PRI Principles for Responsible Investment

RI TRANSPARENCY REPORT

2014/15

HESTA Super Fund

UNEP Finance Initiative Changing finance, financing change | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the PRI website, ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2014-15 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six Principles for Responsible Investment. It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
🏳	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

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Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Segregated mandates or pooled funds	✓	Public							✓
OO 08	Breakdown of AUM by market	✓	Public							✓
OO 09	Additional information about organisation	✓	Public							✓
OO 10	RI activities for listed equities	✓	Public							✓
OO 11	RI activities in other asset classes	✓	Public							✓
OO 12	Modules and sections required to complete	✓	Public							✓

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PRI Principles for Responsible Investment

Overarching Approach				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OA 01	RI policy and other guidance documents	✓	Public							✓
OA 02	Publicly available policies / documents	✓	Public						✓	
OA 03	Policy components and coverage	✓	Public	✓	✓					
OA 04	Conflicts of interest	✓	Public							✓
OA 05	RI goals and objectives	✓	Public							✓
OA 06	Main goals/objectives this year	✓	Public							✓
OA 07	Governance, management structures and RI processes	✓	Public							✓
OA 08	RI roles and responsibilities	✓	Public							✓
OA 09	RI in performance management, reward and/or personal development	✓	Public							✓
OA 10	Collaborative organisations / initiatives	✓	Public				✓	✓		
OA 11	Promoting RI independently	✓	Public				✓			
OA 12	Dialogue with public policy makers or standard setters	✓	Public				✓	✓	✓	
OA 13	ESG issues in strategic asset allocation	✓	Public	✓						
OA 14	Allocation of assets to environmental and social themed areas	✓	Public	✓						
OA 15	ESG issues for internally managed assets not reported in framework	🔒	n/a							✓
OA 16	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
OA 17	RI/ESG in execution and/or advisory services	🔒	n/a	✓	✓					
OA 18	Innovative features of approach to RI	✓	Public							✓
OA 19	Internal and external review and assurance of responses	✓	Public							✓

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Indirect – Manager Selection, Appointment and Monitoring				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
SAM 01	Description of RI considerations	✓	Public	✓					✓	
SAM 02	Role of investment consultants	✓	Public				✓			
SAM 03	RI factors in selection, appointment and monitoring across asset classes	✓	Public							✓
SAM 04	Breakdown of passive, active quant and active fundamental	✓	Public							✓
SAM 05	ESG incorporation strategies	✓	Public	✓	✓					
SAM 06	Selection processes (listed assets)	✓	Public	✓					✓	
SAM 07	Appointment considerations (listed assets)	✓	Public				✓			
SAM 08	Monitoring processes (listed assets)	✓	Public	✓						
SAM 09	Percentage of (proxy) votes cast	🔒	n/a		✓					
SAM 10	Selection processes (non-listed assets)	✓	Public	✓					✓	
SAM 11	Appointment considerations (non-listed assets)	✓	Public				✓			
SAM 12	Monitoring processes (non-listed assets)	✓	Public	✓					✓	
SAM 13	Description of RI considerations in 'other' asset classes	✓	Public	✓					✓	
SAM 14	Percentage of externally managed assets managed by PRI signatories	✓	Public	✓					✓	
SAM 15	Examples of ESG issues in selection, appointment and monitoring processes	✓	Public		✓					
SAM 16	Disclosure of RI considerations	✓	Public						✓	

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Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Public		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	🔒	n/a		✓					
LEA 04	Objectives for engagement activities	🔒	n/a		✓					
LEA 05	Process for identifying and prioritising engagement activities	🔒	n/a		✓					
LEA 06	Objectives for engagement activities	🔒	n/a		✓					
LEA 07	Role in engagement process	✓	Public		✓		✓			
LEA 08	Monitor / discuss service provider information	✓	Public		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Public	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	✓	Public		✓					
LEA 12	Engagements on E, S and/or G issues	✓	Public		✓					
LEA 13	Companies changing practices / behaviour following engagement	✓	Public		✓					
LEA 14	Examples of ESG engagements	✓	Public		✓					
LEA 15	Disclosure of approach to ESG engagements	✓	Public		✓				✓	
LEA 16	Description of approach to (proxy) voting	✓	Public		✓					
LEA 17	Typical approach to (proxy) voting decisions	✓	Public		✓					
LEA 18	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 19	Confirmation of votes	✓	Public		✓					
LEA 20	Securities lending programme	✓	Public		✓					
LEA 21	Informing companies of the rationale of abstaining/voting against management	✓	Public		✓					
LEA 22	Percentage of (proxy) votes cast	✓	Public		✓					
LEA 23	Proportion of ballot items that were for/against/abstentions	✓	Public		✓					
LEA 24	Shareholder resolutions	✓	Public		✓					
LEA 25	Examples of (proxy) voting activities	✓	Public		✓					
LEA 26	Disclosing voting activities	✓	Public		✓				✓	

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HESTA Super Fund

Reported Information

Public version

Organisational Overview

PRI disclaimer

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PRI Principles for Responsible Investment

Basic Information

OO 01	Mandatory	Gateway/Peering	General

OO 01.1 Select the category which best represents your primary activity.

- ◉ Non-corporate pension or superannuation or retirement or provident fund or plan
- ○ Corporate pension or superannuation or retirement or provident fund or plan
- ○ Insurance company
- ○ Foundation or endowment
- ○ Development finance institution
- ○ Reserve - sovereign or government controlled fund
- ○ Other, specify

OO 02	Mandatory	Peering	General

OO 02.1 Select the location of your organisation's headquarters.

Australia

OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- ◉ 1
- ○ 2-5
- ○ 6-10
- ○ >10

OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

	FTE

101.9

OO 03	Mandatory	Descriptive	General

OO 03.1 Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- ○ Yes
- ◉ No

OO 03.3 Additional information. [Optional]

HESTA has no subsidiaries.

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PRI Principles for Responsible Investment

OO 04	Mandatory	Gateway/Peering	General

OO 04.1 Indicate the year end date for your reporting year.

30/06/2014

OO 04.2 Indicate your total AUM at the end of your reporting year, excluding subsidiaries you have chosen not to report on, and advisory/execution only assets.

	trillions	billions	millions	thousands	hundreds
Total AUM		28	664	947	000
Currency	AUD				
Assets in USD		26	638	354	763

OO 04.5 Indicate the level of detail you would like to provide about your asset class mix.

◉ Approximate percentage breakdown to the nearest 5% (e.g. 45%)

○ Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 06	Mandatory	Descriptive	General

OO 06.1 To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

◉ Publish our asset class mix as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	0	52
Fixed income – corporate	0	3
Fixed income – government	0	4
Fixed income – other	0	1
Private debt	0	4
Private equity	0	5
Property	0	8
Infrastructure	0	9
Commodities	0	0

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Hedge funds	0	0
Forestry	0	1
Farmland	0	0
Inclusive finance	0	0
Cash	0	11
Other (1), specify	0	2
Other (2), specify	0	0

'Other (1)' specified

Opportunistic Growth

○ Publish our asset class mix as broad ranges

○ Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png,.bmp and .gif)

OO 07 | **Mandatory to Report Voluntary to Disclose** | **Peering** | **General**

OO 07.1 Provide a breakdown of your organisation's externally managed assets between segregated mandates and pooled funds.

	% of externally managed assets
Segregated mandate(s)	○ 0% ○ <10% ○ 10-50% ◉ >50 %
Pooled fund(s)	○ 0% ○ <10% ◉ 10-50% ○ >50 %
Total externally managed assets	*100%*

OO 07.2 Indicate the proportion of your externally managed assets in fund-of-funds.

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	% of externally managed assets
Fund-of-funds	○ 0% ◉ <10% ○ 10-50% ○ >50 %

OO 08	Mandatory to Report Voluntary to Disclose	Peering	General

OO 08.1	Indicate the breakdown of your organisation's AUM by market.

Market breakdown	% of AUM
Developed Markets	○ 0% ○ <10% ○ 10-50% ◉ >50 %
Emerging, Frontier and Other Markets	○ 0% ◉ <10% ○ 10-50% ○ >50 %

OO 09	Voluntary	Descriptive	General

OO 09.1	Provide any additional information about your organisation, its mission, strategies, activities or investments which are important to contextualise your responsible investment activities.

HESTA is the industry super fund for the health and community services. Since 1987, HESTA has grown to become the largest super fund dedicated to this industry. Today we serve more than 785,000 members and 155,000 employers. HESTA has a history of strong, long-term returns.

We keep fees low, and we don't pay commissions to financial advisers. We're also committed to providing members with outstanding benefits, and helping them take control of their future with quality education and advice about super. Industry super funds are run to benefit members - not profit from them. Although they were originally set up to serve certain industries, today anyone can join an industry super fund. Those who work in the health and community services industry support Australians when they need it most.

We're proud to play a key role in helping our members create the future they desire. Our Board of 13 Trustee Directors is made up of representatives from the industry's employer and employee organisations. This helps us to make sure we continue to provide super education and advice services that are relevant to our members' particular needs.

Gateway asset class implementation indicators

OO 10	Mandatory	Gateway	General

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OO 10.1	Select the responsible investment activities your organisation implemented, directly and/or indirectly, for listed equities in the reporting year.

☑ We engage with companies on ESG issues via our staff, collaborations or service providers

☑ We cast our (proxy) votes directly or via service providers

☑ We address ESG incorporation, engagement and/or (proxy) voting in our external manager selection, appointment and/or monitoring processes

☐ None of the above

OO 11	Mandatory	Gateway	General

OO 11.2	Indicate if in the reporting year you addressed ESG incorporation and/or active ownership in your external manager selection, appointment and/or monitoring processes in the following externally managed asset classes.

☑ Fixed income – corporate

☑ Fixed income – government

☑ Fixed Income – other

☑ Private debt

☑ Private equity

☑ Property

☑ Infrastructure

☑ Forestry

☐ Cash

☑ Other (1)

☐ None of the above

	'Other (1)' [as defined in OO 05]

Opportunistic Growth

OO 11.3	Additional information. [Optional]

We have not identified any way in which we can meaningfully incorporate ESG issues and/or active ownership in the selection, appointment and/or monitoring processes in relation to cash.

OO 12	Mandatory	Gateway	General

OO 12.1	The modules and sections that you will be required to complete are listed below.

This list is based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. You are only required to report on asset classes that represent 10% or more of your AUM. You may report voluntarily on any applicable modules or sections by selecting them from the list. Fixed Income and Infrastructure are voluntary.

Core modules

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☑ Organisational Overview

☑ Overarching Approach (including assets which do not have a separate module)

RI implementation directly or via service providers

	Direct - Listed Equity active ownership

☑ Engagements

☑ (Proxy) voting

RI implementation via external managers

	Indirect - Selection, Appointment and Monitoring of External Managers

☑ Listed Equities

☑ Fixed Income - Corporate

☑ Fixed Income - Government

☑ Fixed Income - Other

☑ Private Debt

☑ Private Equity

☑ Property

☑ Infrastructure

☑ Forestry

☑ Other (1)

Closing module

☑ Closing module

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Overarching Approach

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PRI Principles for Responsible Investment

Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General

OA 01.1	Indicate if you have a responsible investment policy.

◉ Yes

○ No

OA 01.2	Indicate if you have other guidance documents or more specific policies related to responsible investment.

◉ Yes

○ No

OA 01.3	Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]

Motivation

HESTA believes that to achieve our goal of maximising our members' investment returns while minimising risk, we must consider environmental, social and governance (ESG) factors alongside traditional financial analysis in making investment decisions. We believe that ESG issues are important to an investment's long-term value and that understanding these factors will help us better understand an investment's risks and opportunities and long-term sustainability.

Purpose

The purpose of this policy is to formally outline HESTA's principles and commitments in relation to the incorporation of Environmental, Social and Governance (ESG) considerations into investment processes and decision-making.

Scope

The ESG Policy applies to all of HESTA's investments including:

- all types including direct, mandated and pooled
- all styles including active and passive
- all classes including Australian and international shares, property, unlisted and listed infrastructure, private equity, global bonds and timber
- all geographic locations.

The way in which HESTA incorporates ESG considerations into investment processes and decision-making will differ depending on these investment characteristics.

As the ESG Policy applies to all of HESTA's investments, in general HESTA does not seek to restrict investment through the use of exclusions based on ESG considerations. However, HESTA does have a portfolio wide exclusion on investment in any company that manufactures cigarettes and other tobacco products (as defined by the Global Industry Classification Standard developed by MSCI and Standard& Poor's). In addition to this exclusion, HESTA's Eco-Pool Investment Option excludes any investment in companies that derive more than 15% of revenue from the supply of key products necessary for the manufacture of tobacco products, or the distribution or retail of tobacco products (consistent with the MSCI Global Socially Responsible Indices Methodology), and also excludes any investments in companies involved in the mining or processing of uranium.

Implementation

HESTA will incorporate ESG issues into investment processes and decision-making including:

- Implementing the United Nations Principles for Responsible Investment (UNPRI).
- Considering ESG in the allocation of assets and the structure and diversification of the portfolio.

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- Considering ESG in the selection of external fund managers appointed to manage money on behalf of HESTA and its members - and incorporate ESG into the agreements (Investment Management Agreements) HESTA has with external fund managers.
- Being an active owner by voting all of the shares that it is able to and engage with companies to improve their corporate governance.
- Being active in public policy in relation to ESG matters - either directly or via like-minded organisations - on issues that are of market-wide significance and material in terms of the economic interests of our members.
- Understanding the impact of key ESG issues such as climate change and carbon-related risks and opportunities within each of the major asset classes and across the portfolio as a whole, and
- Collaborating with other organisations to achieve these objectives.

HESTA will prioritise activities to implement this policy in accordance with the asset allocations, the importance of the ESG issue and the potential for HESTA to influence change (affected by investment types and styles).

Approval

This policy was first approved by HESTA's Board in April 2010. The most recent revisions to this policy approved by the Board in December 2012.

Review

This policy will be reviewed every three years in line with HESTA's strategic review process. In addition, this policy is required to be updated as necessary to reflect changes in:

- The legal or regulatory environment as it relates to ESG.
- The asset classes in which HESTA invests.
- The investment processes including asset allocation, portfolio structuring and diversification, asset consultant and investment manager selection and management and investment analysis.
- Strategic or operational changes to HESTA.
- Member or community expectations.

Subordinate Policies

HESTA's ESG Policy Framework also includes two subordinate policies:

- Active Ownership Policy - last updated September 2014
- Climate Change Policy - last updated September 2014

OA 02	Mandatory	Core Assessed	PRI 6

OA 02.1	Indicate if your responsible investment policy is publicly available.

◉ Yes

OA 02.2	Provide a URL to your responsible investment policy.

	URL

http://www.hesta.com.au/why-join-hesta/responsible-investment/our-commitment.html

○ No

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OA 02.3	Indicate if your other policies or guidance documents related to responsible investment are publicly available.

◉ Yes

○ Yes, all

◉ Yes, some

OA 02.4	List these other policies or guidance documents related to responsible investment that are publicly available and their URLs.

Policy or document name	URL
Active Ownership Policy	http://www.hesta.com.au/why-join-hesta/responsible-investment/our-commitment.html
Climate Change Policy	http://www.hesta.com.au/why-join-hesta/responsible-investment/our-commitment.html

○ No

OA 02.5	Additional information. [Optional]

All HESTA's policies related to Responsible Investment are publically available. Detailed procedure documents for implementing elements of Responsible Investment are not publically available.

OA 03	Mandatory	Core Assessed	PRI 1,2

OA 03.1	Indicate the components/types and coverage of your responsible investment policy and guidance documents.

Select all that apply

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Policy components/types	Coverage by AUM
☑ Policy setting out your overall approach ☑ (Proxy) voting policy ☑ Engagement/active ownership policy ☐ Specific guidelines on corporate governance ☐ Specific guidelines on environmental issues ☐ Specific guidelines on social issues ☐ Asset class-specific guidelines ☑ Screening/exclusion policy ☑ Other, specify Specific guidelines on climate change ☐ Other, specify	◉ Applicable policies cover all AUM ○ Applicable policies cover a majority of AUM ○ Applicable policies cover a minority of AUM

OA 03.2	Comment on any variations or exceptions in the coverage of your responsible investment policy. [Optional]

HESTA's ESG Policy applies to all of HESTA's investments.

Exclusions on the basis of activities

In general HESTA does not seek to restrict investment through the use of exclusions based on ESG considerations. However, HESTA does have the following restrictions:

Portfolio-wide investment restrictions and exclusions

In addition to incorporating ESG issues into our investment processes and decision making, we have imposed some portfolio-wide restrictions and exclusions related to ESG issues.

Tobacco

Across HESTA's entire portfolio we do not allow investment in any company that manufactures cigarettes and other tobacco products (as defined by the Global Industry Classification Standard developed by MSCI and Standard& Poor's).

Investment restrictions and exclusions specific to Eco Pool

Uranium

Eco Pool does not allow any investments in companies involved in the mining or processing of uranium.

Tobacco

In addition to the portfolio-wide exclusion on companies that manufacture cigarettes and tobacco products, Eco Pool does not allow any investment in companies that derive more than 15% of revenue from the supply of key products necessary for the manufacture of tobacco products, or the distribution or retail of tobacco products (consistent with the MSCI Global Socially Responsible Indices Methodology).

Varying levels of implementation of Policy

While HESTA's ESG Policy applies to all of HESTA's investments, the extent to which it is implemented across all asset classes is dependent on the relevance of ESG issues to that asset class. We are working towards comprehensive implementation across all our key asset classes including equities, infrastructure, property, private equity and timber. However, even within these asset classes, implementation varies depending on the investment e.g. active vs passive, mandated vs pooled vehicles.

In a few asset classes the extent to which we can meaningfully implement the ESG Policy is limited. This includes some 'Other' fixed income investments e.g. mortgage backed securities and some of the opportunistic growth investments. Further, as mentioned previously, we have not identified any way in which we can meaningfully incorporate ESG issues into our investment processes and decision making in relation to cash.

OA 04	Mandatory	Core Assessed	General

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PRI Principles for Responsible Investment

OA 04.1	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.

◉ Yes

OA 04.2	Describe your policy on managing potential conflicts of interest in the investment process. [Optional]

HESTA has a range of policies managing and mitigating potential conflicts of interest in the investment process.

Conflicts Management Framework and Policy

An overarching policy defining conflicts and how they will be managed.

Compliance Plan

Documents the regulatory obligations that must be met when managing conflicts - specifically those arising from Superannuation Prudential Standard 521.

Risk Management Framework and Strategy

Documents the controls implemented to manage the risks associated with conflicts.

Fit and Proper Policy

Requires conflicts to be considered during the initial and ongoing assessment of the propriety of Responsible Persons.

Outsourcing Policy

Requires conflicts to be considered during the appointment of material outsource service providers (including investment managers).

Record Keeping Policy

Requires documents to be maintained in relation to the management of any conflicts.

○ No

Objectives and strategies

OA 05	Mandatory	Gateway/Core Assessed	General

OA 05.1	Indicate if your organisation sets objectives for its responsible investment activities.

◉ Yes

OA 05.2	Indicate how frequently your organisation sets or revises objectives for responsible investment.

◉ At least once per year

○ Less than once per year

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OA 05.3	Indicate how frequently your organisation formally reviews performance against its objectives for responsible investment.

- ○ Quarterly
- ○ Biannually
- ◉ Annually
- ○ Every two years or less
- ○ It is not reviewed

○ No

OA 05.4	Additional information. [Optional]

HESTA incorporates objectives for its responsible investment activities our Strategic Plan, Annual Action Plan and Scorecard. The review of performance against these objectives occurs annually.

In addition to the responsible investment objectives and measures in these formal business planning documents. HESTA's Board also undertakes a more detailed Annual ESG Review. The Annual ESG Review highlights policy developments, progress on implementation of HESTA's ESG Policy, and delivery of our commitments under the PRI. It also presents the key priorities for the responsible investment work program for Board endorsement.

Specifically, the Review covers:

1. HESTA's ESG Policy Framework - Updates
2. Incorporating ESG in Investment - Key Activities
3. Being an Active Owner - Outline of Voting& Engagement Activities
4. Expanding our Sphere of Influence - Involvement in RI Collaborations
5. Disclosing our Approach and Activities
6. Addressing Members Concerns and Campaigns
7. Key Priorities for the Coming Year

OA 06	Voluntary	Descriptive	General

OA 06.1	List your three main responsible investment objectives you had set for the reporting year. For each, indicate any key performance indicators you set to measure your progress and also indicate your progress towards achieving your objectives.

☑ Add responsible investment objective 1

Objective 1	Continue to develop and roll-out strategies to incorporate more ESG analysis within asset classes other than Australian Equities.
Key performance indicators	Evidence from fund managers that ESG analysis is demonstrable in their processes.
Describe the progress achieved	Developed Manager ESG Assessment Framework which captures and scores key ESG policies, processes, activities and outcomes which evidences manager ESG capabilities.

☑ Add responsible investment objective 2

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Objective 2	Increase the Fund’s assets managed by PRI signatories.
Key performance indicators	To increase the percentage of AUM managed by PRI signatories.
Describe the progress achieved	Percentage of AUM managed by PRI signatories increased from 72% to 73%.

☑ Add responsible investment objective 3

Objective 3	To cast votes on all listed equities where applicable.
Key performance indicators	Percentage of votes cast, either directly or by third parties, against those that should have been cast in accordance with HESTA's Active Ownership Policy.
Describe the progress achieved	100% of votes cast.

OA 06.2 List your three main objectives for responsible investment implementation for the next reporting year and indicate any key performance indicators you intend to use to measure your progress.

☑ Add responsible investment objective 1 for the next reporting year

Objective 1 for the next reporting year	To increase the percentage of AUM managed by PRI signatories.
Key performance indicators	Percentage of AUM managed by PRI signatories.

☑ Add responsible investment objective 2 for the next reporting year

Objective 2 for the next reporting year	To cast votes on all listed equities where applicable.
Key performance indicators	Percentage of votes cast, either directly or by third parties, against those that should have been cast in accordance with HESTA's Active Ownership Policy.

☑ Add responsible investment objective 3 for the next reporting year

Objective 3 for the next reporting year	Undertake Manager ESG Assessments with any new managers and priority existing managers in equities, private equity, property and infrastructure.
Key performance indicators	Manager ESG Assessments are completed for any new managers and priority existing managers in equities, private equity, property and infrastructure.

Governance and human resources

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PRI Principles for Responsible Investment

OA 07	Voluntary	Descriptive	General

OA 07.1	Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.

HESTA's Responsible Investment program is the responsibility of the full Board of HESTA Trustees. In particular, the Board is responsible for approving the ESG Policy, Active Ownership Policy and Climate Change Policy, monitoring implementation of these Policies at least annually, and ensuring the policies are reviewed every three years. HESTA's Board approves annual ESG objectives and monitors their achievement at the end of each year through the review of the HESTA Action Plan. The Board also overseas implementation and achievement of the ESG Policy and monitors the implementation through the Annual Board ESG Review.

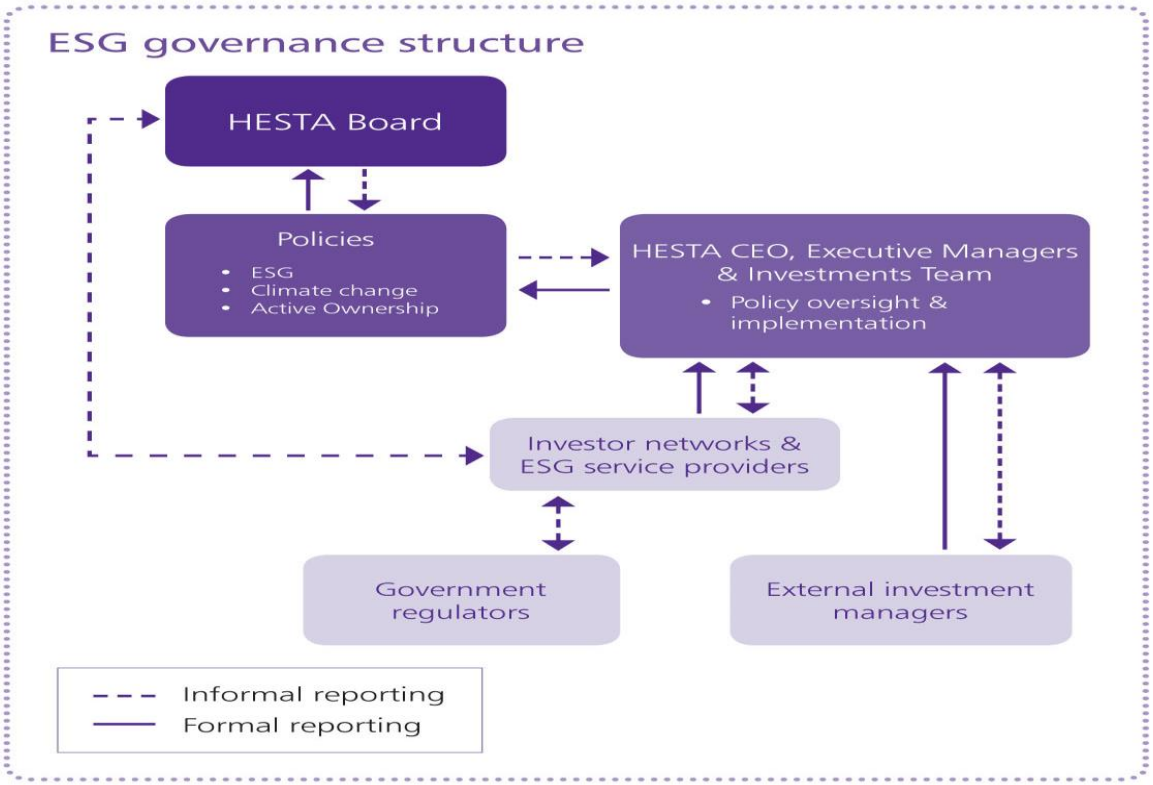
The Executive Manager - Investments and Governance is responsible for providing oversight of the implementation of the ESG Policy, Active Ownership Policy and Climate Change Policy.

The Investment Manager - ESG is responsible for coordinating the implementation of the ESG Policy, Active Ownership Policy and Climate Change Policy and for providing advice on the implementation of these Policies to HESTA's investment team and other relevant HESTA staff. The Investment Manager - ESG works closely with ESG service providers and collaboratively with investor networks, other asset owners and asset managers to implement HESTA's ESG Policy, Active Ownership Policy and Climate Change Policy.

The Investment Team, comprising Investment Managers and Investment Analysts, is responsible for undertaking all investment processes and decision making consistent with the achievement of HESTA's ESG Policy, Active Ownership Policy and Climate Change Policy.

All HESTA employees are responsible for assisting with the implementation of HESTA's ESG Policy, Active Ownership Policy and Climate Change Policy, where relevant.

☑ I would like to attach an organisation chart (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)



To upload the image click the*Save* button below

OA 08	Mandatory	Gateway/Core Assessed	General

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PRI Principles for Responsible Investment

OA 08.1	Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.

	Roles present in your organisation

☑ Board members or trustees

- ☑ Oversight/accountability for responsible investment
- ☐ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee

- ☑ Oversight/accountability for responsible investment
- ☐ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☐ Other Chief-level staff or head of department, specify

☑ Portfolio managers

- ☑ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Investment analysts

- ☐ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Dedicated responsible investment staff

- ☑ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ External managers or service providers

- ☐ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Other role, specify

All HESTA staff

- ☐ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☐ Other role, specify

OA 08.2	Indicate the number of dedicated responsible investment staff your organisation has. [Optional]

	Number
0.8	

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PRI Principles for Responsible Investment

OA 08.3	Additional information. [Optional]

For the purposes of this report 'Portfolio Managers' refers to 'HESTA Investment Managers'. The HESTA Investment Manager responsible for each asset class has some oversight/accountability for responsible investment within their asset class.

OA 09	Voluntary	Additional Assessed	General

OA 09.1	Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.

Board members/Board of trustees

☑ Responsible investment included in personal development and/or training plan

OA 09.2	Describe any activities undertaken during the reporting year to develop and maintain Board members' skills and knowledge in relation to responsible investment.

There are several elements to the Board's ongoing training in relation to Responsible Investment:

8. As part of the Board's Annual ESG Review key experts in the Responsible Investment industry are identified and invited to present to the Board on a relevant topic.
9. Each year the Board identifies a key ESG issue to form the basis of HESTA's Annual ESG Issue Survey. As part of this process the Board is provided with a paper outlining a range of topical ESG issues and an assessment of the materiality of each issue.
10. From time to time HESTA's Trustees are involved in various Responsible Investment collaborations and initiatives. For example, during the reporting year, one of HESTA's Trustees was on the Member Advisory Council for the Australian Council for Superannuation Investors.
11. At each Board meeting one or more prospective and/or existing HESTA managers present to HESTA's Trustees. Given the importance HESTA places on Responsible Investment, these managers generally cover Responsible Investment and ESG issues relevant to their investment strategy and portfolio.
12. A number of HESTA' Board members attend the annual Australian Council of Superannuation Investor (ACSI) Conference which covers a variety of key ESG topics and issues.

☐ None of the above

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee

☑ Responsible investment KPIs and/or goals included in objectives

☑ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☐ None of the above

Portfolio managers

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PRI Principles for Responsible Investment

☑ Responsible investment KPIs and/or goals included in objectives

☑ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☑ Responsible investment included in personal development and/or training plan

☐ None of the above

Investment analysts

☐ Responsible investment KPIs and/or goals included in objectives

☐ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☑ None of the above

Dedicated responsible investment staff

☑ Responsible investment KPIs and/or goals included in objectives

☑ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☑ Responsible investment included in personal development and/or training plan

☐ None of the above

Other role

All HESTA staff

☐ Responsible investment KPIs and/or goals included in objectives

☐ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☑ None of the above

OA 09.3	Provide any additional information on your organisation's performance management, reward and/or personal development processes in relation to responsible investment.

Note: Remuneration for all HESTA staff including the Investment Manager - ESG is 100% fixed pay i.e. no variable pay. As such, the 'Variable pay linked to responsible investment performance' is 'not applicable' rather than 'none'.

Portfolio (Investment) Managers

The extent to which HESTA Investment Managers have 'Responsible investment KPIs and/or goals included in objectives', 'Responsible investment included in appraisal process', and 'Responsible investment included in personal development and/or training plan' differs considerably depending on the particular Investment Manager as well as the particular asset class for which they are responsible.

Dedicated responsible investment staff

The performance of the Investment Manager - ESG is evaluated through a formal performance assessment undertaken annually. Performance is evaluated against a framework including responsibilities, objectives, specific activities, KPIs and training and development all of which relate to Responsible Investment.

Promoting responsible investment

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PRI Principles for Responsible Investment

OA 10	Mandatory	Core Assessed	PRI 4,5

OA 10.1	Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

☑ Principles for Responsible Investment

	Your organisation's role in the initiative during the reporting period (see definitions)

☐ Basic

☑ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a member of the PRI and has been since 2007.

HESTA is an active participant in PRI with HESTA's Investment Manager - ESG participating in various projects and meetings.

HESTA have regularly attended PRI annual conferences. From time to time HESTA has contributed to the development of PRI policies and papers.

HESTA promote PRI and their policies and programs to our external investment managers and the broader investment market.

☐ Asian Corporate Governance Association

☐ Association for Sustainable & Responsible Investment in Asia

☑ Australian Council of Superannuation Investors

	Your organisation's role in the initiative during the reporting period (see definitions)

☐ Basic

☐ Moderate

☑ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a member of ACSI and has been since inception in 2001.

HESTA is a very active participant in ACSI with HESTA's CEO being on the ACSI Board and a HESTA Trustee Director being on the ACSI Member Council. HESTA's Investment Manager - ESG is a participant on the ACSI ESG Group.

HESTA actively provides input to ACSI policy and programs and promote ACSI and their policy and programs in the broader investment market.

HESTA participates in ACSI coordinated meetings with a range of companies on key corporate governance issues such as board composition including diversity and independence, executive remuneration, corporate and capital structures, and social and environmental issues such as climate change strategy, stranded assets and coal seam gas.

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☑ CDP Climate Change

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a signatory to CDP Climate Change and has been since 2007.

☑ CDP Forests

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a signatory to CDP Forests.

☑ CDP Water

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a signatory to CDP Water.

☐ CFA Institute Centre for Financial Market Integrity

☐ Council of Institutional Investors (CII)

☐ Eumedion

☐ Extractive Industries Transparency Initiative (EITI)

☐ Global Investors Governance Network (GIGN)

☑ Global Real Estate Sustainability Benchmark (GRESB)

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PRI Principles for Responsible Investment

	Your organisation's role in the initiative during the reporting period (see definitions)

☐ Basic

☑ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a member of the GRESB and has been since 2014.

HESTA is an active participant in GRESB having requested all our external property managers complete the GRESB Survey in 2014.

HESTA have regularly attended GRESB seminars.

HESTA promote GRESB and their policies and programs to our external investment managers and the broader investment market.

☐ Institutional Investors Group on Climate Change (IIGCC)

☐ Interfaith Center on Corporate Responsibility (ICCR)

☑ International Corporate Governance Network (ICGN)

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a signatory to ICGN and has been since 2007.

HESTA has attended ICGN annual conferences. From time to time HESTA has contributed to the development of ICGN policy.

☑ Investor Group on Climate Change, Australia/New Zealand (IGCC)

	Your organisation's role in the initiative during the reporting period (see definitions)

☐ Basic

☐ Moderate

☑ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a member of IGCC and has been since incorporation of the association in 2006.

HESTA is a very active participant in IGCC with HESTA's Executive Manager - Investments and Governance is a member of the IGCC Management Committee and HESTA's General Manager - Investments is the Chair of the Low Carbon Finance Working Group.

HESTA actively provides input to IGCC policy and programs and promotes IGCC and their policy and programs in the broader investment market.

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☐ Investor Network on Climate Risk (INCR)/CERES

☐ Local Authority Pension Fund Forum

☑ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify

RIAA

	Your organisation's role in the initiative during the reporting period (see definitions)

☐ Basic

☑ Moderate

☐ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a signatory to RIAA and has been since 2009.

HESTA have regularly attended RIAA conferences. From time to time HESTA has contributed to the development of RIAA policies and papers.

During the reporting period HESTA joined the RIAA / ASFA Impact Investment Working Group. We also hosted a joint RIAA and HESTA Superfunds& Impact Investors Forum.

☐ Shareholder Association for Research and Education (Share)

☐ United Nations Environmental Program Finance Initiative (UNEP FI)

☐ United Nations Global Compact

☐ Other collaborative organisation/initiative, specify

☑ Other collaborative organisation/initiative, specify

ESG Research Australia (ESG RA)

	Your organisation's role in the initiative during the reporting year (see definitions)

☐ Basic

☐ Moderate

☑ Advanced

	Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

HESTA is a founding member of ESG RA (founded in 2009). The objective of ESG RA is to facilitate improved investment decision making by encouraging better investment-relevant ESG research by stock brokers. The annual ESG RA Awards held in June 2014 attracted more than 100 individuals from across the investment community. The Awards recognised the 'Best ESG Broking Firm' as voted by ESG RA members and the 'Best Piece' of ESG Research.

HESTA is a very active participant in ESG RA. For the sixth consecutive year, HESTA's Executive Manager - Investments and Governance was chair of ESG RA. For five years until 30 June 2013 HESTA also provided the secretariat support for ESG RA.

HESTA actively promote ESG RA to our external investment managers and the broader investment market.

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☐ Other collaborative organisation/initiative, specify

☐ Other collaborative organisation/initiative, specify

OA 11	Mandatory	Core Assessed	PRI 4

OA 11.1	Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

◉ Yes

OA 11.2	Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.

☑ Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations

☐ Provided financial support for academic or industry research on responsible investment

☑ Encouraged better transparency and disclosure of responsible investment practices across the investment industry

☐ Spoke publicly at events and conferences to promote responsible investment

☐ Wrote and published in-house research papers on responsible investment

☑ Encouraged the adoption of the PRI

☑ Other, specify

HESTA's ESG Issue Survey of external managers - resulting in the preparation of good practice guidelines specific to individual asset classes.

○ No

OA 11.3	Additional information. [Optional]

Supported education of investment managers - Promotion of the PRI Private Equity General Partner Guide

Following the launch of the PRI's Private Equity General Partner Guide, Integrating ESG In Private Equity - A Guide for General Partners, in April 2014, we engaged with the Australian Venture Capital Association to promote the Guide to the private equity industry in Australia and with our private equity advisor StepStone, based in the United States, to promote the Guide to international private equity managers.

Encourage the adoption of the PRI

Given that increasing the percentage of AUM managed by PRI signatories is one of HESTA's Responsible Investment Objectives, during our regular meetings with managers that are not PRI signatories, we highlight the importance of becoming a PRI signatory.

Encouraged better transparency and disclosure of responsible investment practices - HESTA's ESG Issue Survey

During the reporting year, HESTA's ESG Issue Survey focused on how investment manager's monitor and measure their ESG activities and outcomes, with the view to use this information to encourage managers to improve transparency and disclosure on their ESG activities and outcomes.

OA 12	Voluntary	Additional Assessed	PRI 4,5,6

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OA 12.1	Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or standard-setters in support of responsible investment in the reporting year.

◉ Yes

☐ Yes, individually

☑ Yes, in collaboration with others

OA 12.2	Select the methods you have used.

☑ Endorsed written submissions to governments, regulators or standard-setters developed by others

☐ Drafted your own written submissions to governments, regulators or standard-setters

☑ Participated in face-to-face meetings with government members or officials to discuss policy

☑ Other, specify

Please see OA 12.4 for an outline of the methods used to engage with public policy makers, regulators and standard setters.

OA 12.3	Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.

◉ Yes, publicly available

	provide URL

http://www.acsi.org.au/acsi-guidelines23/policy-submissions.html

	provide URL

http://www.regnan.com.au/public-submissions

	provide URL

http://www.hermes.co.uk/eos/en-au/literature/publicpolicyconsultations.aspx

○ No

○ No

OA 12.4	Additional information.

HESTA engage with public policy makers, regulators and standard setters on ESG and other matters to protect or enhance the long-term value of our investments through our expert third-party engagement service providers. For engagement internationally we have appointed Hermes Equities Ownership Services (EOS) and for engagement in Australia we have appointed the Australian Council of Superannuation Investors (ACSI) and Regnan - Governance Research& Engagement.

During the reporting year, HESTA contributed to the development of EOS', ACSI's and Regnan's Public Policy Engagement Plans. We also reviewed the progress of these Plans quarterly.

During the reporting year, EOS, ACSI and Regnan contributed to the development of policy and best practice on a range of ESG issues and other matters through:

- Meeting with public policy makers, regulators and standard setters.

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- Preparing a number of submissions to governments, regulators or standard setters (copies of these submissions are available on the website pages provided above).

HESTA engages with policy makers and regulators specifically on climate change through the Investor Group on Climate Change (IGCC). During the reporting year, the IGCC was extremely active engaging with Australian Government Ministers, Opposition representatives and The Greens party, regarding climate change policy priorities, advocating for the retention of the Carbon Tax and the Renewable Energy Target ("RET"), and highlighting the deficiencies of the Emissions Reduction Fund. This engagement included multiple meetings and submissions which are available at http://www.igcc.org.au/igcc-public-submissions.

In addition, HESTA's General Manager - Investments, who Chairs the IGCC Low Carbon Finance (LCF) Working Group, participated in the IGCC presentation to the RET Review Panel during its consultation on the future of the RET.

The IGCC facilitated dialogue between IGCC members and the Climate Change Authority and the Emissions Reduction Fund Taskforce of the Federal Department of the Environment.

The IGCC also represented our organisation:

- in dialogue with Government officials on Australia's contributions to international climate change negotiations and wrote to G20 Governments on climate policy ambition.
- by participating in a number of international statements on climate change policy that were delivered to heads of state and lead national negotiators participating in UNFCCC processes. Collaboration with the GIC (Global Investor Coalition on Climate Change) UNEPFI and PRI was a feature of these activities.
- at the UN Secretary General's Climate Change Summit in New York in September and at several preparatory meetings, including the Abu Dhabi Ascent in May.

ESG issues in asset allocation

OA 13	Voluntary	Descriptive	PRI 1

OA 13.1	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.

◉ Yes

☐ Allocation between asset classes

☐ Determining fixed income duration

☐ Allocation of assets between geographic markets

☑ Other, specify

See details on how HESTA considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets in 13.2 below.

OA 13.2	Describe how you apply ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.

Consideration of ESG issues in allocation of assets between (or within) asset classes and/or between geographic markets is undertaken informally. ESG considerations are not specifically built into any asset allocation model.

Allocation between asset classes

Our asset consultant is largely responsible for setting allocations to major asset classes. Their allocation process incorporates expectations about returns within each asset class and also the volatility and correlations between asset classes. Our asset consultant does not price or evaluate ESG considerations at the asset class level.

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Allocation of assets between geographic markets

Our asset consultant does not set the allocation of assets between geographic markets, rather, this is generally outsourced to the fund managers within the asset class.

When selecting fund managers that may impact the allocation of assets between geographic markets, HESTA considers any specific ESG issues associated with different regions or countries. For example, during the reporting year, when considering an increase in equities investments in Asia, HESTA explored the specific ESG risks that may be associated with countries or companies in that region.

Allocation to ESG themed/focused investments

During the reporting year, HESTA's Board approved a new allocation to impact investing. The objective of this allocation is to generate returns for HESTA members while delivering predefined social and/or environmental benefits.

○ No

OA 14	Voluntary	Descriptive	PRI 1

OA 14.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

◉ Yes

OA 14.2	Indicate the percentage of your total AUM invested in environmental and social themed areas.

	% of total AUM
4.4	

OA 14.3	Please specify which thematic area(s) you invest in and provide a brief description.

	Area

☑ Clean technology (including renewable energy)

	Asset class invested

☐ Listed equity
☐ Fixed income - corporate
☐ Fixed income - government
☐ Fixed income - other
☑ Private debt
☑ Private equity
☐ Property
☑ Infrastructure
☐ Forestry
☐ Other (1)

☑ Green buildings

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	Asset class invested

- ☐ Listed equity
- ☐ Fixed income - corporate
- ☐ Fixed income - government
- ☐ Fixed income - other
- ☐ Private debt
- ☐ Private equity
- ☑ Property
- ☐ Infrastructure
- ☐ Forestry
- ☐ Other (1)

☑ Sustainable forestry

	Asset class invested

- ☐ Listed equity
- ☐ Fixed income - corporate
- ☐ Fixed income - government
- ☐ Fixed income - other
- ☐ Private debt
- ☐ Private equity
- ☐ Property
- ☐ Infrastructure
- ☑ Forestry
- ☐ Other (1)

☐ Sustainable agriculture

☐ Microfinance

☐ SME financing

☐ Social enterprise / community investing

☐ Affordable housing

☐ Education

☐ Global health

☐ Water

☑ Other area, specify

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PRI Principles for Responsible Investment

	Asset class invested

☑ Listed equity

☐ Fixed income - corporate

☐ Fixed income - government

☐ Fixed income - other

☐ Private debt

☐ Private equity

☐ Property

☐ Infrastructure

☐ Forestry

☐ Other (1)

	Brief description of investment

HESTA has two equities investments where listed companies are selected on the basis of "Best in Class" ESG criteria. These investments meet the criteria for an environmental and social themed investment but do not fit solely within any of the social or environmental themes provided. The listed companies included in these investments operate across all sectors.

○ No

Innovation

OA 18	Voluntary	Descriptive	General

OA 18.1	Indicate whether any specific features of your approach to responsible investment are particularly innovative.

◉ Yes

OA 18.2	Describe any specific features of your approach to responsible investment that you believe are particularly innovative.

ESG Integration - Manager ESG assessment framework

While we have been undertaking manager ESG assessments for many years, during the reporting year we developed a formal Manager ESG Assessment Framework which comprises a comprehensive suite of criteria for managers on their approach to, and practices for, incorporating ESG into their investment processes and decision making. We also developed a scoring and weighting framework so that we can assess and score each criteria, consistently and comparably.

Benefits of this approach are that it:

- provides a comprehensive, robust and documented assessment;
- ensures assessments are consistent and comparable across managers; and
- highlights strengths and weaknesses in a managers approach to, and practices for, incorporating ESG.

Active Ownership

In Australia, we engage heavily with our managers holding the companies on our behalf when determining the way in which we will vote on contentious resolutions. With close to twenty Australian equities managers, depending on the company, this can be an extensive exercise.

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We consolidate all the feedback our managers for each contentious resolution, and along with advice from our proxy voting advisor, we determine the way in which we will vote. Where relevant, we provide feedback to our managers when we vote against company management on a resolution including why we voted against the resolution and request that they communicate our feedback to the company in question.

Benefits of this approach are that it:

- evidences HESTA's commitment to active ownership;
- ensures consistency on voting for companies held by different managers on HESTA's behalf;
- ensures appropriate consideration of any contentious resolutions by our managers;
- facilitates greater understanding by our managers of HESTA's view on key governance issues;
- encourages increased engagement by our managers with companies on key governance issues; and
- enhances knowledge and understanding on key governance issues across the industry.

○ No

Assurance of responses

OA 19	Voluntary	Additional Assessed	General

OA 19.1	Indicate whether your reported information has been reviewed, validated and/or assured by internal and/or external parties.

◉ Yes

OA 19.2	Indicate who has reviewed, validated and/or assured your reported information.

☑ Reviewed by Board, CEO, CIO or Investment Committee

☑ Validated by internal audit or compliance function

☐ Assured by an external independent provider, specify name

OA 19.3	Describe the steps you have taken to review, validate and/or assure the content of your reported information.

The information in this report specific to a particular asset class has been reviewed and approved by HESTA's Investment Managers for each asset class.

The information in this report has also been reviewed and approved by HESTA's internal compliance team.

The final sign-off on the information in this report is provided by HESTA's Chief Investment Officer (Executive Manager - Investments& Governance).

In all cases the reviews included reading the completed report and reviewing and confirming the correctness of any underlying data.

○ No

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PRI Principles for Responsible Investment

HESTA Super Fund

Reported Information

Public version

Indirect – Manager Selection, Appointment and Monitoring

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

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PRI Principles for Responsible Investment

Overview

SAM 01	Voluntary	Descriptive	PRI 1-6

SAM 01.1	Provide a brief description of how your organisation includes responsible investment considerations in your investment manager selection, appointment and monitoring processes.

Manager Selection

When considering a new external investment manager in any of our key asset classes HESTA as well as our consultant or advisor will assess the prospective Manager's:

- Approach to incorporating ESG within its investment processes and decision making.
- Activities associated with incorporating ESG within its investment processes and decision making.
- Capabilities related to ESG including tools and resources and involvement in any external responsible investment collaborations and/or initiatives.

The ESG assessment of a prospective external investment manager will only be one of a range of factors which determine the suitability of a manager and its strategy for inclusion in HESTA's portfolio.

HESTA's Manager ESG Assessment is undertaken by the relevant HESTA Investment Manager with support and advice from the HESTA Investment Manager - ESG. The Manager ESG Assessment is undertaken using our newly documented comprehensive suite of ESG criteria which cover the elements identified above and includes a scoring and weighting framework for each criteria. The Assessment is conducted through a (i) a desktop review of the ESG assessment provided by HESTA's consultant or advisor, (ii) a desk top review of any documented ESG information e.g. policies, reports etc, provided by the prospective manager and (iii) an ESG focused meeting with the prospective manager.

Manager Appointment

When appointing a new external investment manager in any of our key asset classes, ESG requirements are incorporated into contractual arrangements, either within an investment management agreement or a side letter.

Managers Review

HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting:

- Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions.
- Any ESG issue(s) that have generated media or public interest.
- Updates on any ESG engagement with underlying investments.
- Updates on any other relevant ownership activities such as proxy voting or board representation.

In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of:

- A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular investment reports to HESTA.
- A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey.
- A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports etc.
- A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year.
- An update of the Manager ESG Assessment Framework.

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PRI Principles for Responsible Investment

SAM 02	Mandatory	Core Assessed	PRI 4

SAM 02.1	Indicate if your organisation uses investment consultants and/or fiduciary managers in the selection, appointment and/or monitoring of external managers.

◉ Yes

SAM 02.2	Indicate how your organisation uses investment consultants and/or fiduciary managers in the selection, appointment and/or monitoring of external managers. [Optional]

☑ We use investment consultants in our selection and appointment of external managers

	Asset class

☑ Listed Equity (LE)

☑ Fixed income - corporate (FIC)

☑ Fixed income - government (FIG)

☑ Private equity (PE)

☑ Infrastructure (INF)

☑ Property (PR)

☑ Other asset classes

☑ We use investment consultants in our monitoring of external managers

	Asset class

☑ Listed Equity (LE)

☑ Fixed income - corporate (FIC)

☑ Fixed income - government (FIG)

☑ Private equity (PE)

☑ Infrastructure (INF)

☑ Property (PR)

☑ Other asset classes

☐ We use fiduciary managers

SAM 02.3	Indicate if your organisation considers responsible investment in the selection, appointment and/or review processes for investment consultants and/or fiduciary managers.

☑ Responsible investment is included in the selection process for investment consultants

☐ Consultants' responsibilities in relation to responsible investment in manager selection, appointment and monitoring processes are included in our contractual agreements with them

☑ Responsible investment is considered when reviewing investment consultants' advice on manager selection and performance monitoring

☐ We do not consider responsible investment in the selection, appointment and/or review processes for investment consultants.

○ No

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SAM 02.4	Additional information. [Optional]

Responsible investment is included in the selection process for investment consultants

The selection and appointment of investment consultants or advisors occurs only very infrequently. However, responsible investment would be included in the selection and appointment of any new investment consultant or advisor. For example, when HESTA appointed a new dedicated private equity investment advisor in 2013, we included ESG as part of the due diligence and assessment process in several ways:

- The Request for Proposal (RFP) highlighted HESTA's commitment and approach to ESG and requested information on the advisor's approach to ESG integration (including their responsible investment or ESG policy).
- ESG integration was included as one of six key criteria for assessment of responses.
- The Investment Management Agreement (IMA) with the successful advisor contains a range of ESG clauses including the requirement to have regard to HESTA's ESG Policy and to report on ESG matters.

SAM 03	Mandatory	Gateway	General

SAM 03.1	Indicate for which of the following externally managed asset classes your organisation, and/or your investment consultants, consider responsible investment factors in investment manager: (a) Selection, (b) Appointment (investment management agreements/contracts), and (c) Monitoring

Select all that apply

Asset classes	(a) Selection	(b) Appointment	(c) Monitoring
Listed equity	☑	☑	☑
Fixed income - corporate	☑	☑	☑
Fixed income - government	☑	☑	☑
Fixed income - other	☑	☑	☑
Private equity	☑	☑	☑
Private debt	☑	☑	☑
Property	☑	☑	☑
Infrastructure	☑	☑	☑
Forestry	☑	☑	☑
Other (1) [as defined in Organisational Overview module]	☑	☑	☑

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SAM 03.2	Additional information. [Optional]

It should be noted that during the reporting year there was no selection and appointment of external investment managers in some of the asset classes listed above. In these cases the response above reflects our process and not what actually occurred.

Listed equity (LE), fixed income corporate (FIC) and fixed income government (FIG)

Overview

SAM 04	Mandatory to Report Voluntary to Disclose	Gateway/Peering	General

SAM 04.1	Provide a breakdown of your externally managed listed equities, corporate fixed income and government fixed income by passive, active quant, active fundamental and other active strategies.

Listed equity (LE)

Type of strategy	As % of externally managed listed equity
Passive	○ 0% ○ <10% ◉ 10-50% ○ >50%
Active - quantitative (quant)	◉ 0% ○ <10% ○ 10-50% ○ >50%
Active - fundamental and other active	○ 0% ○ <10% ○ 10-50% ◉ >50%

Fixed income - corporate (FIC)

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Type of strategy	As % of externally managed corporatefixed income
Passive	○ 0% ○ <10% ◉ 10-50% ○ >50%
Active - quantitative (quant)	◉ 0% ○ <10% ○ 10-50% ○ >50%
Active - fundamental and other active	○ 0% ○ <10% ○ 10-50% ◉ >50%

Fixed income - government (FIG)

Type of strategy	As % of externally managed government fixed income
Passive	○ 0% ○ <10% ○ 10-50% ◉ >50%
Active - quantitative (quant)	◉ 0% ○ <10% ○ 10-50% ○ >50%
Active - fundamental and other active	○ 0% ○ <10% ◉ 10-50% ○ >50%

SAM 05 | **Mandatory** | **Gateway** | **PRI 1,2**

SAM 05.1 Indicate which of the following ESG incorporation strategies you encourage or require your external manager(s) to implement on your behalf:

Active investment strategies

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Active investment strategies	LE	FIC	FIG
Screening	☑	☑	☐
Thematic	☐	☐	☐
Integration	☑	☑	☑
None of the above	☐	☐	☐

Passive investment strategies

Passive investment strategies	LE	FIC	FIG
Screening	☑	☑	☐
Thematic	☐	☐	☐
Integration	☑	☐	☐
None of the above	☐	☐	☐

SAM 05.2

Indicate if - on your externally managed assets - you engage directly, via service providers, or via your external manager.

	LE	FIC
We engage directly or via service providers on our externally managed assets	☑	☐
We require our external managers to engage on our behalf	☑	☑
None of the above	☐	☐

SAM 05.3

Indicate if - on your externally managed listed equities - you cast your (proxy) votes directly, via service providers, or via your external manager.

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	LE
We cast our (proxy) votes directly or via service providers on our externally managed assets	☑
We require our external managers to cast our (proxy) votes on our behalf	☐
None of the above	☐

SAM 05.4	Additional information. [Optional]

It should be noted that HESTA does not have separate allocations within FI to 'Corporate' or 'Government', therefore the response above reflects our process and not what actually occurred.

5.1 Screening - All active and passive LE and FIC managers are required to apply a negative/exclusionary screen on tobacco producers. Two active LE managers are required to apply a positive/best in class screen.

5.1 Integration - All active and passive LE and FIC managers are required to integrate ESG factors into their investment processes and decision making.

5.2 Requiring our external managers to engage on our behalf - While engaging with listed companies or corporate bond holders on our behalf is not a contractual requirement within the Investment Management Agreements with our external listed equities managers or our external fixed interest corporate managers, we expect them to undertake such engagement on material ESG issues. We discuss these engagements with managers as part of the annual Manager ESG Review meeting.

Selection

SAM 06	Mandatory	Core Assessed	PRI 1-6

SAM 06.1	Indicate whether your organisation, and/or your investment consultant, in the manager selection process for listed assets, typically do any of the following:

	General

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	LE	FIC	FIG
Review the manager's responsible investment policies	☑	☑	☑
Discuss managers' governance and management of responsible investment activities	☑	☑	☑
Meet staff with responsible investment responsibilities to assess their skills and competence	☑	☑	☑
Discuss minimum responsible investment expectations that managers must meet	☑	☑	☑
Discuss the role managers have played in collaborative initiatives	☑	☑	☑
Ask whether the organisation is a signatory to the PRI and/or other relevant organisations	☑	☑	☑
Review the manager's responsible investment reporting to clients and/or the public, including PRI reporting	☑	☑	☑
Discuss the type of ESG reporting you expect	☑	☑	☑
Assign specific weighting to ESG factors in your manager evaluation	☐	☐	☐
Other general aspects in your selection process, specify	☑	☑	☑
None of the above	☐	☐	☐

ESG incorporation

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	LE	FIC	FIG
Evaluate the quality and coverage of ESG research used by managers	☑	☑	☑
Assess how the manager incentivises brokers to provide ESG research	☑	n/a	n/a
Assess managers' ESG incorporation strategies and ability to identify and manage ESG issues	☑	☑	☑
Discuss with managers how ESG issues have impacted specific investment decisions and, where relevant, stock or portfolio performance	☑	☑	☑
Evaluate index providers' ESG incorporation when designing the index	☐	☐	☐
Other ESG incorporation issues in your selection process, specify	☐	☐	☐
None of the above	☐	☐	☐

Engagements

	LE	FIC
Discuss the managers' engagement processes	☑	☑
Discuss the role managers have played in influencing companies' ESG practices and performance	☑	☑
Discuss how information gained though engagement is incorporated into investment decision-making	☑	☑
Other engagement issues in your selection process, specify	☐	☐
None of the above	☐	☐

If you select any 'Other' option(s), specify

General - Other

As part of the Manager ESG Assessment we consider evidence of long-term investment and superior ESG performance of the portfolio.

ESG Incorporation - Other

As part of the Manager ESG Assessment we review any ESG resources and tools used by managers to incorporate ESG into their pre-investment processes and decision making.

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SAM 06.2	Provide additional information relevant to your organisation's selection approach for listed assets. [Optional]

It should be noted that during the reporting year there was no selection and appointment of fixed income managers. As such, the details regarding the selection and appointment of fixed income managers reflects our process and not what actually occured.

Appointment

SAM 07	Voluntary	Additional Assessed	PRI 4

SAM 07.1	When appointing managers, indicate which of the following responsible investment considerations your organisation typically includes in investment management agreements/contracts for your listed assets:

General

	LE	FIC	FIG
Acting in accordance with your organisation's overall investment beliefs or policy on responsible investment and ESG issues	☑	☑	☑
Other general RI considerations in investment management agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

ESG incorporation

	LE	FIC	FIG
Specific requirements relating to the incorporation of ESG issues into investment decision-making	☐	☐	☐
Other RI considerations relating to ESG incorporation in investment management agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

Engagement

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	LE	FIC
Specific requirements relating to engagement	☐	☐
Other RI considerations relating to engagement in investment management agreements, specify	☐	☐
None of the above	☑	☑

Reporting

	LE	FIC	FIG
Reporting on the agreed responsible investment activities	☑	☑	☑
Reporting on the ESG characteristics of the portfolio	☐	☐	☐
Reporting on the impact of ESG issues on financial performance	☐	☐	☐
Other RI considerations relating to reporting in investment management agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

If you select any 'Other' option(s), specify

General - Other

All new investment management agreements will include the requirement for the manager to:

- Acknowledge HESTA's view that ESG issues have the potential to impact investment risks and returns and that considering these issues alongside traditional financial and business risk factors in investment decision-making can improve long-term risk-adjusted returns.

ESG Incorporation - Other

All new investment management agreements will include the requirement for the manager to:

- Have regard to HESTA's ESG Policy and Active Ownership Policy and the PRI.

Reporting - Other

All new investment management agreements will include the requirement for the manager to report the following information:

- The Manager's thinking about and approach to ESG, ESG activities including research and engagement.
- How the Manager approaches the incorporation of ESG issues into their investment analysis and decision-making processes.
- The Manager's approach to incorporating the PRI into its investment processes.

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SAM 07.2	Provide additional information relevant to your organisation's manager appointment process and considerations included in contractual agreements for listed assets.

It should be noted that during the reporting year there was no selection and appointment of fixed income managers. As such, the details regarding the selection and appointment of fixed income managers reflects our process and not what actually occurred.

Almost all existing Investment Management Agreements include ESG clauses and all new Investment Management Agreements will include ESG clauses.

In the listed asset classes, a small number of investments are in co-mingled vehicles where we are required to adopt a general fund agreement that applies to all investors in the fund. In these cases we have limited ability to influence the fund terms and whether or not ESG clauses are included. In these cases, where possible, we have endeavoured and will continue to endeavour to have ESG clauses included through the use of a side letter with the manager.

Monitoring

SAM 08	Mandatory	Core Assessed	PRI 1

SAM 08.1	Indicate whether your organisation, and/or your investment consultant, in the dialogue and monitoring of your external manager typically do any of the following:

	General

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	LE	FIC	FIG
Include responsible investment as a standard agenda item at performance review meetings	☑	☑	☑
Highlight examples of good responsible investment practice by other managers	☑	☑	☑
Review the manager's responsible investment reporting, for example PRI-generated responsible investment reports	☑	☑	☑
Encourage your managers to consider joining responsible investment initiatives/organisations or participate in collaborative projects with other investors	☑	☑	☑
Include responsible investment criteria as a formal component of overall manager performance evaluation	☑	☑	☑
Request information on whether your manager's approach to ESG issues has impacted financial performance	☐	☐	☐
Request information on whether your manager's approach to ESG issues has impacted risk or volatility	☐	☐	☐
Request information on whether your manager's approach to ESG issues has impacted ESG performance	☐	☐	☐
Other general aspects of your monitoring, specify	☑	☑	☑
None of the above	☐	☐	☐

ESG incorporation

	LE	FIC	FIG
Request information on ESG incorporation in specific investment decisions	☑	☐	☐
Other ways you monitor ESG incorporation, specify	☑	☑	☑
None of the above	☐	☐	☐

Engagements

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	LE	FIC
Review the ESG information relevant to the engagements	☑	☐
Discuss the number of engagements and their comprehensiveness	☑	☑
Discuss the type of role played (i.e. leading or supporting)	☑	☑
Review the progress of ongoing engagements and/or outcomes of completed engagements	☑	☑
Other ways you monitor engagement activities, specify	☐	☐
None of the above	☐	☐

	If you select any 'Other' option(s), specify

General - Other

We request that our external investment managers respond to HESTA's ESG Issue Survey. During the reporting year, the ESG Issue Survey was on 'Assessing Manager ESG Performance'. The survey sought information on how managers monitor and measure their own ESG activities and outcomes. We then assess and compile the responses and prepare a report for each asset class based on the findings from the survey and distribute this report back to the managers. We discuss the manager's response to HESTA's ESG Issue Survey during the Annual Manager ESG Review Meeting.

SAM 08.2	Provide additional information relevant to your organisation's dialogue and monitoring of external managers. [Optional]

General -Include responsible investment as a standard agenda item at performance review meetings

HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting:

- Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions.
- Any ESG issue(s) that have generated media or public interest.
- Updates on any ESG engagement with underlying investments.
- Updates on any other relevant ownership activities such as proxy voting or board representation.

In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of:

- A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular investment reports to HESTA.
- A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey.
- A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports.
- A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year.
- An update of the Manager ESG Assessment Framework.

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General - Encourage your managers to consider joining responsible investment initiatives/organisations or participate in collaborative projects with other investors

For example, during the reporting year, we encouraged our external investment managers that are not already signatories to the PRI to become signatories. We also wrote to all our external investment managers encouraging them to sign the Global Investor Statement on Climate Change. We received notification from a number of managers that they had subsequently signed the Statement.

Private equity (PE), property (PR) and infrastructure (INF) - non-listed assets

Selection

SAM 10	Mandatory	Core Assessed	PRI 1-6

SAM 10.1	Indicate whether your organisation, and/or your investment consultant, in the dialogue and monitoring of your external manager typically do any of the following:

General

	PE	PR	INF
Review the manager's/general partner's responsible investment policy	☑	☑	☑
Discuss the manager's governance and management of responsible investment	☑	☑	☑
Meet staff with responsible investment responsibilities to assess their skills and competence	☑	☑	☑
Discuss minimum responsible investment expectations that managers must meet	☑	☑	☑
Discuss the role managers have played in collaborative initiatives	☑	☑	☑
Ask whether the organisation is a signatory to the PRI and/or other relevant organisations	☑	☑	☑
Assess the external manager's reporting and how it will help you to monitor that it is acting consistent with the agreed-upon ESG-related policies and practices during the life of the fund	☑	☑	☑
Review the manager's responsible investment disclosure, including PRI reporting	☑	☑	☑
Assign specific weighting to ESG factors in your manager evaluation	☐	☐	☐
Other general aspects in your selection process, specify	☑	☑	☑
None of the above	☐	☐	☐

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Investment selection (pre-investment) of underlying holding

	PE	PR	INF
Assess the manager's policies, processes and systems for identifying ESG-related value drivers and managing material ESG-related risks pre-investment	☑	☑	☑
Other pre-investment aspects reviewed in your selection process, specify	☑	☑	☑
None of the above	☐	☐	☐

Investment monitoring (post-investment) of underlying holding

	PE	PR	INF
Understand if and how the manager influences and supports its portfolio companies'/assets' management of ESG-related risks and pursuit of ESG-related opportunities	☑	☑	☑
Discuss examples of how managers have previously identified and addressed ESG issues in their portfolios on an ongoing basis	☑	☑	☑
Assess the manager's/general partner's approach to managing and disclosing material incidents at the manager / General Partner and underlying holdings	☑	☑	☑
Other post-investment aspects reviewed in your selection process, specify	☑	☑	☑
None of the above	☐	☐	☐

If you select any 'Other' option(s), specify

General - Other

As part of our Manager ESG Assessment we consider evidence of a long-term investment horizon and superior ESG performance of the portfolio.

Investment Selection - Other

As part of our Manager ESG Assessment we consider any ESG resources and tools used by managers to incorporate ESG into their pre-investment processes and decision making.

Investment Monitoring - Other

As part of our Manager ESG Assessment we consider how the manager monitors and measures the ESG performance of individual portfolio assets and the portfolio as a whole.

Appointment

SAM 11	Voluntary	Additional Assessed	PRI 4

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SAM 11.1	When appointing managers, indicate which of the following responsible investment considerations your organisation typically includes in agreements/fund formation contracts for your non-listed assets:

General

	PE	PR	INF
Acting in accordance with your organisation's overall investment beliefs or policy on responsible investment and ESG issues	☑	☑	☑
Other general RI considerations in your agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

Investment selection (pre-investment) of underlying holding

	PE	PR	INF
Specific requirements relating to how ESG issues are identified and managed in investment decision-making	☑	☑	☑
Other RI considerations relating to investment selection in your agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

Investment monitoring (post-investment) of underlying holding

	PE	PR	INF
Specific requirements relating to the manager supporting or influencing the underlying holdings' management of ESG factors	☑	☑	☑
Other RI considerations relating to investment monitoring in your agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

Reporting

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	PE	PR	INF
Reporting on the agreed ESG implementation activities	☑	☑	☑
Reporting on the ESG characteristics of the portfolio	☑	☑	☑
Reporting on company incidents relating to ESG issues	☑	☑	☑
Reporting on the impact of ESG issues on financial performance	☐	☐	☐
Other RI considerations relating to reporting in your agreements, specify	☑	☑	☑
None of the above	☐	☐	☐

	If you select any 'Other' option(s), specify

General - Other

All new Investment Management Agreements in non-listed asset classes will include the requirement for the manager to:

- Acknowledge HESTA's view that ESG issues have the potential to impact investment risks and returns and that considering these issues alongside traditional financial and business risk factors in investment decision-making can improve long-term risk-adjusted returns.
- Have regard to the PRI.

Investment selection - Other

All new Investment Management Agreements in non-listed asset classes will include the requirement for the manager to agree to consider ESG risks, opportunities and/or performance in their investment processes including due diligence, ownership and exit processes.

New Investment Management Agreements will also include the ability for HESTA to exercise a 'right of veto' on new investments on ESG grounds, where applicable. This right of veto has been used to require additional ESG related research and due diligence on certain property investments and has been exercised to veto several potential private equity co-investments.

Investment monitoring - Other

All new Investment Management Agreements in non-listed asset classes will include the requirement for the manager to:

- Consider ESG risks, opportunities and/or performance in their monitoring of portfolio assets including (without limitation) encouraging portfolio asset management to identify, manage and minimise material ESG risks, opportunities and/or improve performance in their ordinary business activities.
- Agree to facilitate communication between HESTA and portfolio assets regarding ESG issues.

Reporting - Other

All new Investment Management Agreements in non-listed asset classes will include the requirement for the manager to report the following information:

- The development and/or implementation of any policies, process and fund terms regarding ESG.
- How the manager considered ESG risks, opportunities and/or performance when making investments including any examples of where it impacted the investment, ownership or exit activities during the period.
- Any material ESG-related incidents at the manager or portfolio assets including actions taken in response to the incident, within a specified timeframe.

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- Where relevant, a summary of key ESG performance indicators for each portfolio asset including electricity consumption (kwh), water consumption (ltrs), greenhouse gas emissions (tonnes CO2-e), waste generation (tonnes) and recycling (tonnes).
- Where relevant, actions to improve the ESG performance of portfolio assets during the period.

SAM 11.2	Provide additional information relevant to your organisation's manager appointment process and considerations included in contractual agreements for non-listed assets.

Almost all existing Investment Management Agreements include ESG clauses and all new Investment Management Agreements will include ESG clauses.

However, in the non-listed asset classes, the majority of investments are in co-mingled vehicles where we are required to adopt a general fund agreement that applies to all investors in the fund. In these cases we have limited ability to influence the fund terms including whether or not they contain ESG clauses. In these cases, where possible, we have endeavoured and will continue to endeavour to have ESG clauses included through the use of a side letter with the manager.

Monitoring

SAM 12	Mandatory	Core Assessed	PRI 1-6

SAM 12.1	Indicate whether your organisation, and/or your investment consultant, in the dialogue and monitoring of your external manager, typically do any of the following:

	General

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	PE	PR	INF
Include responsible investment as a standard agenda item at performance review meetings	☑	☑	☑
Highlight examples of good responsible investment practice by other managers	☑	☑	☑
Review manager's responsible investment reporting, for example PRI-generated responsible investment reports	☑	☑	☑
Encourage your managers to consider joining responsible investment initiatives or organisations or participate in collaborative projects with other investors	☑	☑	☑
Include responsible investment criteria as a formal component of overall manager performance evaluation	☐	☐	☐
Request information on whether your manager's approach to ESG issues has impacted financial performance	☐	☐	☐
Request information on whether your manager's approach to ESG issues has impacted ESG performance	☑	☑	☑
Other general aspects of your monitoring, specify	☑	☑	☑
None of the above	☐	☐	☐

Investment selection (pre-investment) of underlying holding

	PE	PR	INF
Discuss how the analysis of ESG issues affected investment decisions during the reporting period	☑	☑	☑
Other ways ESG issues are incorporated in the pre-investment process, specify	☐	☐	☐
None of the above	☐	☐	☐

Investment monitoring (post-investment) of underlying holding

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	PE	PR	INF
Request reports on the ESG characteristics of the manager's underlying holdings and discuss related developments that may impact holdings in the fund	☑	☑	☑
Request examples of ESG issues identified within the portfolio and action taken in response	☑	☑	☑
Request details of how ESG factors were considered when preparing to exit from investments	☑	☑	☑
Other ways ESG issues are monitored in the post-investment process, specify	☐	☐	☐
None of the above	☐	☐	☐

	If you select any 'Other' option(s), specify

General - Other

We request that our external investment managers respond to HESTA's ESG Issue Survey. During the reporting year, the ESG Issue Survey was on 'Assessing Manager ESG Performance'. The survey sought information on how managers monitor and measure their own ESG activities and outcomes. We then assessed and compiled the responses and prepared a report for each asset class based on the findings from the survey and distributed this report back to the managers. We discussed the manager's response to HESTA's ESG Issue Survey during the Annual Manager ESG Review Meeting.

SAM 12.2	Provide additional information relevant to your organisation's dialogue and monitoring of external managers. [Optional]

General - Include responsible investment as a standard agenda item at performance review meetings

HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting:

- Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions.
- Any ESG issue(s) that have generated media or public interest.
- Updates on any ESG engagement with underlying investments.
- Updates on any other relevant ownership activities such as board representation.

In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of:

- A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular investment reports to HESTA.
- A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey.
- A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports.
- A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year.
- An update of the Manager ESG Assessment Framework.

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General - Encourage your managers to consider joining responsible investment initiatives/organisations or participate in collaborative projects with other investors

For example, during the reporting year, we encouraged our external investment managers that are not already signatories to the PRI to become signatories. We also wrote to all our external investment managers encouraging them to sign the Global Investor Statement on Climate Change. We received notification from a number of managers that they had subsequently signed the Statement.

Other asset classes

SAM 13	Voluntary	Descriptive	PRI 1-6

SAM 13.1	Describe how your organisation, and/or your investment consultants, address responsible investment factors in manager selection, appointment and/or monitoring process for the following asset classes:

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Asset Class	Description
Fixed income - other	HESTA does not have separate allocations within fixed income to 'Corporate', 'Government' or 'Other'. Allocation to 'Fixed Income - Other' forms part of a broader allocation to fixed income managers. As such, our approach to addressing responsible investment in selection, appointment and/or monitoring process for 'Fixed income - other'' managers is consistent with the approach described under both 'Fixed income - corporate' and 'Fixed income - government' covered in questions 6-8 in this section.
Private debt	***Manager Selection*** When considering a new private debt manager HESTA as well as our investment consultant will assess the prospective manager's: • Approach to incorporating ESG within its investment processes and decision making. • Activities associated with incorporating ESG within its investment processes and decision making. • Capabilities related to ESG including tools and resources and involvement in external responsible investment collaborations and/or initiatives. There is an increased emphasis on governance issues with these types of investments due to the more concentrated form of counter party risk. The ESG assessment of a new private debt manager will only be one of a range of factors which determine the suitability of a manager and its strategy for inclusion in HESTA's portfolio. HESTA's Manager ESG Assessment is undertaken by the relevant HESTA Investment Manager with support and advice from the HESTA Investment Manager - ESG. The Manager ESG Assessment is undertaken using our newly documented comprehensive suite of ESG criteria which cover the elements identified above and includes a scoring and weighting framework for each criteria. The ESG Assessment is conducted through: • A desktop review of any ESG assessment provided by HESTA's consultant or advisor. • A desk top review of any documented ESG information provided by the prospective manager e.g. policies, reports etc,. • An ESG meeting with the prospective manager. ***Manager Appointment*** When appointing a new private debt manager, ESG requirements are incorporated into contractual arrangements in the Investment Management Agreement or side letter, as applicable. The ESG requirements include a "right of veto" which provides HESTA the ability to veto a new investment on ESG grounds. ***Managers Review*** HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting: • Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions. • Any ESG issue(s) that have generated media or public interest. • Updates on any ESG engagement with underlying investments or any other relevant ownership activities. In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of:

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	• A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular reports to HESTA. • A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey. • A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports. • A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year. • An update of the Manager ESG Assessment Framework.

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Forestry	***Manager Selection*** When considering a new forestry manager, HESTA, as well as its investment consultant will assess the prospective manager's: • Approach to incorporating ESG within its investment processes and decision making. • Activities associated with incorporating ESG within itsinvestment processes and decision making. • Capabilities related to ESG including tools and resources and involvement in external responsible investment collaborations and/or initiatives. Adoption of best practice sustainability policies and practices is expected for any new managers and/or products. At a minimum, best practice includes certification of forests to an appropriate international, regional or country sustainability standard including the Forestry Stewardship Council. The ESG assessment of a new forestry manager will only be one of a range of factors which determine the suitability of a manager and its strategy for inclusion in HESTA's portfolio. HESTA's Manager ESG Assessment is undertaken by the relevant HESTA Investment Manager with support and advice from the HESTA Investment Manager - ESG. The Manager ESG Assessment is undertaken using our newly documented comprehensive suite of ESG criteria which cover the elements identified above and includes a scoring and weighting framework for each criteria. The ESG Assessment is conducted through: • A desktop review of any ESG assessment provided by HESTA's consultant or advisor. • A desk top review of any documented ESG information provided by the prospective manager e.g. policies, reports etc. • An ESG meeting with the prospective manager. ***Manager Appointment*** When appointing a new forestry manager, ESG requirements are incorporated into contractual arrangements in the Investment Management Agreement or side letter, as applicable. ***Manager Review*** HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting: • Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions. • Any ESG issue(s) that have generated media or public interest. • Updates on any ESG engagement with underlying investments or any other relevant ownership activities such as board representation. In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of: • A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular reports to HESTA. • A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey. • A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports. • A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year.

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	• An update of the Manager ESG Assessment Framework.

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Other (1) [as defined in Organisational Overview module]	***Manager Selection*** When considering a new opportunistic growth manager, HESTA, as well as its investment consultant will assess the prospective Manager's: • Approach to incorporating ESG within its investment processes and decision making. • Activities associated with incorporating ESG within its investment processes and decision making. • Capabilities related to ESG including tools and resources and involvement in external responsible investment collaborations and/or initiatives. The ESG assessment of a new opportunistic growth manager will only be one of a range of factors which determine the suitability of the manager and its strategy for inclusion in HESTA's portfolio. HESTA's Manager ESG Assessment is undertaken by the relevant HESTA Investment Manager with support and advice from the HESTA Investment Manager - ESG. The Manager ESG Assessment is undertaken using our newly documented comprehensive suite of ESG criteria which cover the elements identified above and includes a scoring and weighting framework for each criteria. The ESG Assessment is conducted through: • A desktop review of any ESG assessment provided by HESTA's consultant or advisor. • A desk top review of any documented ESG information provided by the prospective manager e.g. policies, reports etc. • An ESG meeting with the prospective manager. ***Manager Appointment*** When appointing a new opportunistic growth manager ESG requirements are incorporated into contractual arrangements in the Investment Management Agreement or side letter, as applicable. ***Manager Review*** HESTA's manager performance review meetings include responsible investment as a standard agenda item, where relevant. This agenda item provides the opportunity to discuss any of the following that occurred since the last review meeting: • Any ESG issue(s) identified by the manager during their investment analysis including whether or not the issue(s) impacted investment decisions. • Any ESG issue(s) that have generated media or public interest. • Updates on any ESG engagement with underlying investments or any other relevant ownership activities such as board representation. In addition to the regular performance review meetings, HESTA undertake a more formal annual manager performance review which includes an ESG Review consisting of: • A review of any ESG information provided by managers as part of their regular performance review meetings (as outlined above) or their regular reports to HESTA. • A review of any ESG information provided by managers in response to requests from HESTA including their response to HESTA's ESG Issue Survey. • A review of any specific ESG reports provided by managers e.g. RI Reports, PRI Transparency Reports. • A Manager ESG Review meeting to discuss any change or improvements to the manager's approach, as well as the ESG activities and performance highlights from the year. • An update of the Manager ESG Assessment Framework.

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Outputs and outcomes

SAM 14	Mandatory to Report Voluntary to Disclose	Descriptive	PRI 1-6

SAM 14.1	Indicate approximately what percentage (+/- 10%) of your externally managed assets are managed by PRI signatories.

	%

74

SAM 14.2	Additional information. [Optional]

During the reporting year the approximate percentage of our externally managed assets that are managed by PRI signatories increased slightly from 72% to 74%.

SAM 15	Voluntary	Descriptive	PRI 2

SAM 15.1	Provide examples of how ESG issues have been addressed in the manager selection, appointment and/or monitoring process for your organisation during the reporting year.

☑ Add Example 1

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PRI Principles for Responsible Investment

Topic or issue	Manager ESG Assessments
Conducted by	☑ Internal staff ☐ Investment consultants
Asset class	☐ All asset classes ☐ Listed Equity ☐ Fixed income – corporate bonds ☐ Fixed income – government bonds ☐ Private equity ☑ Infrastructure ☐ Property ☐ Fixed income - other ☐ Private debt ☐ Forestry ☐ Other (1)
Scope and process	During the reporting year, we conducted our new Manager ESG Assessment for each of our existing infrastructure managers including: • Meeting with each manager to discuss their approach to, and processes for, incorporation of ESG into their investment processes and decision making. • Collecting a range of ESG information from each manager including their ESG Policy, examples of ESG integration in their pre-investment due diligence and post-investment asset management activities, and their PRI RI Transparency Reports. • Addressing each ESG criteria in the comprehensive suite of ESG criteria for each manager. • Assessing and scoring each ESG criteria for each manager.
Outcomes	Completed the new Manager ESG Assessment for each of our existing infrastructure managers. The completed ESG Assessment now forms the basis of ongoing manager ESG reviews including the annual Manager ESG Review.

☑ Add Example 2

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Topic or issue	Climate Change
Conducted by	☑ Internal staff ☐ Investment consultants
Asset class	☐ All asset classes ☐ Listed Equity ☐ Fixed income – corporate bonds ☐ Fixed income – government bonds ☑ Private equity ☐ Infrastructure ☐ Property ☐ Fixed income - other ☐ Private debt ☐ Forestry ☐ Other (1)
Scope and process	In accordance with our Climate Change Policy, HESTA has committed to incorporate climate change considerations into our investment processes and decision-making and to consider climate change in the selection of our external investment managers and investment products. Incorporating climate change in the selection of investments, led to the favourable consideration of a direct investment opportunity in renewable energy. This investment supports our commitment to addressing climate change risk including transitioning to a low-carbon economy and promoting renewable energy production globally.
Outcomes	We invested in a wind (renewable energy) development project.

☑ Add Example 3

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Topic or issue	Manager ESG Assessments
Conducted by	☑ Internal staff ☐ Investment consultants
Asset class	☐ All asset classes ☑ Listed Equity ☐ Fixed income – corporate bonds ☐ Fixed income – government bonds ☐ Private equity ☐ Infrastructure ☐ Property ☐ Fixed income - other ☐ Private debt ☐ Forestry ☐ Other (1)
Scope and process	During the reporting year, we undertook to appoint a new international equities manager. As part of the due diligence on the prospective manger, we conducted our new Manager ESG Assessment. This required us to obtain information to determine the extent to which the manager satisfied each of the ESG criteria in the comprehensive suite of ESG criteria. We obtained this information through reviewing ESG reports and other information provided by the manager as well as through a dedicated ESG meeting. The prospective manager also provided detailed responses to our follow up ESG questions. The scoring and weighting of each of the ESG criteria highlighted what we consider to be the strengths and weaknesses of the manager's approach to and practices for incorporating ESG into their investment process and decision making. The strengths identified by the Manager ESG Assessment included: • Demonstration of appropriate processes to effectively identify ESG issues in the course of the due diligence process through detailed company analysis and discussions with company management. • Evidence that significant ESG issues identified through the due diligence may result in either (i) a higher hurdle than for similar companies without any ESG issues or (ii) removal of the stock from the investible universe. • Demonstration of a robust approach to proxy voting incorporating advice from proxy advisors with the knowledge of the portfolio analysts. The weakness identified by the Manager ESG Assessment was a lack of evidence of Board or Management commitment to responsible investment (e.g. Policy or statement on website) and not being a signatory to the PRI or otherwise involved in any other responsible investment collaborations and/or initiatives.
Outcomes	We appointed this manager and are continuing discussion on the weaknesses identifed by the Manager ESG Assessment.

☑ Add Example 4

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Topic or issue	Manager ESG Assessments
Conducted by	☑ Internal staff ☐ Investment consultants
Asset class	☐ All asset classes ☐ Listed Equity ☐ Fixed income – corporate bonds ☐ Fixed income – government bonds ☐ Private equity ☐ Infrastructure ☑ Property ☐ Fixed income - other ☐ Private debt ☐ Forestry ☐ Other (1)
Scope and process	As with the other key asset classes, HESTA sought to improve our approach to assessing external investment managers approaches to, and practices for, incorporating ESG in their investment processes and decision making. While we considered developing our own Manager ESG Assessment Framework for property managers as we did for the other asset classes, we also considered utilising the Global Real Estate and Sustainability Benchmark (GRESB) which provides a framework and mechanism for obtaining and assessing information on the ESG policies, practices and performance of property managers. To determine whether GRESB would satisfactorily meet our requirements we undertook a detailed assessment including reviewing the GRESB Survey and Annual Reports and attending several GRESB meetings.
Outcomes	HESTA became a member of GRESB and requested all our property managers complete the GRESB Survey for 2014. In the coming year we will use GRESB to understand and assess the ESG policies, practices and performance of prospective and existing property managers. We will also use the GRESB research and data to better understand the ESG performance of our broader property portfolio.

☐ Add Example 5

Communication

SAM 16	Mandatory	Core Assessed	PRI 6

SAM 16.1	Indicate if your organisation proactively discloses any information about responsible investment considerations in your indirect investments.

◉ Yes, we disclose information publicly

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	provide URL

http://www.hesta.com.au/why-join-hesta/responsible-investment.html

	provide URL

http://www.hesta.com.au/why-join-hesta/responsible-investment/our-commitment.html

SAM 16.2	Indicate if the level of information you disclose to the public is the same as that disclosed to clients and/or beneficiaries.

◉ Yes

SAM 16.3	Indicate what type of information your organisation proactively discloses to the public and clients and/or beneficiaries about your indirect investments.

☑ How responsible investment considerations are included in manager selection, appointment and monitoring processes

☐ Details of the responsible investment activities carried out by managers on your behalf

☐ E, S and/or G impacts and outcomes that have resulted from your managers' investments and active ownership

☑ Other, specify

Our principles and commitments including our ESG Policy, Active Ownership Policy and Climate Change Policy
Our active ownership activities including proxy voting and company engagement

○ No

○ Yes, we disclose information to clients/beneficiaries only

○ We do not proactively disclose information to the public and/or clients/beneficiaries

SAM 16.4	Additional information. [Optional]

Other continued

We also proactively disclose publically information on our:

- Active ownership activities including proxy voting and engagement reports.
- Key environmental issues - primarily climate change.
- Environmentally responsible investment option, Eco Pool.

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HESTA Super Fund

Reported Information

Public version

Direct - Listed Equity Active Ownership

PRI disclaimer

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PRI Principles for Responsible Investment

Engagement

Overview

LEA 01	Voluntary	Descriptive	PRI 2

LEA 01.1	Provide a brief overview of your organisation's approach to engagement.

HESTA undertakes engagement with priority companies for the purpose of improving their Environmental, Social and/or Governance (ESG) performance and/or disclosure in order to protect or enhance the value of our investments. Priority companies are defined as those companies that most need to improve their performance and/or disclosure in relation to key ESG issues.

HESTA has limited resources with which to perform the functions of an active owner including company engagement. Therefore, it is important that these resources are employed in such a way that achieves the maximum possible outcome. HESTA has determined that the best way to do this is to outsource this function to expert engagement service providers to undertake engagement on HESTA's behalf. Each of the expert engagement service providers represents a number of institutional investors and therefore often represents a meaningful investment in the company with which they are engaging.

We have appointed Hermes Equities Ownership Services (Hermes EOS) to undertake engagement with companies held by our international equities managers and we have appointed the Australian Council of Superannuation Investors (ACSI) and Regnan Governance Research and Engagement (Regnan) to undertake engagement with companies held by our Australian managers.

HESTA has developed detailed Engagement Objectives and Measures which outline our expectations in relation to the planning and delivery of engagement services and the way in which we will assess and measure whether these expectations have been met. Our objectives and measures include:

To identify companies that most need to improve their performance and/or disclosure in relation to key ESG issues, including to:

- Develop a robust process to identify and prioritise ESG issues and/or companies with which to engage.
- Develop or maintain an Engagement Plan which identifies priority companies with which to engage, identifies the key ESG issues relevant to each company, and outlines behaviour change objectives and measurable targets for each company to be achieved over a specified timeframe.
- Consult HESTA on the Engagement Plan annually.
- Develop and implement a process to determine which ESG issues or company behaviours that arise during the period warrant engagement (i.e. reactive engagements).

To improve ESG performance and/or disclosure of priority companies, including to:

- Engage with a minimum number of priority companies in the specified time period (determined for each service provider).
- Demonstrate progress on a reasonable number of the measurable targets for each behaviour change objectives for each priority companies engaged with during the specified time period (determined for each service provider).

Across all service providers, engagements are largely proactive (planned) to focus on priority companies and priority ESG issues and aim to achieve specified behaviour change objectives. All service providers measure progress towards and achievement of these behaviour change objectives.

In relation to planned engagements, HESTA contributes annually to the development and/or review of the Hermes EOS, ACSI and Regnan Engagement Plans. We also regularly review each service provider's engagement activities and the success of these activities (i.e. the extent to which they progress or achieve their engagement objectives and measures).

However, there are instances where engagement may be reactive to address ESG issues that have arisen during the reporting period.

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All engagement with companies occurs via face-to-face meetings, teleconferences and written correspondence, most often at the company Chairman or Director level.

From time to time, HESTA internal staff participate in engagements arranged by our engagement service providers or by our external investment managers with companies on specific ESG issues. From time to time, we also participate in collaborative engagements though industry organisations of which we are a member including IGCC.

LEA 02	Mandatory	Gateway	PRI 1,2,3

LEA 02.1	Indicate your reasons for interacting with companies on ESG issues and indicate who carries out these interactions.

Type of engagement	Reason for interaction
Individual/Internal staff engagements	☐ To support investment decision-making (e.g. company research) ☐ To influence corporate practice (or identify the need to influence) on ESG issues ☐ To encourage improved ESG disclosure ☐ Other, specify ☑ We do not engage via internal staff
Collaborative engagements	☐ To support investment decision-making (e.g. company research) ☐ To influence corporate practice (or identify the need to influence) on ESG issues ☐ To encourage improved ESG disclosure ☐ Other, specify ☑ We do not engage via collaborative engagements
Service provider engagements	☐ To support investment decision-making (e.g. company research) ☑ To influence corporate practice (or identify the need to influence) on ESG issues ☑ To encourage improved ESG disclosure ☐ Other, specify ☐ We do not engage via service providers

LEA 02.2	Additional information. [Optional]

HESTA believes that we can most efficiently and effectively influence company ESG practice, performance and/or disclosure through the use of specialist engagement service providers. Each of the specialist engagement service providers represents a number of institutional investors and therefore often represents a meaningful investment in the company with which they are engaging.

HESTA has appointed Hermes EOS to undertake engagement with companies held by our international equities managers and we have appointed ACSI and Regnan to undertake engagement with companies held by our Australian equities managers.

- Hermes EOS helps institutional share owners around the world to meet their fiduciary responsibilities and become active owners of public and private companies and represents more than £100 billion in assets under management.
- ACSI is a collaborative membership organisation of 33 Australian and 5 international asset owners, representing more than AUD$1 trillion in assets under management.

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- Regnan provides ESG engagement services on behalf of long term investors with AUD$61 billion, or nearly 4.3%, invested in S&P/ASX200 companies.

Process

Process for engagements conducted with/on your behalf by service providers

LEA 07	Mandatory	Core Assessed	PRI 2,4

LEA 07.1 Indicate if you play a role in the engagement process that your service provider conducts on your behalf.

◉ Yes

LEA 07.2 Indicate what role you play in engagements that your service provider conducts on your behalf.

☐ Specify the issues for the engagement

☐ Specify the objectives for the engagement

☐ Select the companies to be engaged with

☐ Participate directly in the engagements with your service provider

☑ Actively monitor and review the activities of the service provider

☑ Other, specify

Annually we review, and to some extent approve, each service provider's Engagement Plan which specifies the issues, companies and objectives for engagement.

○ No

LEA 07.3 Additional information. [Optional]

For each service provider we seek to ensure that what they aim to achieve is adequately outlined in an Engagement Plan. Annually HESTA reviews each service provider's Engagement Plan and discusses it with them to ensure that the plan:

- Outlines a robust process for identifying and prioritising ESG issues and/or companies with which to engage.
- Identifies the priority companies and key ESG issues (or visa versa depending on the service providers approach) for engagement and the rationale for engagement.
- Outlines behaviour change objectives and measurable targets for each company to be achieved over a specified timeframe e.g. 3 months, 6 months, 1 year, 3 years, 5 years etc.
- Outlines a robust process for identifying and prioritising ESG issues or company behaviours that arise during the period warrant engagement (i.e. process of reactive engagement).

HESTA places particular emphasis on ensuring there are robust processes in place for identifying and prioritising companies and/or ESG issues for engagement. We believe that the right processes will ensure that the right companies and/or ESG issues will be identified and prioritised.

We do not generally specify the companies and/or the ESG issues or the objectives for engagement. However, if we identify a specific company or ESG issue that is of particular importance to HESTA we have the ability to request that it be added to the Engagement Plan.

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We do not generally participate directly in the engagements with our service providers. However, from time to time we participate directly in the engagements when the specific company or ESG issues are of particular importance to HESTA. From time to time, we also participate directly in engagements arranged by our external equities managers with companies on specific ESG issues.

HESTA actively monitors and reviews the engagement activities undertaken by each service provider. We do this through a review of the engagement activity reports provided by each service provider and a follow up meeting to discuss the engagement activity report. This generally occurs quarterly.

We monitor and review the engagement activities to ensure that:

- Engagement with a minimum number of priority companies occurs within the specified time period.
- Progress on a reasonable number of measurable targets has been achieved for each behaviour change objective for each priority company engaged with during the specified time period.

LEA 08	Mandatory	Core Assessed	PRI 2,6

LEA 08.1	Indicate whether you monitor and/or discuss the following information provided to you by your service provider

Please select all that apply

☑ The subject (or ESG issue(s)) of engagement

☑ The objectives of the engagement

☑ The rationale for engagement

☑ The frequency/intensity of interactions with companies

☑ Progress towards achieving engagement goals

☑ Outcomes that have been achieved from the engagement

☑ Next steps for engagement activity

☑ Other, specify

- Engagements that have failed to progress and whether or not they should be discontinued.
- New planned or reactive engagements undertaken during the period.

☐ None of the above

LEA 08.2	Additional information. [Optional]

HESTA actively monitors and reviews the engagement activities undertaken by each service provider. We do this through a review of the engagement activity reports provided by each service provider and a follow up meeting to discuss the engagement activity report. This generally occurs quarterly.

We monitor and review the engagement activities to ensure that:

- Engagement with a minimum number of priority companies occurs within the specified time period.
- Progress on a reasonable number of measurable targets has been achieved for each behaviour change objective for each priority company engaged with during the specified time period.

We also review:

- The details of the engagement activity undertaken during the period.
- What progress has been made on measurable targets and to what extent is the behaviour change objective achieved.
- Outcomes achieved as a result of the engagement activity or next steps for the engagement.
- Engagements that have failed to progress and whether or not they should be discontinued.
- New planned or reactive engagements undertaken during the period.

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Outside of this structured monitoring and reviewing process, when a specific company or ESG issues is of particular importance to HESTA we will discuss these directly with our service providers on an ad hoc basis.

General processes for all three groups of engagers

LEA 09	Voluntary	Additional Assessed	PRI 1,2

LEA 09.1	Indicate if the insights gained from your engagements are shared with your internal or external investment managers as input for consideration in investment decisions.

Type of engagement	Insights shared
Service provider engagements	○ Yes, systematically ◉ Yes, occasionally ○ No

LEA 09.2	Additional information.

Insights gained from our engagements are shared with HESTA's internal investment managers and analysts on an ad hoc basis. In addition, from time to time, the applicable internal investment analyst participates in engagements arranged by our engagement service provider with a particular company.

Insights shared with HESTA's internal investment managers and analysts are communicated to the applicable external investment managers through the regular manager review meetings (to the extent possible, given that most of the engagement service providers undertake their engagements on a confidential basis and limit the extent to which HESTA can share this information outside of our organisation).

In addition, each year HESTA selects key ESG themes from our service providers engagement programs for more detailed discussion with our external investment managers during the Annual ESG Review Meeting. ESG themes discussed with managers during this reporting year included:

- Supply chain issues in the textile industry and the Bangladesh Fire and Building Safety Accord;
- Stranded assets and divestment of thermal coal assets; and
- Coal seam gas.

LEA 10	Mandatory	Gateway/Core Assessed	PRI 2

LEA 10.1	Indicate if you track the number of engagements your organisation participates in.

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Type of engagement	Tracking engagements
Service provider engagements	◉ Yes, we track the number of our engagements in full ○ Yes, we partially track the number of our engagements ○ No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers ○ No, we do not track and cannot estimate our engagements

Outputs and outcomes

LEA 11 | **Mandatory to Report Voluntary to Disclose** | **Core Assessed** | **PRI 2**

LEA 11.1 Indicate the number of companies with which your organisation engaged during the reporting year.

	Number of companies engaged (avoid double counting, see explanatory notes)
Service provider engagements	512

LEA 11.2 Indicate what percentage of your engagements were comprehensive during the reporting year. [Optional]

Type of engagement	% Comprehensive engagements
Service provider engagements	◉ >50% ○ 10-50% ○ <10% ○ None

LEA 11.4 Indicate for which part of your service provider engagements you were highly involved during the reporting year. [Optional]

Type of engagement	% High involvement
Service provider engagements	○ >50% ○ 10-50% ◉ <10% ○ None

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LEA 11.5	Additional information. [Optional]

The companies engaged with on our behalf by ACSI and Regnan represented 83% of the total market value of our Australian Equities portfolio as at 30 June 2014. The companies engaged with on our behalf by EOS represented 38% of the total market value of our International Equities portfolio as at 30 June 2014.

LEA 12	Voluntary	Additional Assessed	PRI 2

LEA 12.1	Indicate if your engagements in the reporting year covered E, S and/or G issues.

Type of engagement	Coverage
Service provider engagements	☑ Environmental ☑ Social ☑ Corporate Governance ☐ We do not track this information

LEA 12.2	Provide an estimated breakdown by E, S and/or G issues.

Service provider engagements

% Environmental only

3

% Social only

6

% Corporate Governance only

35

% Overlapping ESG issues

56

100%

LEA 13	Voluntary	Descriptive	PRI 2

LEA 13.1	Indicate whether you have a reliable estimate of the number of cases during the reporting year where a company has changed its practices, or made a commitment to do so, following your organisation's and/or your service provider's engagement activities.

◉ Yes

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LEA 13.2	Indicate the number of companies that changed or committed to change in the reporting year following your organisation's and/or your service provider's engagement activities.

	Number of company changes or commitments to change
Service provider engagements	226

○ No

LEA 13.3	Additional information.

The number of companies that changed its practices, or committed to do so, following engagement by our engagement service providers during the reporting year is equal to approximately 44% of all companies engaged or approximately 82% of all companies engaged comprehensively.

LEA 14	Voluntary	Descriptive	PRI 2

LEA 14.1	Provide examples of the engagements that your organisation carried out during the reporting year.

☑ Add Example 1

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Topic or ESG issue	Governance – board structure
Conducted by	☑ Service provider
Objectives	To improve corporate governance standards worldwide, in particular to manage risk effectively. A good board structure is essential to this. Company boards should comprise independent members who are equipped with the right skills. Ideally each board member will enhance the diversity of the board, be it by gender, ethnicity, nationality, background or skillsets. Regular board refreshment - the avoidance of long tenures - and succession planning are also crucial.
Scope and Process	Longstanding engagements with companies have given Hermes EOS access to executive and non-executive board members of companies that were reluctant to engage in the past. Hermes EOS' good relationships with companies proved fruitful for the continuation of dialogue on board structure and recruitment processes. Companies explained the rationale behind their current board structure before Hermes EOS suggested improvements where applicable. Sometimes Hermes EOS also drew on the support of other institutional investors - or filed shareholder proposals in the US to seek proxy access or appoint an independent chair - to meet its objectives. Hermes EOS also engaged with the relevant regulatory bodies in different jurisdictions on board structures.
Outcomes	Hermes EOS' engagement in 2014 helped facilitate substantial changes to companies' board structure in line what it had called for. Where the roles of chair and CEO could not be undertaken by separate individuals, Hermes EOS pushed for lead independent directors to be in place to provide some counterbalance. Several companies in Hermes EOS' engagement programme appointed such individuals in 2014. Hermes EOS also contributed to board appointments to protect the rights of minority shareholders. Hermes EOS suggested that a process of formal board evaluation be instigated and regularly undertaken where this was not previously done. It particularly welcomed appointments of individuals that enhanced the diversity and skillsets of the boards.

☑ Add Example 2

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PRI Principles for Responsible Investment

Topic or ESG issue	Social - Labour & Human Rights Policies
Conducted by	☑ Service provider
Objectives	Enhanced company disclosure of labour and human rights policies.
Scope and Process	ACSI engaged with 9 companies identified via two commissioned research reports for high exposure to labour and human rights risks with relatively low disclosure of policy. Letters were written to companies, followed by further written correspondence and face to face meetings.
Outcomes	Just over half the companies improved their disclosures, both policies and annual disclosures.

☑ Add Example 3

Topic or ESG issue	Environment - Climate change exposure via lending
Conducted by	☑ Service provider
Objectives	Information available through market disclosures is generally sufficient to determine direct exposure to unburnable carbon risk for ASX companies holding fossil fuel assets. However, disclosure across ASX-listed banks and financiers to the fossil fuel sector is currently limited. Australian banks/lending institutions have significant loan book/debt exposures to the fossil fuel and thermal coal power industry. Whilst corporate lending terms are not typically for the life of the asset, repayment relies on a reliable exit route via refinance or asset sales, and therefore subject to long term loan impairment expenses should negative sentiment and/or regulatory developments affect reserve value. To secure disclosure of fossil fuel exposure within lending books, project finance, and corporate debt instruments, referencing reporting standards set out in the GHG Value Chain Protocol (Scope3) and Carbon Disclosure Project.
Scope and Process	Regnan was behind efforts to give more weight to other investor voices, and to sharpen communications around risks to long-term shareholder value.
Outcomes	One financial institution made a public commitment to report carbon exposure in its lending book, which is considered a significant win given the stock is known to have the largest fossil fuel exposure among major banks in Australia. It's expected that this reporting commitment will place pressure on the other major banks to follow suit to avoid reputation damage from increasing activism on carbon finance.

☑ Add Example 4

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Topic or ESG issue	Social and ethical – Supply chains
Conducted by	☑ Service provider
Objectives	To protect fundamental labour rights which cover the company and its supply chain, including the right to effective health and safety, rights of association, management of child labour, lack of discrimination and the payment of a fair and preferably living wage.
Scope and Process	Hermes EOS engaged with several global retailers on their supply chains. As part of the engagement, Hermes EOS visited the supplier factories of four global retailers in Bangladesh where it gained first-hand impressions of the lives and working conditions of their factory employees. Hermes EOS noticed that the Accord on Fire and Building Safety in Bangladesh and the Alliance for Bangladesh Worker Safety initiatives that were launched in the wake of the 2013 Rana Plaza building collapse appear to have greatly improved building safety in the country. In addition to engaging with the companies on the ground in Bangladesh and with their head offices, Hermes EOS met NGOs, representatives of the initiatives and other key stakeholders to press for education of the industry on health and safety, the fair living wage, environmental issues and the empowerment of women.
Outcomes	As a result of its good relationship with one global retailer, Hermes EOS was the first investor representative to visit the company in Bangladesh on a one-to-one basis. That retailer has worked very hard to reduce the human rights risks in its Bangladeshi supply chain. Hermes EOS is also optimistic that the company's dedication to ethical behaviour and supply chain integrity will encourage it to better manage its human resources at home. Its announcement to increase the pay of many of its home market staff and to substantially invest in staff training and career development confirmed that optimism. The other three retailers whose factories Hermes EOS visited also showcased good and best practice management of supply chains and health and safety and demonstrated long-term alignment with its thinking.

☑ Add Example 5

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Topic or ESG issue	Governance - Anti-corruption and Bribery Policies and Practices
Conducted by	☑ Service provider
Objectives	Enhanced company disclosure of anti-corruption policies as per ICGN framework.
Scope and Process	ACSI engaged with 14 companies identified via commissioned research to have poor anti-corruption disclosure relative to risk exposure. Letters were written to companies, followed by either further written correspondence or face to face meetings.
Outcomes	All but one company made some improvements to its disclosures. This included both publicly disclosed policies and annual reports on performance in the area.

☑ Add Example 6

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Topic or ESG issue	Social - Human Capital - Low levels of diversity at board and senior executive and senior management levels.
Conducted by	☑ Service provider
Objectives	Strong HCM is important for attracting and retaining talented individuals in the financial services industry. Retention of women has been problematic for other companies in the sector, so we believe that continued improvement is necessary to mitigate talent retention risks, particularly given that it competes for talent with the wider financial sector. Regnan notes risks to morale and staff engagement levels with efficiency initiatives currently being implemented, potentially impacting service quality and customer retention in a business that relies on strong customer satisfaction. While incremental improvements have been made since initiation of mandate in 2011, disclosure of a broader suite of HCM performance metrics, including trends, would provide a basis for a more complete external assessment of HCM performance risks.
Scope and Process	Repeated engagement over multiple years at both board and management levels, mostly face to face.
Outcomes	Significant progress made on attention to HCM and diversity. High levels of employee engagement are now central to successful execution of company strategy. Commitments to improving gender diversity now embedded in recruiting, training and performance review, and % of women in senior leadership roles up to 36% from 30% in 2011 (target 40% by 2017), and now shifting focus on mature aged workers and those with disabilities. Disclosure has improved, with engagement, enablement, turnover and return to work from mat leave figures now available for past 4 years and all trending up. Customer satisfaction across all 8 divisions is also trending up since 2011.

☑ Add Example 7

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Topic or ESG issue	Sustainability Reporting
Conducted by	☑ Service provider
Objectives	Improved annual reporting of ESG risks.
Scope and Process	63 companies were identified through ACSI's research to have basic or no reporting on ESG risks in annual disclosures. Of these, nine received a specific focus due to their size and poor performance on ESG. Letters written to each company detailing areas that require improvement and providing guidance on disclosure frameworks.
Outcomes	Four of the nine priority companies showed some improvement in subsequent assessments.

☑ Add Example 8

Topic or ESG issue	Environmental – Land use change
Conducted by	☑ Service provider
Objectives	To promote careful management of environmental risks arising from forestry and agricultural operations, including direct operations and dependency on other operations through the supply chain.
Scope and Process	Hermes EOS raised concerns with companies involved in the plantation of palm oil. Noting a lack of public disclosure of sustainability issues at one company in particular, Hermes EOS urged it to publish a policy commitment, emphasising the significance of reputational risks faced by palm oil producers. Hermes EOS discussed the company's progress in obtaining certification from the Roundtable on Sustainable Palm Oil (RSPO) for all of its plantations to ensure that the company was on track to meet its targets.
Outcomes	In July 2014, the company - together with several other palm oil growers and traders - published the Sustainable Palm Oil Manifesto. The manifesto commits the companies to refrain from deforestation of high carbon stock (HCS) forest, to create traceable and transparent supply chains and to protect peat areas. This was followed by an announcement that these companies would halt development of potential HCS areas while a HCS study is underway. In addition the company informed Hermes EOS that it obtained RSPO certification for all of its plantations and mills in Malaysia and that it is on track to achieve its 2015 target for Indonesia. The company also published its first sustainability policy and will engage with its contractors and suppliers to ensure their adherence to the policy.

☑ Add Example 9

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Topic or ESG issue	Corporate Governance
Conducted by	☑ Service provider
Objectives	Improve specific company practices in governance of: • Executive remuneration • Directors and board composition; and • Capital raising practices
Scope and Process	ACSI engaged with 18 priority companies on one or more of these governance issues, which were identified through past proxy voting research and recommendations. Typically, letters were written to the companies with the majority of these becoming catalysts for face to face engagement meeting with board members.
Outcomes	Around 60% of the specific issues identified were at least partly resolved during the reporting year.

☑ Add Example 10

Topic or ESG issue	G - Ethics and balanced risk reward culture
Conducted by	☑ Service provider
Objectives	Regnan first sought implementation of effective whistleblowing policies and procedures in 2011 due to concerns about the financial institutions risk-return culture and was met with strong, initial resistance from the company.
Scope and Process	Regnan has pursued this change over multiple years to ensure its implementation, predominately through face to face meetings with board members.
Outcomes	A new 'Anti-Corruption and bribery' policy which includes the availability of an anonymous, externally-hosted staff whistleblowing hotline.

Communication

LEA 15	Mandatory	Core Assessed	PRI 2,6

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LEA 15.1 Indicate whether your organisation proactively discloses information on its engagements.

◉ We disclose it publicly

provide URL

http://www.hesta.com.au/Media/docs/5123ANNUAL-REPORT-241314-SEPT14-WEB-e466f338-28fc-4613-91f6-0505a5bb79dd-0.pdf

provide URL

http://www.hesta.com.au/why-join-hesta/responsible-investment/active-ownership.html

LEA 15.2 Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

◉ Yes

LEA 15.3 Indicate what engagement information your organisation proactively discloses to clients/beneficiaries and/or the public.

Engagement information disclosed

☐ Details of the selections, priorities and specific goals of engagement

☑ Number of engagements

☑ Breakdown of engagements by type/topic

☑ Breakdown of engagements by region

☐ An assessment of the current status of the engagement

☐ Outcomes that have been achieved from the engagement

☐ Other information

LEA 15.4 Indicate how frequently you typically report engagements information.

○ Disclosed continuously (prior to and post engagements)

○ Disclosed quarterly

◉ Disclosed annually

○ Disclosed every two years or less

○ Other, specify

○ No

○ We disclose it to clients and/or beneficiaries only

○ We do not proactively disclose it to the public and/or clients/beneficiaries.

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LEA 15.8	Additional information. [Optional]

HESTA's Annual Report includes summary information on engagements undertaken on our behalf, broken down by companies held by our Australian equities managers and companies held by our international equities managers and including the number of engagements and the topic of the engagements. See page 29 HESTA's Annual Report for the year ending 30 June 2014.

Semi-annually, we disclose information on our website on engagements undertaken by Hermes EOS with companies held by our international equities managers including the number of engagements, the geographic location of the companies and the topic of the engagements. See http://www.hesta.com.au/why-join-hesta/responsible-investment/active-ownership.html.

(Proxy) voting and shareholder resolutions

Overview

LEA 16	Voluntary	Descriptive	PRI 2

LEA 16.1	Provide a brief overview of your organisation's approach to (proxy) voting (including the filing and/or co-filing of shareholder resolutions if applicable).

HESTA's approach to share voting is outlined in our Active Ownership Policy. HESTA has retained the voting rights for all shares held on our behalf by our external equities managers. We seek to vote on all resolutions on the meeting agenda of all the companies in which we hold shares, taking into account the specifics of the resolution and the individual circumstances of the company (rather than applying blanket rules). However, our process for voting differs for companies held by our Australian equities managers and those held by our international equities managers.

Process for voting on shares in companies held by our Australian equities managers

For voting on shares in companies held by our Australian managers, HESTA determines how we will vote and execute the vote. To assist in determining how we will vote we have appointed proxy voting advisors.

When there is a 'contentious resolution(s)' defined as a resolution where (i) our proxy advisors are recommending a vote in opposition to the company's Board or management, or (ii) any of our external managers holding the company on our behalf are intending to vote against the company's Board or management, HESTA will request each of our managers holding shares in that company to advise us as to how they intend to vote on the contentious resolution(s) and their rationale for their vote. HESTA regards this advice as critical, as our managers have a detailed understanding of both the governance and operations of their investee companies. It is also part of our approach to encourage fund managers to take greater interest in ESG matters.

The decision on how HESTA will vote is made by HESTA's Investment Manager - ESG (IM-ESG). In determining how HESTA will vote, the IM-ESG considers the advice provided by the proxy voting advisor, as well as the advice provided by the investment managers, having regard to the individual circumstances of the company. The decision on how HESTA will vote will ultimately be based on what is in the best long-term interests of HESTA members.

In Australia, HESTA has not been involved in filing and/or co-filing a shareholder resolution.

Process for voting on shares in companies held by our international equities managers

For voting on shares in companies held by our international managers, HESTA has appointed Hermes EOS to determine how we will vote and to execute the vote on our behalf. To assist in determining the vote Hermes EOS has appointed a proxy voting advisor. Hermes EOS makes recommendations in accordance with those of the proxy advisor except where there is a 'contentious resolution(s)' i.e. a resolution where their proxy advisor is recommending a vote in opposition to the company's Board or management. In these cases, Hermes EOS will undertake further analysis on the resolution(s).

In determining how Hermes EOS will vote, they consider the relevant corporate governance guidelines, the advice provided by the proxy voting advisor, having regard to the individual circumstances of the company. Where Hermes EOS intend to vote against the company's Board or management on a resolution, they endeavour to

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engage with the company before the meeting to highlight the contentious resolution(s) and to seek to have the issues resolved.

Hermes EOS will advise HESTA's international equities managers of their voting intention. Unless HESTA's managers notify Hermes EOS that they have an issue with the voting intention, Hermes EOS will execute the vote in accordance with their advice. If HESTA's managers identify an issue with Hermes EOS' voting intention, HESTA's managers are expected to engage with Hermes EOS on the matter. If agreement cannot be reached, the matter is referred to HESTA for HESTA to make the final decision in the same manner as outlined above.

Internationally, Hermes EOS files shareholder proposals in markets where it is relevant to do so, typically in Germany and the US, either as lead filer or as co-filer alongside other investors. This typically forms part of a wider engagement with the company and is used as a tool for leverage in its dialogue with management.

Process

LEA 17	Mandatory	Descriptive	PRI 2

LEA 17.1	Indicate how you typically make your (proxy) voting decisions and what this approach is based on.

Approach

○ We use our own research or voting team and make our own voting decisions without the use of service providers.

◉ We hire service provider(s) which make voting recommendations or provide research that we use to inform our voting decisions.

Based primarily on

◉ the service provider voting policy signed off by us

○ our own voting policy

○ our clients requests or policy

○ other, explain

○ We hire service provider(s) which make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.

○ We hire service provider(s) which make voting decisions on our behalf.

LEA 17.2	Additional information.[Optional]

Process for voting on shares in companies held by our Australian equities managers

The response above refers to the process for voting on shares in companies held by our Australian equities managers (as described in response to question 16).

Process for voting on shares in companies held by our international equities managers

For voting on shares in companies held by our international equities managers the voting process differs (as described in response to question 16) and the response to 17.1 is that*'we hire service provider(s) which make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.'*

LEA 19	Voluntary	Descriptive	PRI 2

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LEA 19.1	To ensure that your (proxy) votes are cast and reach their intended destination on time, indicate if you did the following.

☑ Obtain confirmation that votes have been received by the company:

- ○ for a majority of votes
- ◉ for a minority of votes

☑ Participate in projects to improve the voting trail and/or to obtain vote confirmation

☐ None of the above

LEA 19.2	Provide additional information on your organisation's vote confirmation efforts.

Voting confirmation for shares held by Australian equities managers

HESTA uses Broadridge's electronic proxy voting platform (ProxyEdge) which is provided by our custodian, JP Morgan. Until May 2014, Broadridge was responsible for sending our voting instructions from ProxyEdge to the registries (used by companies to consolidate votes). If there were any issues with the voting instruction e.g. over vote or vote rejection, Broadridge or JP Morgan would work with the particular registry to resolve the issue. To ensure voting instructions were received by the company, Broadridge contacted the Company Secretary at every company for which they had sent voting instructions to the registries, to confirm those voting instructions had reached the company.

From May 2014, JP Morgan took over responsibility for sending our voting instructions from ProxyEdge to the registries. JP Morgan confirms receipt of voting instructions (from Broadridge), and confirm delivery of these instructions to registries. One important feature that has been introduced is the use of Computershare Intermediary Online (electronic voting feature). Computershare Intermediary Online enables JP Morgan to submit a significant proportion of votes in Australia to the registry electronically and for the registry to confirm receipt of the votes electronically. This proportion will increase in the future when Link Market Services provide a similar intermediary portal (currently being developed after custodian submissions via ACSA). This will allow for electronic audit trails for the majority of proxy voting events in Australia.

Voting confirmation for shares held by international equities managers

Hermes EOS use ISS's electronic proxy voting platform (ProxyExchange) which provides transparency on the status of votes, as reflected in the change from votes being instructed / approved to being sent / confirmed. When ISS is notified of a vote rejection, this is reflected in the system. If no such notification is received, the votes will show as sent / confirmed. This means that the votes have been received and confirmed by the next intermediary in the voting chain which, depending on the custodian being used, can be a sub-custodian or another proxy voting provider (registries).

Vote confirmations are typically not directly provided by the issuer company, which means that ISS does not have the information to guarantee that votes have been cast. Hermes EOS receive vote confirmation directly from a minority of companies.

Voting process/pipeline improvement projects

In previous years, our proxy voting service providers have participated in projects to identify and improve problems with proxy voting process/ pipeline. They have also advocated to regulators and other industry participants to identify and improve problems in the proxy voting pipeline. For example, in the previous reporting year, ACSI undertook research to examine the inner workings, idiosyncrasies and anomalies of Australia's proxy voting process for institutional investors.

During the reporting year, ACSI continued to speak to the ASX about issues identified in the research. Further, the recommendations from the research where incorporated into the ACSI Governance Guidelines, which were updated and publicly promoted in July-August 2013.

During the reporting year, Broadridge initiated a project that calls for co-operation from the company holding the meeting. The project sought to verify that all votes being lodged by Broadridge make it to the final vote tally at the meeting. A pilot was run with Banco Santander taking part in the exercise for their 2014 AGM. With co-operation from the company (effectively the agents that send out voting to the registry), Broadridge were able to validate 99.89% votes that were sent out by Broadridge were included in the final vote tally at the meeting. Also, enhancements on Broadridge's electronic proxy voting platform are underway to enable it to display the status of "Accepted" where Broadridge does receive confirmation back from the local custodians that the vote has been received and processed.

Our proxy voting service provider Hermes EOS is one of the key participants in the PRI vote confirmation group, which strives to improve transparency in the proxy voting chain. The group aims to raise awareness around the issue, develop a proof of concept for the exchange of information between various parties and

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identify issues and obstacles that need to be overcome in order to achieve routine end-to-end vote confirmation.

LEA 20	Voluntary	Additional Assessed	PRI 2

LEA 20.1	Indicate if your organisation has a securities lending programme.

◉ Yes

LEA 20.2	Indicate how voting is addressed in securities lending programme.

Please select one of the following

○ We recall most securities for voting on all ballot items

◉ We recall some securities for voting on some ballot items on a systematic basis in line with specified criteria

○ We occasionally recall some securities for voting on some ballot items on an ad-hoc basis

○ We empower our securities lending agent to decide when to recall securities for voting purposes

○ We do not recall our shares for voting purposes

○ Other (please specify)

○ No

LEA 20.3	Additional information. [Optional]

Recalling shares in companies held by our Australian equities managers

For shares in companies held by our Australian equities managers HESTA will recall shares where there is a 'contentious resolution' (as defined in response to questions 16.1 above).

Recalling shares in companies held by our international equities managers

For shares in companies held by our international managers, Hermes EOS provides 'stock lending stop list' to HESTA. This list contains companies for which Hermes EOS believes that shares should not be lent out, or if they are already out on loan, should be recalled for voting purposes. This will be the case where there is a significant voting issue on the agenda or where there is activity by a hostile shareholder which does not appear to be in the best interests of shareholders. HESTA has instructed our custodian to implement the Hermes EOS 'stock lending stop list'; they receive an updated list each month.

LEA 21	Mandatory	Core Assessed	PRI 2

LEA 21.1	Indicate if you ensure that companies are informed of the rationale when you and/or the service providers acting on your behalf abstain or vote against management recommendations.

○ Yes, in most cases

◉ Sometimes, in the following cases:

☑ votes in selected markets

☐ votes on certain issues (all markets)

☐ votes for significant shareholdings (all markets)

☑ other, explain

This is also undertaken in an ad hoc manner via our external investment managers.

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○ No

○ Not applicable as we and/or our service providers do not abstain or vote against management recommendations

LEA 21.2	Additional information. [Optional]

Votes in selected markets - ASX300 listed companies (approximately 70% of companies in the Australian equities portfolio)

When our service provider has concerns with a resolution(s) they endeavour to engage with the company on this resolution(s), alerting the company to the fact that they have concerns and that they may recommend their clients vote against the company's Board or management on the resolution(s). Where, notwithstanding this engagement, our service provider ultimately recommends voting against the company's Board or management on the resolution(s), they advise the company in writing of the final recommendation and the rationale for the recommendation.

Where our service provider has concerns with a resolution(s), has not been able to engage with the company on the resolution before the voting recommendation is due, and recommends their clients vote against the company's Board or management on the resolution(s), they advise the company in writing of the recommendation and the rationale for the recommendation. This letter is generally provided to the company following the company meeting.

Where proxy voting highlights material concerns with a company, the company may become an engagement priorities. In this case our service provider typically holds face to face meetings with the company urging it to change its practices.

Votes in selected markets - ASXex300 listed companies

When our service provider recommends their clients a vote against the company's Board or management on a resolution(s) our service provider advises the company in writing of the recommendation and the rationale for the recommendation on an ad hoc basis.

Votes in selected markets - Companies listed on international exchanges

Where, in accordance with its policies, Hermes EOS is voting for a large holding or the company is high-profile, and is voting against the company's Board or management on the resolution(s), Hermes EOS advise the company in writing the rationale for the against vote and the steps it would like to see the company take to rectify the issue.

Outputs and outcomes

LEA 22	Mandatory	Core Assessed	PRI 2

LEA 22.1	For listed equities where you and/or your service provider has the mandate to issue (proxy) voting instructions, indicate the percentage of votes cast during the reporting year.

◉ We do track or collect this information

	Votes cast (to the nearest 1%)
	%

99

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	Specify the basis on which this percentage is calculated

○ of the total number of ballot items on which you could have issued instructions

◉ of the total number of company meetings at which you could have voted

○ of the total value of your listed equity holdings on which you could have voted

LEA 22.2	If there are specific reasons why you did not vote certain holdings, explain these, and if possible, indicate the percentage of holdings affected by these factors. [Optional]

The specific (and systemic) reasons why we did not vote certain holdings are due to:

- Votes not being authorised by managers due to restrictions on trading (i.e. blocking markets).
- Lack of a valid PoA in markets requiring a PoA and where our procedure does not requires us to have a PoA (i.e. a market with investments is less than 0.25% international equities FUM).
- Shares out on loan in all markets.

○ We do not track or collect this information

LEA 22.3	Additional information. [Optional]

The response above does not include shares not voted due to them being out on loan . We currently do not track the number of companies or number of shares for a company that we were unable to vote due to the shares being out on loan.

During the reporting year, there was a reduced number of instances where votes were not cast where we had the mandate to do so. This was the result of a Power of Attorney (PoA) being put in place in all markets requiring a PoA and where our procedure requires us to have a PoA (i.e. a market with investments equalling 0.25% international equities FUM or more).

LEA 23	Voluntary	Descriptive	PRI 2

LEA 23.1	Indicate if you track the voting instructions that you and/or your third party have issued on your behalf.

◉ Yes, we track this information

LEA 23.2	Of the voting instructions that you and/or third parties have issued on your behalf, indicate the proportion of ballot items that were:

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Voting instructions	Breakdown as percentage of votes cast
For (supporting) management recommendations	% 92
Against (opposing) management recommendations	% 8
Abstentions	% 0

100%

LEA 23.3 For the reporting year, describe your approach towards voting on shareholder resolutions.

Shareholder resolutions are considered similarly to any other resolution and a decision on how to vote is based on an assessment of the merits of the resolution and the individual circumstances of the company (i.e. considered on a case by case basis). In each case, the decision on how to vote a proposal will be based on what is in the best interests of shareholders and a thorough assessment of any potential impacts on the company.

We will generally support shareholder resolutions that improve governance or transparency and do not impose unnecessary operational imposts on the company.

○ No, we do not track this information

LEA 24 | **Voluntary** | **Descriptive** | **PRI 2**

LEA 24.1 Indicate if your organisation directly or via a service provider filed or co-filed any shareholder resolutions during the reporting year.

◉ Yes

LEA 24.2 Indicate the number of ESG shareholder resolutions you filed or co-filed.

Total number

3

LEA 24.3 Indicate what percentage of these ESG shareholder resolutions.

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Went to vote	% 0
Were withdrawn due to changes at the company and/or negotiations with the company	% 100
Were withdrawn for other reasons	% 0

	Total

100%

LEA 24.5	Describe the ESG shareholder resolutions that you filed or co-filed and the outcomes achieved.

During the reporting year Hermes EOS (co-) filed shareholder resolutions against International Business Machines Corporation, Wal-Mart Stores, Inc. and The Walt Disney Company. Each of these shareholder resolutions was withdrawn as each company engaged in constructive dialogue on Hermes EOS' concerns and took steps which materially addressed all or part of these concerns.

○ No

LEA 25	Voluntary	Descriptive	PRI 2

LEA 25.1	Provide examples of the (proxy) voting activities that your organisation and/or service provider carried out during the reporting year.

☑ Add Example 1

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Topic or ESG issue	Remuneration
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Companies should design and implement remuneration policies that align the interests of management with the interests of shareholders and incentivise executives to maximise long-term value.
Scope and Process	A vote against management in relation to remuneration may indicate that the remuneration report proposed by management does not demonstrate sufficient alignment with shareholder interests. This may be due to lack of sufficient performance metrics or may indicate that the quantum put forward by the company is excessive in view of the company's performance. Remuneration has been a key theme for the engagement work of Hermes EOS and this is supported by its voting related discussions with companies. In 2014, Hermes EOS engaged with a number of companies where it identified a misalignment between executive compensation and shareholder interests. In some cases, Hermes EOS agreed to vote with management 'by exception' on the understanding that management was moving in the right direction. Hermes EOS then followed up with these companies. Hermes EOS also spoke to those where they recommended voting against the remuneration scheme put forward by management to outline their concerns and agree an acceptable way forward.
Outcomes	Voting activity relating to remuneration during 2014 supported and built on Hermes EOS' engagement dialogue with companies. Using its milestone approach for measuring progress in engagements, a number of conversations Hermes EOS had with companies around the vote led to governance changes at companies. Other conversations around the vote contributed toward continuing engagements with companies where the required change is still outstanding.

☑ Add Example 2

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Topic or ESG issue	Selective Buybacks
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Ensure that companies undertaking selective share buybacks do so in a manner that does not adversely affect other shareholders.
Scope and Process	There was one notable example of this in the Australian market during the year. ACSI engaged with the company and members to give them sufficient information to make a decision.
Outcomes	The resolution was defeated as it did not meet the 75% threshold.

☑ Add Example 3

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Topic or ESG issue	Board structure
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Boards should comprise individuals with an appropriate and diverse range of competencies, knowledge and experiences to effectively carry out their duties.
Scope and Process	Ideally boards should be led by an independent non-executive chair. Boards should establish and maintain an appropriate corporate culture, be representative of all shareholders including minorities and should assume responsibility for remuneration policies and oversee the risk management function. Board structure is a significant feature for engagement at our service provider Hermes EOS. Often getting the board right is the first step in addressing other social or environmental issues that the company may be exposed to. Hermes EOS regards the vote as an annual health check and often a vote against will precipitate further engagement with the company. Equally, the vote may be used in such a way as to support ongoing engagements on board structure. Consistent with its intelligent voting approach, Hermes EOS endeavours to contact companies wherever possible when it recommends a vote against. Sometimes this contact enables Hermes EOS to vote with management 'by exception.' A vote for management by exception occurs where Hermes EOS believes that its support of management on a resolution is consistent with its voting policy, but not necessarily with a black-and-white interpretation of that policy. An example for a vote by exception would be a company that has committed to changing its remuneration practices to fit with good governance but where the change will not take effect until the following year. In this case, Hermes EOS may vote for current proposals on remuneration to support the company in anticipation of further changes.Subsequent to the vote, Hermes EOS follows up with companies, wherever possible, to explain the rationale for voting against and what changes it would like to see.
Outcomes	Voting activity on resolutions relating to board structure during 2014 supported and built on Hermes EOS' engagement dialogue with companies. Using its milestone approach to measure progress in engagements, Hermes EOS can demonstrate that a number of conversations with companies around the vote led to governance changes with companies. Other conversations around the vote contributed towards continuing engagements with companies where the required change is still outstanding.

☑ Add Example 4

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PRI Principles for Responsible Investment

Topic or ESG issue	Capital raising practices
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Ensure that companies undertake capital raisings in a way that gives existing shareholders the ability to participate or to be adequately compensated for dilution.
Scope and Process	ACSI provided voting advice or information for 55 resolutions related to capital raisings in the ASX200. Among the ASX200, ACSI opposed 4 (around 6%) of resolutions. ACSI wrote to the companies explaining its rationale and often follow up meetings were held.
Outcomes	Of the priority companies, around two thirds of the issues get at least partly resolved.

☑ Add Example 5

Topic or ESG issue	Capital Structure
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Companies should have an efficient capital structure which will minimise the long-term cost of capital.
Scope and Process	Consistent with its intelligent voting approach, in instances of material holdings or otherwise high-profile companies, our service provider Hermes EOS endeavoured to contact companies wherever possible when it recommended a vote against. Sometimes this contact enabled Hermes EOS to vote 'with management by exception.' Subsequent to the vote, Hermes EOS follows up with companies wherever possible to explain the rationale for voting against and what changes it would like to see.
Outcomes	Voting activity in relation to capital structure during 2014 supported and built on engagements with companies on this issue. Using Hermes EOS' milestone approach to measure progress in engagements, a number of conversations with companies around the vote led to governance changes with companies. Other conversations around the vote contributed towards continuing engagements at companies where the required change is still outstanding.

☑ Add Example 6

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PRI Principles for Responsible Investment

Topic or ESG issue	Board composition and accountability
Decision made by	☐ Internal staff ☑ Service provider
Objectives	Broadly, there are two objectives: (1) Ensure appropriate board composition, including a majority of independent directors. (2) Ensure board accountability to shareholders for past decisions.
Scope and Process	ACSI provided voting advice for 522 resolutions related to boards in the ASX200 (as well as around 50% more such resolutions for the next 100 largest companies). Among the ASX200, ACSI opposed 52 (around 6%) of resolutions. In all cases, ACSI wrote to the companies explaining its rationale and often follow up meetings were held.
Outcomes	Of the priority companies, around 25% of the issues get at least partly resolved.

☐ Add Example 7

☐ Add Example 8

☐ Add Example 9

☐ Add Example 10

Communication

LEA 26	Mandatory	Core Assessed	PRI 2,6

LEA 26.1 Indicate if your organisation proactively discloses information on your voting activities.

◉ We disclose it publicly

provide URL

http://www.hesta.com.au/why-join-hesta/responsible-investment/active-ownership.html

LEA 26.2 Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

◉ Yes

LEA 26.3 Indicate the voting information your organisation proactively discloses to the public and/or to clients/beneficiaries.

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Indicate how much of your voting record you disclose

- ◉ All voting decisions
- ○ Some voting decisions
- ○ Only abstentions and opposing vote decisions
- ○ Summary of votes only

Indicate what level of explanation you provide

- ○ Explain all voting decisions
- ○ Explain some voting decisions
- ○ Only explain abstentions and votes against management
- ◉ No explanations provided

LEA 26.4 Indicate how frequently you typically report voting information.

- ○ Continuously (primarily before meetings)
- ○ Continuously (soon after votes are cast)
- ○ Quarterly or more frequently
- ◉ Between quarterly and annually
- ○ Less frequently than annually
- ○ Other, specify

○ No

○ We disclose it to clients/beneficiaries only

○ We do not proactively disclose our voting activities to the public and/or to clients/beneficiaries

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