HESTA consultation submission

Sustainable investment product labels

August 2025

HESTA

Super with impact

About HESTA

HESTA is a profit-to-member industry super fund investing more than $98 billion[1] on behalf of more than one million members, who work predominantly in the health and community services sector. Our purpose is to invest in and for people who make the world better.

HESTA invests for our members, Australians, to achieve a secure and dignified retirement. Our investment products aim to deliver strong, long-term returns that support member retirement goals and their investment preferences covering risk tolerance, sustainability goals and financial returns, and is informed by our member research.

Our investment options typically comprise multiple asset classes and are designed to provide members with high levels of diversification and strong long-term returns. As a global investor, we seek opportunities both in Australia and internationally to fulfil our duty to act in the best financial interests of our members.

Our commitment to responsible investment[2] goes beyond our investment options and is embedded in our organisational purpose and investor identity. As a long-term investor, we believe our members best financial interests are served by a deep commitment to responsible investing, recognising systemic risk and the importance of supporting a growing, sustainable and inclusive economy. HESTA uses its differentiated approach to address financially material responsible investment factors through responsible investment integration and active ownership, to deliver strong long-term returns to our members and help accelerate progress to a more sustainable world.

[1] As of 27 August 2025.
[2] To learn more about HESTA's responsible investment approach you can read our Responsible Investment Policy.

Summary of HESTA’s recommendations

HESTA advocates for a flexible, robust labelling framework that builds consumer confidence and reflects member preferences. We recommend an industry-led, principles-based approach that encourages innovation in sustainable investment and transparency for members to make meaningful comparison between sustainable labelled superannuation products. This framework should establish clear definitions of responsible investment approaches and standards linked to real-world outcomes, allowing consumers to effectively assess the depth and ambition of different funds' sustainable investment approaches.

Certification should remain voluntary. While third-party certification may offer additional member benefit, improving member-facing disclosure is a more effective and cost-efficient mechanism as a policy solution.

International interoperability should not be a priority, as most investment products are designed for Australian retail investors, and issued by Australian entities. Instead, Australia should carefully consider its legislative and regulatory framework in the design of a fit-for-purpose and adaptable sustainable labelling regime.

HESTA supports the positions of peak and industry associations: Association of Superannuation Funds of Australia and Australian Council of Superannuation Investors.

We look forward to engaging with Treasury further on the development of the sustainable labelling regime. Please see below our consultation response.

HESTA's recommendations:

1. A sustainable labelling framework should be principles-based, robust and credible and must be flexible enough to recognise the diverse ways funds deliver sustainable outcomes for members.
2. A flexible, industry-led labelling framework should include voluntary, not mandatory, third-party certification.
3. International interoperability should not be a primary design factor in the design of a sustainable labelling framework.

A sustainable labelling framework should be principles-based, robust and credible and must be flexible enough to recognise the diverse ways funds deliver sustainable outcomes for members

Diversity of assets means sustainable investment approaches and outcomes vary by asset class

Superannuation funds design investment products by combining different asset classes to deliver well-balanced and diversified products to meet member investment preferences, sustainability goals and financial return objectives.

Approaches to sustainable investing vary across asset class. Approaches to sustainable investing are highly individualised, with each fund customising its strategies to adopt approaches that drive positive change in a manner that aligns with its specific objectives, member priorities, and investment philosophy.

For example, sustainable investing in publicly listed shares often involves active ownership or stewardship to drive improvement in companies' environmental practices and transparency. In contrast, sustainable investing in fixed income investments may involve investing in labelled bonds with clear use of proceeds for renewable energy, affordable housing, or healthcare. Both approaches advance sustainability, but through different mechanisms.

Driven by investment option design, products often adopt multiple sustainable investment approaches either within or for different parts of a product.

What we invest in, why we invest and how we invest matters

Given responsible investment approaches differ widely across superannuation funds, a sustainable labelling framework should not be overly prescriptive and provide flexibility. The framework should allow funds to make investment decisions that align with their member expectations and their tailored approach to sustainable investing.

HESTA's approach is a core part of our organisation-level strategy. Our approach prioritises systemic risks and opportunities linked to key thematics - climate action, natural capital, health and wellbeing, gender equality, decent work and sustainable cities and communities. HESTA uses a comprehensive set of tools including capital allocation (exclusions, responsible investment integration and impact allocations) and active ownership (direct and collaborative allocations, voting, escalation, shareholder resolution and public policy advocacy) to drive change in the real economy for the benefit of members.

Measuring real-world change should be a feature of the labelling framework

For a sustainable labelling framework to be meaningful, it must strongly consider real-world outcomes delivered for members. That can only be delivered through change. Investing solely in companies that already have stronger environmental, or sustainability scores does not necessarily translate into genuine, real-world improvements[3]. Often, these scores are based on the strength of a company's policies, processes or disclosures rather than their sustainability practices. Similarly, excluding particular activities does little to influence outcomes in the real economy.

At HESTA, we define our real-world impact through our purpose: to invest in and for people who make our world better. Through our Responsible Investment Report, we report the proportion of our portfolio invested in

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[3] Principles for Responsible Investment (2021) – A Legal Framework for Impact, A Legal Framework for Impact summary report: Long term value creation in a changing world | PRI

alignment with priority and broader Sustainable Development Goals (SDGs) and progress toward our engagement objectives. We also measure and report progress toward our portfolio emissions reduction and climate solutions targets as part of seeking to drive change in the real economy.

A flexible, industry-led labelling framework should include voluntary, not mandatory third-party certification

Industry-led disclosure and third-party certification should be voluntary

HESTA supports industry-led disclosure of responsible investment strategies as the most effective and cost-efficient policy solution. Defining clear and consistent categories of responsible investment will help retail investors make informed decisions based on comparable information and build trust in sustainable labelled superannuation products.

We consider the overall benefit of third-party certification model would unlikely be proportional to the increased cost to members, and when compared relative to an industry-led disclosure model. We recommend that certification remain voluntary rather than mandatory.

For example, HESTA is a member of Responsible Investment Association Australasia (RIAA) and has used its certification process for HESTA's Sustainable Growth option, receiving the highest 'Sustainable Plus' rating. For HESTA members, this means added confidence that this investment product has been certified and classified by the RIAA according to the operational and disclosure practices required under the Responsible Investment Certification Program[4].

Flexibility is key to driving innovation and sustainable outcomes

Australia's labelling framework should continue to promote innovation and flexibility to adapt to the continuing developments in approaches to sustainable investment. This flexibility allows funds to develop and evolve their responsible investment strategies to better respond to member preferences and encourages, not stifles, future capital flow into sustainable investments in Australia.

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[4] See ResponsibleReturns for more information.

International context and regulatory considerations

Internationally, the European Union's recent shift towards a more voluntary labelling and disclosure regime provides early evidence that such an approach may be more beneficial compared to more prescriptive models, such as the United Kingdom's (UK) framework, which is considered more onerous. For example, mandatory disclosure requirements in the UK limits companies' flexibility to tailor disclosures to their specific needs, which could lead to higher compliance costs and limited additional value.

It is important that Australia's labelling framework is fit-for-purpose and carefully considers the Australian context, including our existing regulatory and legislative structures. Treasury should consider also the unique features of our superannuation system, such as the annual performance test, and carefully assess the potential interactions that any new labelling regime may have. For example, setting high thresholds for levels of alignment of capital allocation may inadvertently impact diversification and lead to greater volatility and the risk of underperformance over short to medium-term timeframes.

International interoperability should not be a primary design factor in the design of a sustainable labelling framework

International interoperability and comparability of sustainability standards should not be a primary consideration in the design of Australia's labelling framework, with nearly all investment products designed for Australian retail investors and product issuers from Australia.

As global taxonomies continue to evolve, there may be future opportunities to consider how Australia's labelling regime could integrate with broader frameworks, but the current focus should remain on developing an approach that best serves Australian investors.

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