investment manager questionnaire showed a varied awareness of systemic issues and responsible investment considerations. Ongoing education and engagement will be required to greater influence our investment managers and product and service suppliers to deepen their understanding.

We will continue to apply a risk-based approach to determine the likelihood of greatest harm to people in our ongoing work. This will allow us to work further in our target asset classes and refine our approach to assessing and addressing risk in our procurement functions.

²⁰ As defined by the Principles of Responsible Investment, [Active Ownership 2.0](#)



COVID-19 observations and actions

The ongoing COVID-19 pandemic has laid bare both the vulnerabilities in our community and greatly outlined the essential nature of the HACS sector. Some of our observations and actions regarding COVID-19 impact during FY2021 include:

- We continued our remote working arrangements for internal staff, maintaining flexibility with changing public health guidelines.
- We maintained continuity and cooperation in the activities and interactions with our partners and suppliers- procurement, outsourcing and investments.
- As we have outlined previously, some sectors, industries, products and services are likely to have come under strain as the health, economic and financial crises have exacerbated the conditions for modern slavery to occur. Some investment managers noted that travel restrictions have curtailed their ability to conduct on-site due diligence that can be useful in evaluating and monitoring exploitative workplace practices. We will continue to monitor these situations.
- We acknowledged the extraordinary work of nurses and midwives throughout the COVID-19 pandemic in the 2021 HESTA Australian Nursing and Midwifery Awards, the winners celebrated on 6th of May 2021.²¹
- One of our specialist fund managers, Brandon Capital, invests in promising biomedical opportunities, including vaccine innovation. Some of the exciting projects in the HESTA portfolio with Brandon Capital include an innovation by Vaxxas, an Australian biotechnology company, to allow needle-free vaccinations and a technology designed to inhibit respiratory diseases like COVID-19 through Ena Respiratory.²²
- McKinsey & Company released research in FY2021 showing how women are more vulnerable to the economic impacts of COVID-19 due to existing gender inequalities.²³ In addition to the case study on pages 7 and 8, this highlights the ongoing importance of advocating for gender equality on behalf of HESTA members throughout the COVID-19 pandemic and beyond.

Assessing our effectiveness

The systemic impacts that both modern slavery and climate change have on Gender Equality and Decent Work, two of our strategic SDGs, emphasise the importance that we measure the effectiveness of our actions.










Our ambition to develop processes to assess our effectiveness is ongoing, and the establishment of our MSWG in FY2021 has enabled this ambition to be initiated. The measures we hope to create will include a scorecard that acts as a set of effectiveness criteria we can use to assess our impact in our own operations, procurement and outsourcing, and investments. For now, we have included a table to track and disclose our progress against the commitments we have made.

²¹ Read more about the 2021 Australian Nursing and Midwifery Awards [here](#).

²² Read more about these innovations on our blog [here](#).

²³ [COVID-19 and gender equality: Countering the regressive effects](#), McKinsey & Company, 2020

Commitment and progress

Set	Commitment	Status
Strategy and governance		
FY20	MSWG & TOR Establishment of Modern Slavery Working Group and its Terms of Reference.	
FY21	Procurement restructure Report on the creation of the strategic procurement function in FY2022.	
Risk identification and management		
FY20	Likelihood & harm to people index Develop and apply a risk-based approach to determine the likelihood of greatest harm to people & identification of target areas to apply leverage across the five focus asset classes.	
FY20	Risk indicators & leverage Use risk indicators to understand our exposure to high-risk sectors and leverage through ownership, engagement or influence to affect change.	
FY20	Supplier SAQ In FY2021 we will further analyse supplier responses and work to understand our risks more deeply. Begin to formulate approach to addressing these risks and developing our assessment approach through our Modern Slavery Working Group.	
FY20	Internally managed portfolios We will adopt modern slavery considerations within the internally managed portfolios, where applicable.	
FY20	Non-investment contract clauses Update supplier contracts to ensure modern slavery clauses are included. Begin process to remediate existing supplier contracts to include relevant modern slavery clauses and current procurement principles and processes.	
FY20	Investment manager contracts Modern slavery requirements included in Investment Manager Agreements.	
FY20	Remediation approach Development of HESTA remediation approach and escalation process including feedback from HACS sector employers and industry groups, to understand, identify and respond to modern slavery risks in their supply chains.	



Planned



In progress



Continuous













On track



Complete

Commitment and progress (continued)

Set	Commitment	Status
Capacity building		
FY20	Supplier engagement Engagement with material and major suppliers on modern slavery.	
FY20	Engagement Partners Regular and ongoing dialogue with investee companies on the risks of modern slavery.	
FY20	Engagement with investment managers Engagement with investment managers on modern slavery.	
FY20	Advocacy Continue to seek to effecting change with our managers and suppliers.	
FY20	HACS collaboration opportunities Explore opportunities for HESTA to collaborate with our HACS partners on this modern slavery complexities during COVID-19.	
FY20	HACS advocacy Advocate for healthcare and community sector for considerations of modern slavery (for example, PPE).	
FY21	Stakeholder awareness Create a Modern Slavery SharePoint page to house key documents and information for our internal stakeholders.	
Effectiveness and disclosure		
FY20	MSWG to develop implementation of key actions & continuous improvement approach The MSWG will develop the approach to ensure operational implementation of key actions and consider remediation and assessing effectiveness as part of our commitment to continuous improvement.	
FY20	Effectiveness metrics Effectiveness metrics Development of assessment of effectiveness measures – scorecard.	
FY20	Ongoing performance Continue to revisit our effectiveness measures and consider our role in further influencing our supply chain, including HACS sector employers and industry groups, to understand, identify and respond to modern slavery risks in their supply chains.	



Planned



In progress



Continuous



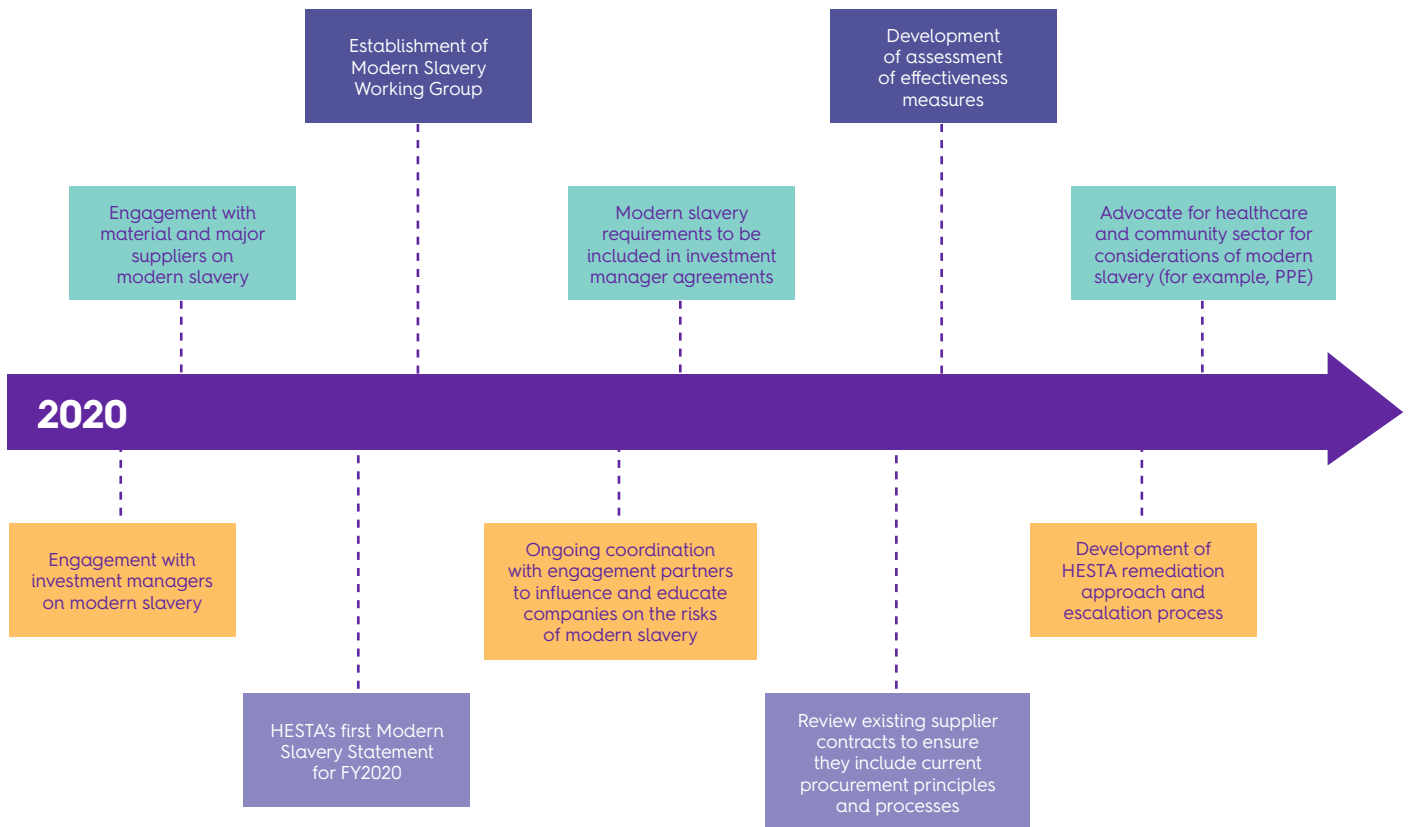
On track



Complete

Roadmap

Our Modern Slavery Roadmap has been used as guidance during FY2021 for key actions taken across our business. Similar to many other organisations, some of the actions mapped for this reporting period have been carried over to future years. This roadmap indicates how we seek to understand and manage modern slavery risks, as well outlining our ambitions over the long term.



FY20	FY21	FY22	FY23
Assessing modern slavery risks (mapping; early engagement)	Addressing modern slavery risks (operationalise Roadmap actions; further engagement)	Assessing effectiveness & advocating beyond our supply chain	Development of remediation approach and effectiveness measures

For FY2022 and beyond, we intend to develop a remediation approach, continue to revisit our effectiveness measures and consider our role in further influencing our supply chain and advocating for the HACS sector. We hope that FY2022 brings new opportunities for HESTA to advocate for change and make impactful decisions on behalf of our members.

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